

# CHAPTER 5

## SALARY

### 1. ICAI STUDY MATERIAL QUESTIONS

#### Concept Problem 1

Mr. Raj Kumar has the following receipts from his employer

Particulars	Amount
Basic pay	40,000 P.m.
Dearness allowance (D.A.)	6,000 P.m.
Commission	50,000 P.m.
Motor car for personal use (expenditure met by the employer)	1,500 p.m.
House rent allowance	1,5000 p.m.

Find out the amount of HRA eligible for exemption to Mr. Raj Kumar assuming that he paid a rent of INR 16,000 p.m. for his accommodation at Kanpur. DA forms part of salary for retirement benefits.

#### Solution

Particulars	Amount
HRA received	1,80,000
Less: exempt under section 10(13A) [Note]	1,36,800
<b>Taxable HRA</b>	<b>43,200</b>

#### Note:

Exemption shall be least of the following three limits:

- a. The actual amount received (INR 15,000 x 12) = INR 1,80,000
- b. Excess of the actual rent paid by the Assessee over 10% of his salary  
 = rent paid – 10% of salary for the relevant period  
 = (16,000 x 12) – 10% of [(40,000 + 6,000) x 12]  
 = INR 1,92,000 – INR 55,200  
 = INR 1,36,800
- c. 40% salary as his accommodation is situated at Kanpur  
 40% of [(INR 40,000 + INR 6,000) x 12] = INR 2,20,800

#### Note:

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

#### Concept Problem 2

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

Transport allowance: INR 1,800 p.m.

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Tribal area allowance: INR 500 p.m.

Compute his taxable allowances.

### Solution

Taxable allowance in the hands of Mr. Srikanth is computed as under

Particulars	Amount
<b>Children Education Allowance:</b> Elder son [(INR 150 – INR 100) p.m. × 12 months] = INR 600 Younger son [(INR 70 – INR 70) p.m. × 12 months] = Nil	600
Transport allowance [INR 1,800 p.m. × 12 months]	21,600
Tribal area allowance [(INR 500 – INR 200) p.m. × 12 months]	3,600
<b>Taxable allowances</b>	<b>25,800</b>

### Concept problem 3

Mr. Sagar retired wef. 01.10.2021 receiving INR 5,000 p.m. as pension. On 01.02.2022, he commuted 60% of his pension and received INR 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 INR 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.

### Solution

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

Uncommuted pension received (October – March)		24,000
[(INR 5,000 × 4 months) + (40% of INR 5,000 × 2 months)]		
Commuted pension received	3,00,000	
Less: Exempt u/s 10(10A)	3,00,000	Nil
<b>Taxable pension</b>		<b>24,000</b>

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

Uncommuted pension received (Oct-Mar) [(5,000 × 4m) + (40% of 5,000 × 2m)]		24,000
Commuted pension received	3,00,00	
Less: Exempt u/s 10(10A) (1/3 × INR 3,00,000/60% × 100%)	(1,66,667)	1,33,333
<b>Taxable pension</b>		<b>1,57,333</b>

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

Uncommuted pension received (Oct –Mar) [(5,000 × 4 m) + (40% of 5,000 × 2 m)]		24,000
Commuted pension received	3,00,000	
Less: Exempt u/s 10(10A) (1/2 × INR 3,00,000/60% × 100%)	2,50,000	50,000
<b>Taxable pension</b>		<b>74,000</b>

### Concept Problem 4

Mr. Ravi retired on 15.6.2021 after completion of 26 years 8 months of service and received gratuity of INR 15,00,000. At the time of retirement, his salary was:

Basic Salary: INR 50,000 p.m.

Dearness Allowance: INR 10,000 p.m. (60% of which is for retirement benefits)

Commission: 1% of turnover (turnover in the last 12 months was INR 1,20,00,000)

Bonus: INR 25,000 p.a.

Compute his taxable gratuity assuming:

- i) He is non-government employee and covered by the Payment of Gratuity Act 1972.
- ii) He is non-government employee and not covered by Payment of Gratuity Act 1972.

He is a Government employee.

### Solution

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

Gratuity received at the time of retirement INR 15,00,000

Less: Exemption under section 10(10)

Least of the following:

i. Gratuity received INR 15,00,000

ii. Statutory limit INR 20,00,000

iii. 15 days salary based on last drawn salary for each completed year of service or part thereof in excess of 6 months

$15/26 \times \text{last drawn salary} \times \text{years of service}$

$15/26 \times (\text{INR } 50,000 + \text{INR } 10,000) \times 27$  INR 9,34,615

**Taxable gratuity INR 5,65,385**

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

Gratuity received at the time of retirement	INR 15,00,000
Less: Exemption under section 10(10) <b>(Note)</b>	INR 8,58,000
<b>Taxable Gratuity</b>	<b>INR 6,42,000</b>

**Note:** Exemption under section 10(10) is least of the following:

i. Gratuity received INR 15,00,000

ii. Statutory limit INR 20,00,000

iii. Half month's salary based on average salary of last 10 months preceding the month of retirement for each completed year of service.

#### c. He is a government employee

Gratuity received at the time of retirement INR 15,00,000

Less: Exemption under section 10(10) INR 15,00,000

**Taxable gratuity NIL**

### Concept Problem 5

Mr. Gupta retired on 1.12.2021 after 20 years 10 months of service, receiving leave salary of INR 5,00,000. Other details of his salary income are:

Basic Salary: INR 5,000 p.m. (INR 1,000 was increased w.e.f. 1.4.2021)

Dearness Allowance: INR 3,000 p.m. (60% of which is for retirement benefits)

Commission: INR 500 p.m.

Bonus: INR 1,000 p.m.

Leave availed during service: 480 days

He was entitled to 30 days leave every year.

You are required to compute his taxable leave salary assuming:

- a) He is a government employee.
- b) He is a non-government employee

### Solution

#### a) He is a government employee.

Leave Salary received at the time of retirement	INR 5,00,000
<u>Less: Exemption under section 10(10AA)</u>	<u>INR 5,00,000</u>
<b>Taxable Leave salary</b>	<b>Nil</b>

#### b) He is a non-government employee

Leave Salary received at the time of retirement	INR 5,00,000
<u>Less: Exempt under section 10(10AA) [See Note below]</u>	<u>INR 26,400</u>
<b>Taxable Leave Salary</b>	<b>INR 4,73,600</b>

**Note:** Exemption under section 10(10AA) is least of the following:

- i. Leave salary received INR 5,00,000
- ii. Statutory limit INR 3,00,000
- iii. 10 months' salary based on average salary of last 10 months
  - =  $10 \times \text{Salary of last 10 months i.e. Feb to Nov.}$
- iv. Cash equivalent of leave standing at the credit of the employee based on the average salary of last 10 months (max. 30 days per year of service)

Leave Due = Leave allowed – Leave taken = (30 days per year × 20 years) – 480 days = 120 days

$\frac{120 \text{ days}}{30 \text{ days}} \times \frac{66,000}{10} = 26,400$

30 days      10

### Concept Problem 6

Mr. A retires from service on December 31, 2021, after 25 years of service. Following are the particulars of his income/investments for the PY 2021-22:

Particulars	Amount
Basic pay @ ₹ 16,000 per month for 9 months	1,44,000

Dearness pay (50% forms part of the retirement benefits) ₹ 8,000 per month for 9 months	72,000
Lumpsum payment received from the Unrecognized Provident Fund	6,00,000
Deposits in the PPF account	40,000

Out of the amount received from the unrecognized provident fund, the employer's contribution was ₹ 2,20,000 and the interest thereon ₹ 50,000. The employee's contribution was ₹ 2,50,000 and the interest thereon ₹ 60,000. What is the taxable portion of the amount received from the unrecognized provident fund in the hands of Mr. A for the assessment year 2022-23?

### Solution

Taxable portion of the amount received from the unrecognized provident fund in the hands of Mr. A for the A.Y. 2022-23 is computed hereunder:

Particulars	Amount
<b>Amount taxable under the head "Salaries":</b>	
Employer's share in the payment received from the URPF	2,20,000
Interest on the employer's share	50,000
<b>Total</b>	<b>2,70,000</b>
<b>Amount taxable under the head "Income from Other Sources"</b>	
Interest on the employee's share	60,000
<b>Total amount taxable from the amount received from the fund</b>	<b>3,30,000</b>

**Note:** Since the employee is not eligible for deduction under section 80C for contribution to URPF at the time of such contribution, the employee's share received from the URPF is not taxable at the time of withdrawal as this amount has already been taxed as his salary income.

### Concept Problem 7

Will your answer be any different if the fund mentioned above was a recognised provident fund?

### Solution

Since the fund is a recognized one, and the maturity is taking place after a service of 25 years, the entire amount received on maturity of RPF shall be exempt.

### Concept Problem 8

Mr. B is working in XYZ Ltd. and has given the details of his income for the P.Y. 2021-22. You are required to compute his gross salary from the details given below:

Particulars	Amount
Basic salary	10,000 p.m.
D.A. (50% is for retirement benefits)	8,000 p.m.
Commission as a percentage of turnover	0.1%
Turnover during the year	50,00,000
Bonus	40,000
Gratuity	25,000
His own contribution in the RPF	20,000
Employer's contribution to RPF	20% of his basic salary
Interest accrued in the RPF @ 13% p.a.	13,000

### Solution

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**Computation of gross salary of Mr. B for the A.Y 2022-23**

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

**Note 1:** Gratuity received during service is fully taxable

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

**Note 3:** Employer's contribution in the RPF is exempt up to 12% of the salary i.e.,

12% of [basic salary + DA forming part of retirement benefits + commission based on turnover]

12% of [INR 1,20,000 + (50% x INR 96,000) + INR 5,000]

12% of INR 1,73,000 = INR 20,760

**Concept Problem 9**

Mr. Dutta received voluntary retirement compensation of INR 7,00,000 after 30 years and 4 months of services. He still has 6 years of services left. At the time of voluntary retirement, he was drawing basic salary INR 20,000 p.m.; dearness allowance (which form parts of pay) INR 5,000 p.m. Compute voluntary retirement compensation assuming that he does not claim any relief under section 89.

**Solution**

Particulars	Amount
Voluntary retirement compensation received	7,00,000
Less: exemption under section 10(10C) [see note below]	5,00,000
<b>Taxable voluntary retirement compensation</b>	<b>2,00,000</b>
<b>Notes:</b> Exemption is to the extent of least of the following	
i) Compensation actually received	7,00,000
ii) Statutory limit	5,00,000
iii) Last drawn salary x 3 x completed years of service (INR 20,000 + INR 5,000) x 3 x 30 years	22,50,000
iv) Last drawn salary x remaining months of service (INR 20,000 + INR 5,000) x 6 x 12 months	18,00,000

**Concept Problem 10**

Mr. X is appointed as a CFO of ABC Ltd. in Mumbai from 1.5.2020. His basic salary is ₹ 5,50,000 p.m. He is paid 10% as D.A. He contributes 11% of his pay and D.A. towards his recognized provident fund and the company

contributes same amount. The accumulated balance in recognized provident fund as on 1.4.2021 and 31.3.2022 is ₹ 15,35,000 and ₹ 33,55,000. Compute the perquisite value chargeable in the hands of Mr. X u/s 17(2)(vii) and 17(2)(viii) for the P.Y. 2021-22.

### Solution

1. Perquisite value taxable u/s 17(2)(vii) = ₹ 7,98,600, being employer's contribution to recognized provident fund during the P.Y. 2021-22 – ₹ 7,50,000 = ₹ 48,600

2. Annual accretion on perquisite taxable u/s 17(2)(vii) =  $(PC/2)*R + (PC_1 + TP_1)*R$   
 $= (48,600/2)*0.091 + 0$   
 $= ₹ 2,211$

PC ABC Ltd.'s contribution in excess of ₹ 7.5 lakh to recognized provident fund during P.Y. 2021-22 = ₹ 48,600

PC<sub>1</sub> Nil since employer's contribution is less than ₹ 7.5 lakh to recognized provident fund in P.Y. 2020-21.

TP<sub>1</sub> Nil

R  $I/\text{Favg} = 2,22,800/24,45,000 = 0.091$

I RPF balance as on 31.3.2022 – employee's and employer's contribution during the year – RPF balance as on 1.4.2021 =  
 ₹ 2,22,800 (₹ 33,55,000 – ₹ 7,98,600 – ₹ 7,98,600 – ₹ 15,35,000)

Favg Balance to the credit of recognized provident fund as on 1<sup>st</sup> April, 2021 + Balance to the credit of recognized provident fund as on 31<sup>st</sup> March, 2022)/2 =  $(₹ 15,35,000 + ₹ 33,55,000)/2 = ₹ 24,45,000$

**Note** – Since the employee's contribution to RPF exceeds ₹ 2,50,000 in the P.Y. 2021-22, interest on ₹ 5,48,600 (i.e., ₹ 7,98,600 – ₹ 2,50,000) will also be chargeable to tax.

### Concept Problem 11

Mr. D went on a holiday on 15.12.2021 with his wife and three children (one son- age 5 years twin daughters- age 3 years). They went by flight (economy class) and the total cost of tickets reimbursed by his employers was INR 60,000 (INR 45,000 for adults and INR 15,000 for the three minor children). Compute the amount of Leave Travel Concession exempt.

### Solution

Since the son's age is more than 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.

### Concept Problem 12

Will the answer be different if among his three children the twins are 6 years old and son 3 years old? Discuss.

### Solution

If the twin's age is more than the son, Mr. D cannot avail for exemption for all his three children. Leave travel concession can be availed only for his two children.

Taxable LTC	$15,000 \times 1/3 = 5,000$
LTC exemption is only for	$55,000 (60,000 - 5,000)$

### Concept Problem 13

Compute the taxable value of the perquisite in respect of medical facilities received by Mr. G from his employer during the P.Y. 2021-22:

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

### Solution

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

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

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

#### Concept Problem 14

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

Basic salary	INR 6,000 p.m.
Dearness Allowance	INR 2,000 p.m. (30% is for retirement benefits)
Bonus	INR 1,500 p.m.

Even though the company allotted the house to him on 1.4.2021, he occupied the same only from 1.11.2021.

- Calculate the taxable value of the perquisite for A.Y.2022-23.
- Using the data given above (a), compute the value of perquisite if Mr. C is required to pay a rent of INR 1,000 p.m. to the Company, for the use of this accommodation.



- c) Using the data given in (a), compute the value of perquisite if ABC Ltd has taken this accommodation on a lease rent of INR 1,200 p.m. and Mr. C is required to pay a rent of INR 1,000 p.m. to the Company for use of this accommodation.
- d) Using the data given in (a), compute the value of the perquisite if ABC Ltd. has also provided a television (WDV INR 10,000; Cost INR 25,000) and two air conditioners. The rent paid by the company for the air conditioners is INR 400 p.m. each. The television was provided on 1.1.2022. However, Mr. C is required to pay a rent of INR 1,000 p.m. to the company, for the use of this furnished accommodation.
- e) Using the data given in (d), compute the value of the perquisite if Mr. C is a Government employee. The license fee determined by the Government for this accommodation was INR 700 per month.

### Solution

a)

#### Value of the rent-free unfurnished accommodation

= 15% of salary for the relevant period

= 15% of [(INR 6000 × 5) + (INR 2,000 × 30% × 5) + (INR 1,500 × 5)] [See Note below]

= 15% of INR 40,500 = INR 6,075.

**Note:** Since, Mr. C occupies the house only from 1.11.2020, we have to include the salary due to him only in respect of months during which he has occupied the accommodation. Hence salary for 5 months (i.e. from 1.11.2021 to 31.03.2022) will be considered.

b)

In this case, 15% of salary would be INR 6,075 (i.e. 15% of INR 40,500).

The rent paid by the employee is INR 5,000 (i.e., INR 1,000 × 5).

Since 15% of salary exceeds the rent recovered from the employee, there is a deemed concession in the matter of rent.

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

**Value of the rent-free unfurnished accommodation** = INR 6,075

Less: Rent paid by the employee (INR 1,000×5) = INR 5,000

**Perquisite value of unfurnished accommodation given at concessional rent = INR 1,075**

c)

In case of rented property, value of the rent-free unfurnished accommodation is lower of

i) Lease rent paid by the company for relevant period = INR 1,200 × 5 = INR 6,000

ii) 15% of salary for the relevant period (computed earlier) = INR 6,075

Value of rent-free accommodation is INR 6,000 which exceeds the rent paid by the employee i.e. INR 5,000 (INR 1,000 × 5).

Therefore, there is a deemed concession in the matter of rent. Once there is a deemed concession, the provisions of Rule 3(1) would be applicable in computing the taxable perquisite.

**Value of the rent-free unfurnished accommodation [Note]** = 6,000

Less: Rent paid by the employee (INR 1,000×5) = 5,000

**Value of unfurnished accommodation given at concessional rent = 1,000**

d)

In the case of accommodation owned by the employer in a city having a population exceeding INR 25 lakh, there

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would be deemed to be a concession in the matter of rent if 15% of salary exceeds rent recoverable from the employee.

In case of furnished accommodation, the excess of hire charges paid or 10% p.a. of the cost of furniture, as the case may be, over and above the charges paid or payable by the employee has to be added to the value arrived at above to determine whether there is a concession in the matter of rent.

In this case, 15% of salary is INR 6,075 (i.e. 15% of INR 40,500). The rent paid by the employee is INR 5,000 (i.e. INR 1,000 x 5).

The value of furniture of INR 4,625 (**see Note below**).

Value of the rent-free unfurnished accommodation (computed earlier) = 6,075

Add: Value of furniture provided by the employer [**Note**] = 4,625

**Value of rent-free furnished accommodation = 10,700**

Less: Rent paid by the employee (INR 1,000 x 5) = 5,000

**Value of furnished accommodation given at concessional rent = 5,700**

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

e)

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

Value of the rent-free unfurnished accommodation (INR 700 x 5) = INR 3,500

Add: Value of furniture provided by the employer (computed earlier) = INR 4,625

**Value of rent-free furnished accommodation = INR 8,125**

Less: Rent paid by the employee (INR 1,000 x 5) = INR 5,000

**Perquisite value of furnished accommodation given at concessional rent = INR 3,125**

### Concept Problem 15

Mr. X and Mr. Y are working for M/s. Gama Ltd. As per salary fixation norms, the following perquisites were offered:

- For Mr. X, who engaged a domestic servant for INR 500 per month, his employer reimbursed the entire salary paid to the domestic servant i.e. INR 500 per month.
- For Mr. Y, he was provided with a domestic servant @ INR 500 per month as part of remuneration package.

You are required to comment on the taxability of the above in the hands of Mr. X and Mr. Y, who are not specified employees.

### Solution

In the case of Mr. X, it becomes an obligation which the employee would have discharged even if the employer did not reimburse the same. Hence, the perquisite will be covered under section 17(2)(iv) and will be taxable in the hands of Mr. X. This is taxable in the case of all employees.

In the case of Mr. Y, it cannot be considered as an obligation which the employee would meet. The employee might choose not to have a domestic servant. This is taxable only in the case of specified employees covered by section 17(2)(iii). Hence, there is no perquisite element in the hands of Mr. Y.

### Concept Problem 16

Mr. X retired from the services of M/s Y Ltd. on 31.01.2022, after completing service of 30 years and one month. He had joined the company on 1.1.1992 at the age of 30 years and received the following on his retirement:

1. Gratuity INR 6,00,000. He was covered under the Payment of Gratuity Act, 1972.
2. Leave encashment of INR 3,30,000 for 330 days leave balance in his account. He was credited 30 days leave for each completed year of service.
3. As per the scheme of the company, he was offered a car which was purchased on 30.01.2019 by the company for INR 5,00,000. Company has recovered INR 2,00,000 from him for the car. Company depreciates the vehicles at the rate of 15% on Straight Line Method.
4. An amount of INR 3,00,000 as commutation of pension for 2/3 of his pension commutation.
5. Company presented him a gift voucher worth INR 6,000 on his retirement.
6. His colleagues also gifted him a Television (LCD) worth INR 50,000 from their own contribution.

**Following are the other particulars:**

- i) He has drawn a basic salary of INR 20,000 and 50% dearness allowance per month for the period from 01.04.2021 to 31.01.2022.
- ii) Received pension of INR 5,000 per month for the period 01.02.2022 to 31.03.2022 after commutation of pension.

Compute his gross total income from the above for Assessment Year 2022-23 assuming he has not opted for the provisions of section 115BAC.

**Solution**

**Computation of Gross Total Income of Mr. X for A.Y. 2022-23**

Particulars	Amount
Basic Salary = INR 20,000 x 10	2,00,000
Dearness Allowance = 50% of basic salary	1,00,000
Gift Voucher (See Note - 1)	6,000
Transfer of car (See Note - 2)	56,000
Gratuity (See Note - 3)	80,769
Leave encashment (See Note - 4)	1,30,000
Uncommuted pension (INR 5000 x 2)	10,000
Commutated pension (See Note - 5)	1,50,000
<b>Gross Salary</b>	<b>7,32,769</b>
Less: Standard deduction u/s 16(ia)	50,000
<b>Taxable Salary /Gross Total Income</b>	<b>6,82,769</b>

**Notes:**

1. 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 INR 5,000 in aggregate during the previous year is exempt. In this case, the amount was received on his retirement and the sum exceeds the limit of INR 5,000. Therefore, the entire amount of INR 6,000 is liable to tax as perquisite.

**Note** - An alternate view possible is that only the sum in excess of INR 5,000 is taxable in view of the language of Circular No.15/2001 dated 12.12.2001 that such gifts up to INR 5,000 in the aggregate per annum would be exempt, beyond which it would be taxed as a perquisite. As per this view, the value of perquisite would be INR 1,000 and gross taxable income would be INR 7,27,769.

2. **Perquisite value of transfer of car:** As per Rule 3(7)(viii), the value of benefit to the employee, arising from the transfer of an asset, being a motor car, by the employer is the actual cost of the motor car to the employer as reduced by 20% of such cost for each completed year during which such motor car was put to use by the employer on a written down value basis. Therefore, the value of perquisite on transfer of motor car, in this case, would be:

Particulars	Amount
Purchase price (30.01.2019)	5,00,000
Less: Depreciation @ 20%	1,00,000
<b>WDV on 29.1.2020</b>	<b>4,00,000</b>
Less: Depreciation @ 20%	80,000
<b>WDV on 29.1.2021</b>	<b>3,20,000</b>
Less: Depreciation @ 20%	64,000
<b>WDV on 29.1.2022</b>	<b>2,56,000</b>
Less: Amount recovered	2,00,000
<b>Value of perquisite</b>	<b>56,000</b>

The rate of 15% as well as the straight-line method adopted by the company for depreciation of vehicle is not relevant for calculation of perquisite value of car in the hands of Mr. X.

### 3. Taxable gratuity

Particulars	Amount
Gratuity received	6,00,000
Less: Exempt under section 10(10) - Least of the following:	
Notified limit = INR 20,00,000	
Actual gratuity = INR 6,00,000	
$15/26 \times \text{INR } 30,000 \times 30 = \text{INR } 5,19,231$	5,19,231
<b>Taxable Gratuity</b>	<b>80,769</b>

### 4. Taxable leave encashment

Particulars	Amount
Leave Salary received	3,30,000
Less: Exempt under section 10(10AA) - Least of the following:	
Notified limit = INR 3,00,000	
Actual gratuity = INR 3,30,000	
10 months x 20,000 = INR 2,00,000 (assuming that DA does not form part of pay for retirement benefit)	
Cash equivalent of leave to his credit = INR 2,20,000 ( $330/30 \times 20,000$ )	2,00,000
<b>Taxable Leave encashment</b>	<b>1,30,000</b>

**Note** – It has been assumed that dearness allowance does not form part of salary for retirement benefits. In case it is assumed that dearness allowance forms part of pay for retirement benefits, then, the third limit for exemption under section 10(10AA) in respect of leave encashment would be INR 3,00,000 (i.e. 10 x INR 30,000) and the fourth limit INR 3,30,000, in which case, the taxable leave encashment would be INR 30,000 (INR 3,30,000- INR 3,00,000). In such a case, the gross total income would be INR 6,32,769.

### 5. Commuted Pension

Since Mr. X is a non-government employee in receipt of gratuity, exemption under section 10(10A) would be available to the extent of  $1/3^{\text{rd}}$  of the amount of the pension which he would have received had he commuted the whole of the pension.

Particulars	Amount
Amount received	3,00,000
Exemption under section 10(10A) = $1/3 \times [3,00,000 \times 3/2]$	1,50,000
<b>Taxable amount</b>	<b>1,50,000</b>

6. The taxability provisions under section 56(2)(x) are not attracted in respect of television received from colleagues, since television is not included in the definition of property therein.

### Concept Problem 17

Shri Bala employed in ABC Co. Ltd. as Finance Manager gives you the list of perquisites provided by the company to him for the entire financial year 2021-22:

- Domestic servant was provided at the residence of Bala. Salary of domestic servant is INR 1,500 per month. The servant was engaged by him and the salary is reimbursed by the company (employer). In case the company has employed the domestic servant, what is the value of perquisite?
- Free education was provided to his two children Arthy and Ashok in a school maintained and owned by the company. The cost of such education for Arthy is computed at INR 900 per month and for Ashok at INR 1,200 per month. No amount was recovered by the company for such education facility from Bala.
- The employer has provided movable assets such as television, refrigerator and air-conditioner at the residence of Bala. The actual cost of such assets provided to the employee is INR 1,10,000.
- A gift voucher worth INR 10,000 was given on the occasion of his marriage anniversary. It is given by the company to all employees above certain grade.
- Telephone provided at the residence of Shri Bala and the bill aggregating to INR 25,000 paid by the employer.
- Housing loan @ 6% per annum. Amount outstanding on 1.4.2021 is INR 6,00,000. Shri Bala pays INR 12,000 per month towards principal, on 5<sup>th</sup> of each month.

Compute the chargeable perquisite in the hands of Mr. Bala for the A.Y. 2022-23. The lending rate of State Bank of India as on 1.4.2021 for housing loan may be taken as 10%.

### Solution

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

- 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 =  $\text{INR } 1,500 \times 12 = \text{INR } 18,000$ .

If the company had employed the domestic servant and the facility of such servant is given to the employee, then the perquisite is taxable only in the case of specified employees. The value of the taxable perquisite in such a case also would be INR 18,000.

- Where the educational institution is owned by the employer, the value of perquisite in respect of free education facility shall be determined with reference to the reasonable cost of such education in a similar institution in or near the locality. However, there would be no perquisite if the cost of such education per child does not exceed INR 1,000 per month.

Therefore, there would be no perquisite in respect of cost of free education provided to his child Arthy, since the cost does not exceed INR 1,000 per month.

However, the cost of free education provided to his child Ashok would be taxable, since the cost exceeds INR 1,000 per month. The taxable perquisite value would be INR 14,400 ( $\text{INR } 1,200 \times 12$ ).

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

- iii) Where the employer has provided movable assets to the employee or any member of his household, 10% per annum of the actual cost of such asset owned or the amount of hire charges incurred by the employer shall be the value of perquisite. However, this will not apply to laptops and computers. In this case, the movable assets are television, refrigerator and air conditioner and actual cost of such assets is INR 1,10,000.

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

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

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

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

- v) Telephone provided at the residence of the employee and payment of bill by the employer is a tax-free perquisite.
- vi) The value of the benefit to the Assessee resulting from the provision of interest- free or concessional loan made available to the employee or any member of his household during the relevant previous year by the employer or any person on his behalf shall be determined as the sum equal to the interest computed at the rate charged per annum by the State Bank of India (SBI) as on the 1<sup>st</sup> day of the relevant previous year in respect of loans for the same purpose advanced by it. This rate should be applied on the maximum outstanding monthly balance and the resulting amount should be reduced by the interest, if any, actually paid by him.

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

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

Month	Maximum outstanding balance as on last date of month	Perquisite value at 4% for the month
April, 2021	5,88,000	1,960
May, 2021	5,76,000	1,920
June, 2021	5,64,000	1,880
July, 2021	5,52,000	1,840
August, 2021	5,40,000	1,800
September, 2021	5,28,000	1,760
October, 2021	5,16,000	1,720
November, 2021	5,04,000	1,680
December, 2021	4,92,000	1,640
January, 2022	4,80,000	1,600
February, 2022	4,68,000	1,560
March, 2022	4,56,000	1,520
	<b>Total value of this perquisite</b>	<b>20,880</b>

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

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

### Concept Problem 18

AB Co. Ltd. Allotted 1000 sweat equity shares to Sri Chand in June 2021. The Shares were allotted at INR 200 per share as against the fair market value of INR 300 per share on the date of exercise of option by the allottee viz. Sri Chand. The fair market value was computed in accordance with the method prescribed under the act

- What is the perquisite value of sweat equity shares allotted to Sri Chand?
- In this case of subsequent sale of those shares by Sri Chand what would be the cost of acquisition of those sweat equity shares?

### Solution

As per section 17(2)(vi) the value of sweat equity shares chargeable to tax as perquisite shall be the fair market value of such shares on the date on which the option is exercised by the Assessee as reduced by the amount actually paid by or recovered from the Assessee in respect of such shares

Particulars	Amount
Fair market value of 1000 sweat equity shares @ INR 300 each	3,00,000
Less: amount recovered from Sri Chand 1000 shares @ 200 each	2,00,000
<b>Value of perquisite of sweat equity shares allotted to Sri Chand</b>	<b>1,00,000</b>

As per section 49(2AA), where capital gain arises from transfer of sweat equity shares the cost of acquisition of such shares shall be the fair market value which has been taken into account for perquisite valuation under section 17(2)(vi).

Therefore, in case of subsequent sale of sweat equity shares by Sri Chand the cost of acquisition would be INR 3,00,000.

### Concept Problem 19

X Ltd. Provided the following perquisite to its employee Mr. Y for the P.Y 2021-22:

- Accommodation taken on lease by X Ltd. for INR 15,000 p.m.; INR 5,000 p.m. is recovered from salary of Mr. Y.
- Furniture for which the hire charges paid by X Ltd. is INR 3,000 p.m. No amount is recovered from the employee in respect of the same.
- A Santro car which is owned by X Ltd. and given to Mr. Y to be used both for official and personal purposes. All running and maintenance expenses are fully met by the employer. He is also provided with a chauffeur.
- A gift voucher of INR 10,000 on his birthday.

Compute the value of perquisite chargeable to tax for the A.Y. 2022-23 assuming his salary for perquisite valuation to be INR 10 lakh.

### Solution

**Computation of the value of perquisite chargeable to tax in the hands of Mr. Y for the A.Y 2022-23**

Particulars	Amount	Amount	Amount
<b>Value of concessional accommodational</b>			
Actual amount of lease rental paid by X Ltd.	1,80,000		
15% of salary i.e., 15% of INR 10,00,000	1,50,000		
Lower of the above		<b>1,50,000</b>	

Particulars	Amount	Amount	Amount
Less: rent paid by Mr. Y (INR 5,000 x 12)		60,000	
		<b>90,000</b>	
Add: Hire charges paid by X Ltd. for furniture provided for the use of Mr. Y (3,000 x 12)		36,000	1,26,000
Perquisite value of Santro car owned by X Ltd. and provided to Mr. Y for his personal and official use [(INR 1,800 + INR 900) x 12]			32,400
Perquisite Value of gift voucher			10,000
<b>Value of perquisite chargeable to tax</b>			<b>1,68,400</b>

**Note:** An alternate view possible is that only the sum in excess of INR 5,000 is taxable. In such a case, the value of perquisite would be INR 5,000.

### Concept Problem 20

Mr. Goyal receives the following emoluments during the previous year ending 31.03.2022.

Particulars	Amount
Basic pay	40,000
Dearness allowance	15,000
Commission	10,000
Entertainment allowance	4,000
Medical expenses reimbursed	25,000
Professional tax paid	2,000 (INR 1,000 was paid by his employer)

Mr. Goyal contributes INR 5,000 towards recognized provident fund. He has no other income. Determine the income from salary for A.Y 2022-23, if Mr, Goyal is a state government employee.

### Solution

#### Computation of salary of Mr. Goyal for the A.Y. 2022-23

Particulars	Amount	Amount
Basic salary		40,000
Dearness allowance		15,000
Commission		10,000
Entertainment allowance received		4,000
Employee's contribution to RPF (Note)		-
Medical expenses reimbursed		25,000
Professional tax paid by the employer		1,000
<b>Gross salary</b>		<b>95,000</b>
Less: Deduction under section 16		
Under section 16(ia) – standard deduction of upto INR 50,000		50,000
Under section 16(ii) Entertainment allowance being lower of:		
a) Allowance received	4,000	
b) One fifth of basic salary (1/5 x INR 40,000)	8,000	
c) Statutory amount	5000	4,000
Deduction of professional tax paid under section 16(iii)		2,000

*This Question Bank is meant for Nov 2022 exams and must be read with our Lectures (Regular or Fast Track) as many additional concepts are covered in class. We do lots of written practice in class & Kishan Sir personally evaluates grand Mock Test. Must cover Income Tax Chalisa Handwritten Notes as well.*



Particulars	Amount	Amount
Income from salary		39,000

**Note:** Employee's contributions to RPF is not taxable. It is eligible for definition u/s 80C.

### Concept Problem 21

In the case of Mr. Hari, who turned 68 years on 28.3.2022, you are informed that the salary for the previous year 2021-22 is INR 10,20,000 and arrears of salary received is INR 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 (INR)	Arrears now received (INR)
2010-2011	7,10,000	1,03,000
2011 - 2012	8,25,000	1,17,000
2012 - 2013	9,50,000	1,25,000

Compute the relief available under section 89 and the tax payable for the A.Y. 2022-23. Assume that Mr. Hari does not opt for section 115BAC.

**Note: Rates of Taxes:**

Assessment Year	Slab rates of income-tax			
	For resident individuals of the age of 60 years or more at any time during PY		For other resident individuals	
	Slabs	Rate	Slabs	Rate
2011 - 12	up to INR 2,40,000	NIL	up to INR 1,60,000	Nil
	INR 2,40,001 – INR 5,00,000	10%	INR 1,60,000 – INR 5,00,000	10%
	INR 5,00,001 – INR 8,00,000	20%	INR 5,00,000 – INR 8,00,000	20%
	Above INR 8,00,000	30%	Above INR 8,00,000	30%
2012-13	up to INR 2,50,000	NIL	up to INR 1,80,000	Nil
	INR 2,50,001 – INR 5,00,000	10%	INR 1,80,000 – INR 5,00,000	10%
	INR 5,00,001 – INR 8,00,000	20%	INR 5,00,000 – INR 8,00,000	20%
	Above INR 8,00,000	30%	Above INR 8,00,000	30%
2013-14	up to INR 2,50,000	Nil	up to INR 2,00,000	Nil
	INR 2,50,001 – INR 5,00,000	10%	INR 2,00,000 – INR 5,00,000	10%
	INR 5,00,001 – INR 10,00,000	20%	INR 5,00,000 – INR 10,00,000	20%
	Above INR 10,00,000	30%	Above INR 10,00,000	30%

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

### Solution

#### Computation of tax payable by Mr. Hari for the A.Y.2022-23

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>
<b>Income-tax thereon</b>	<b>2,19,500</b>	<b>1,16,000</b>
Add: Health and education cess @4%	8,780	4,640

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Particulars	Incl. arrears of salary	Excl. arrears of salary
<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 the respective AYs

Particulars	A.Y. 2011-12		A.Y. 2012-13		A.Y. 2013-14	
	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 on the above	97,900	76,000	1,34,600	99,500	1,47,500	1,15,000
Add: Cess @3%	2,937	2,280	4,038	2,985	4,425	3,450
<b>Tax payable</b>	<b>1,00,837</b>	<b>78,280</b>	<b>1,38,638</b>	<b>1,02,485</b>	<b>1,51,925</b>	<b>1,18,450</b>

#### Computation of relief under section 89

S. No	Particulars	Amount	Amount
i.	<b>Tax payable in A.Y.2022-23 on arrears:</b>		
	Tax on income including arrears	2,28,280	
	Less: Tax on income excluding arrears	1,20,640	1,07,640
ii.	<b>Tax payable in respective years on arrears:</b>		
	Tax on income including arrears (1,00,837 + 1,38,638 + 1,51,925)	3,91,400	
	Less: Tax on income excluding arrears (78,280 + 1,02,485 + 1,18,450)	2,99,215	92,185
	<b>Relief under section 89 - difference between tax on arrears in A.Y 2021-22 and tax on arrears in the respective years</b>		<b>15,455</b>

#### Tax payable for A.Y.2022-23 after relief under section 89

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

## 2. ICAI RTPS, MTPS AND PAST YEAR QUESTIONS

### Concept problem 22

Mr. Mohit is employed with ABC Ltd. on a basic salary of INR 10,000 p.m. He is also entitled to dearness allowance @ 100% of basic salary, 50% of which is included in salary as per terms of employment. The company gives him house rent allowance of INR 6,000 p.m. which was increased to INR 7,000 p.m. with effect from 01.01.2022. He also got an increment of INR 1,000 p.m. in his basic salary wef 01.02.2022. Rent paid by him during the PY 2021-22 is as under:

April and May, 2021	Nil, as he stayed with his parents.
June to October, 2021	INR 6,000 p.m. for an accommodation in Ghaziabad.
November, 2021 to March, 2022	INR 8,000 p.m. for an accommodation in Delhi.

Compute the gross salary for the AY 2022-23 assuming he has not opted for the provisions of section 115BAC.

### Solution

#### Computation of gross salary for AY 2022-23

Particulars	Amount
Basic salary [(INR 10,000 x 10) +(INR 11,000 x 2)]	1,22,000
Dearness Allowance (100% of basic salary)	1,22,000
House Rent Allowance (Working Note)	21,300
<b>Gross Salary</b>	<b>2,65,300</b>

#### Working Note: Computation of Taxable House Rent Allowance (HRA)

Particulars	April-May (₹)	June-Oct (₹)	Nov-Dec (₹)	Jan (₹)	Feb-Mar (₹)
Basic salary per month	10,000	10,000	10,000	10,000	11,000
Dearness allowance (included in salary as per terms of employment) (50% of basic salary)	5,000	5,000	5,000	5,000	5,500
Salary per month for the purpose of computation of house rent allowance	15,000	15,000	15,000	15,000	16,500
Relevant period (in months)	2	5	2	1	2
Salary for the relevant period (Salary per month × relevant period)	30,000	75,000	30,000	15,000	33,000
Rent paid for the relevant period	Nil	30,000 (₹ 6,000×5)	16,000 (₹ 8,000×2)	8,000 (₹8,000×1)	16,000 (₹ 8,000×2)
<b>House rent allowance (HRA) received during the relevant period (A)</b>	<b>12,000</b> <b>(₹ 6,000×2)</b>	<b>30,000</b> <b>(₹ 6,000×5)</b>	<b>12,000</b> <b>(₹ 6,000×2)</b>	<b>7,000</b> <b>(₹7,000×1)</b>	<b>14,000</b> <b>(₹ 7,000×2)</b>
<b>Least of the following is exempt u/s 10(13A)</b>					
1. Actual HRA received	-	30,000	12,000	7,000	14,000
2. Rent paid (-) 10% of salary	-	22,500	13,000	6,500	12,700
3. 40% of salary (Residence at Ghaziabad – June to Oct, 2021) 50% of salary (Residence at Delhi– Nov, 21 - March, 22)	-	30,000 (40% × 75,000)	15,000 (50% × 30,000)	7,500 (50% × 15,000)	16,500 (50% × 33,000)
<b>Exempt HRA (B)</b>	<b>Nil</b>	<b>22,500</b>	<b>12,000</b>	<b>6,500</b>	<b>12,700</b>
<b>Taxable HRA [Actual HRA – Exempt HRA] (A-B)</b>	<b>12,000</b>	<b>7,500</b>	<b>Nil</b>	<b>500</b>	<b>1,300</b>

**Taxable HRA (total)** = ₹12,000 + ₹7,500 + ₹500 + ₹1,300 = ₹21,300

#### Concept Problem 23

Mrs. Rakhi is an employee in a private company. She receives the following medical benefits from the company during the previous year 2021-22.

Particulars	Amount
<b>1. Reimbursement of the following Medical Expenses incurred by Mrs. Rakhi</b>	
i) On treatment of her self-employed daughter in a private clinic.	4,000
ii) On treatment of herself by Family doctor	8,000
iii) On treatment of her Mother-in-law dependent on her, in a Nursing Home.	5,000
<b>2. Payment of premium on Medi claim Policy taken on her health</b>	7,500
<b>3. Medical Allowance</b>	2,000 p.m.
<b>4. Medical expenses reimbursed on her son's treatment in a Government Hospital</b>	5,000
<b>5. Expenses paid by company on treatment of her minor son abroad</b>	1,95,000
<b>6. Expenses in relation to Foreign Travel of Mrs. Rakhi and her son (Limit prescribed by RBI for this is INR 2,00,000)</b>	1,20,000

Discuss about the taxability of above benefits and allowance in the hands of Mrs. Rakhi.

### Solution

#### Tax treatment of medical benefits, allowances and Medclaim premium in the hands of Ms. Rakhi for A.Y. 2022-23

Particulars	
<b>1.</b>	<b>Reimbursement of medical expenses incurred by Ms. Rakhi</b>
(A)	The amount of INR 4,000 reimbursed by her employer for treatment of her self-employed daughter in a private clinic is taxable perquisite.
(B)	The amount of INR 8,000 reimbursed by the employer for treatment of Ms. Rakhi by family doctor is taxable perquisite.
(C)	The amount of INR 5,000 reimbursed by her employer for treatment of her dependant mother-in-law in a nursing home is taxable perquisite.
	The aggregate sum of INR 17,000, specified in (A), (B) and (C) above, reimbursed by the employer is taxable perquisite
<b>2.</b>	Medical insurance premium of INR 7,500 paid by the employer for insuring health of Ms. Rakhi is an exempt perquisite as per clause (iii) of the first proviso to section 17(2).
<b>3.</b>	Medical allowance of INR 2,000 per month i.e., INR 24,000 p.a. is a fully taxable allowance.
<b>4.</b>	As per clause (ii)(a) of the first proviso to section 17(2), reimbursement of medical expenses of INR 5,000 on her son's treatment in a hospital maintained by the Government is an exempt perquisite.
<b>5. &amp; 6.</b>	As per clause (vi) of the first proviso to section 17(2), the following expenditure incurred by the employer would be excluded from perquisite subject to certain conditions –
	<b>i)</b> Expenditure on medical treatment of the employee, or any member of the family of such employee, outside India [INR 1,05,000, in this case];
	<b>ii)</b> Expenditure on travel and stay abroad of the employee or any member of the family of such employee for medical treatment and one attendant who accompanies the patient in connection with such treatment [INR 1,20,000, in this case].
	The conditions subject to which the above expenditure would be exempt are as follows -
	<b>a)</b> The expenditure on medical treatment and stay abroad would be excluded from perquisite to the extent permitted by Reserve Bank of India;
	<b>b)</b> The expenditure on travel would be excluded from perquisite only in the case of an employee whose gross total income, as computed before including the said expenditure, does not exceed INR 2 lakh.

Assuming that the limit of INR 2 lakh prescribed by RBI pertains to both expenditure on medical treatment of minor son as well as expenditure on stay abroad of Ms. Rakhi and her minor son, such expenditure would be excluded from perquisite subject to a maximum of INR 2 lakh. If such expenditure is less than INR 2 lakh, it would be fully excluded. The foreign travel expenditure of Ms. Rakhi and her minor son borne by the employer would be excluded from perquisite only if the gross total income of Ms. Rakhi, as computed before including the said expenditure, does not exceed INR 2 lakh.

### Concept Problem 24

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

1. A company owned accommodation is provided to him in Delhi. Furniture costing INR 2,40,000 was provided on 1.8.2021.
2. A personal loan of INR 5,00,000 on 1.7.2021 on which it charges interest @ 6.75% p.a. The entire loan is still outstanding. (assume SBI rate of interest to be 12.75% p.a.)
3. His son is allowed to use a motor cycle belonging to the company. The company had purchased this motor cycle for INR 60,000 on 1.5.2018. The motor cycle was finally sold to him on 1.8.2021 for INR 30,000.
4. Professional tax paid by Mr. X is INR 2,000

Compute the income from salary of Mr. X for the A.Y. 2022-23 assuming he has not opted for the provisions of section 115BAC.

### Solution

#### Computation of income from salary of Mr. X for the A.Y. 2022-23

Particulars	Amount	Amount
Basic salary [INR 25,000 x 12]		3,00,000
Commission [INR 1,000 x 12]		12,000
Entertainment allowance [INR 1,000 x 12]		12,000
Rent free accommodation [Note 1]	48,600	
Add: value of furniture [INR 2,40,000 x 10% p.a. for 8 months]	16,000	64,600
Interest on personal loan [Note 2]		22,500
Use of motor cycle [INR 60,000 X 10% p.a. for 4 months]		2,000
Transfer of motor cycle [Note 3]		12,000
<b>Gross salary</b>		<b>4,25,100</b>
Less: deduction under section 16		
- Under section 16(ia) – Deduction of upto INR 50,000	50,000	
- Under section 16(iii) – Professional tax paid	2,000	52,000
<b>Income from salary</b>		<b>3,73,100</b>

#### Note: 1

##### Value of rent-free unfurnished accommodation

= 15% of salary for the relevant period

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

#### Note 2

##### Value of perquisite for interest on personal loan

= [INR 5,00,000 x (12.75% - 6.75%) for 9 months] = INR 22,500

**Note 3**

Depreciated value of the motor cycle

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

= INR 60,000 – (INR 60,000 x 10% p.a. x 3 years) = INR 42,000.

Perquisite = INR 42,000 – INR 30,000 = INR 12,000

**Concept Problem 25**

Mr. Balaji employed as production manager in Beta Ltd. furnishes you the following information for the year ended 31.03.2022-

- i) Basic salary upto 31.10.2020 INR 50,000 P.M.  
Basic salary from 01.11.2020 INR 60,000 P.M.  
Note: Salary is due and paid on the last day of every month.
- ii) Dearness allowance @ 40% of basic salary.
- iii) Bonus equal to 1-month salary. Paid in October 2021 on basic salary plus dearness allowance applicable for that month.
- iv) Contribution of employer to recognized provident fund account of the employee @ 16% of basic salary.
- v) Profession tax paid INR 2,500 of which INR 2,000 was paid by the employer.
- vi) Facility of laptop and computer was provided to Mr. Balaji for both official and personal use. Cost of laptop INR 45,000 and computer INR 35,000 were acquired by the company on 01.12.2021.
- vii) Motor car owned by the employer (cubic capacity of engine exceeds 1.60 litres) provided to the employee from 01.11.2021 meant for both official and personal use. Repair and running expenses of INR 45,000 from 01.11.2021 to 31.03.2022, were fully met by the employer. The motor car was self-driven by the employee.
- viii) Leave travel concession given to employer, his wife and three children (one daughter aged 7 and twin sons aged 3). Cost of air tickets (economy class) reimbursed by the employer 30,000 for adults and 45,000 for three children. Balaji is eligible for availing exemption this year to the extent it is permissible in law.

Compute the salary income chargeable to tax in the hands of Mr. Balaji for the assessment year 2022-23 assuming he has not opted for the provisions of section 115BAC.

**Solution****Computation of taxable salary of Mr. Balaji for A.Y 2022-23**

Particulars	Amount	Amount
Basic salary (INR 50,000 x 7) (INR 60,000 x 5)		6,50,000
Dearness allowance (40% of basic salary)		2,60,000
Bonus (INR 50,000 + 40% of 50,000) (see note 1)		70,000
Employer's contribution to recognised provident fund in excess of 12% of salary = 4% of INR 6,50,000 (see note 4)		26,000
Professional tax paid by employer		2,000
Perquisite of motor car (INR 2,400 for 5 months) (see note 5)		12,000
<b>Gross salary</b>		<b>10,20,000</b>
Less: Deduction under section 16		
Standard deduction u/s 16(ia)	50,000	
Professional tax u/s 16(iii) (see note 6)	2,500	52,500

Particulars	Amount	Amount
Taxable salary		9,67,000

**Notes:**

- Since bonus was paid in the month of October, the basic salary of INR 50,000 for the month of October is considered for its calculation.
- As per rule 3(7)(vii), facility of use of laptop and computer is an exempt perquisite, whether used for official or personal purpose or both.
- Mr. Balaji can avail exemption under section 10(5) on the entire amount of INR 75,000 reimbursed by the employer towards leave travel concession since the same was availed for himself, his wife and three children and the journey was undertaken by economy class airfare. The restriction imposed for two children is not applicable in case of multiple births which take place after the first child.

It is assumed that the leave travel concession was availed for journey within India.

- It is assumed that dearness allowance does not form part of salary for computing retirement benefits.
- As per the provisions of Rule 3(2), in case a motor car (engine cubic capacity exceeding 1.60 litters) owned by the employer is provided to the employee without chauffeur for personal as well as office use, the value of perquisite shall be INR 2,400 per month. The car was provided to the employee from 01.11.2020, therefore the perquisite value has been calculated for 5 months.
- As per section 17(2)(iv), a “perquisite” includes any sum paid by the employer in respect of any obligation which, but for such payment, would have been payable by the Assessee. Therefore, professional tax of INR 2,000 paid by the employer is taxable as a perquisite in the hands of Mr. Balaji. As per section 16(iii), a deduction from salary is provided on account of tax on employment i.e., professional tax paid during the year.

Therefore, in present case, the professional tax paid by the employer on behalf of the employee INR 2,000 is first included in the salary and deduction of the entire professional tax of INR 2,500 is provided from salary.

**Concept Problem 26**

Form the following details find out the salary chargeable to tax for the A.Y 2022-23 assuming he has not opted for the provisions of section 115BAC-.

Mr. X is a regular employee of Rama & Co. in Gurgaon. He was appointed on 1.1.2021 in the scale of INR 20,000 – INR 1,000 – INR 30,000. 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 D.A towards his recognized provident and the company contributes the same amount.

He is provided free housing facility which has been taken on rent by the company at INR 10,000 per month. He is also provident with following facilities:

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

**Solution****Computation of taxable salary of Mr. X for A.Y 2022-23**

Particulars	Amount
-------------	--------

*This Question Bank is meant for Nov 2022 exams and must be read with our Lectures (Regular or Fast Track) as many additional concepts are covered in class. We do lots of written practice in class & Kishan Sir personally evaluates grand Mock Test. Must cover Income Tax Chalisa Handwritten Notes as well.*

Particulars	Amount
Basic pay [(INR 20,000 x 9) + (INR 21,000 x 3)] = INR 1,80,000 + INR 63,000	2,43,000
Dearness allowance (10% of basic pay)	24,300
Bonus	21,000
Employer's contribution to recognized provident fund in excess of 12% (15% - 12% = 3% of INR 2,67,300) [see note 1 below]	8,019
<b>Taxable allowances</b>	
Telephone allowance	6,000
<b>Taxable perquisite</b>	
Rent free accommodation [see note 1 & 2 below]	44,145
Medical reimbursement	25,000
Reimbursement of salary of housekeeper	12,000
Gift voucher [see note 6 below]	10,000
<b>Gross Salary</b>	<b>3,93,464</b>
Less: Deduction under section 16 (ia) – Standard Deduction of upto INR 50,000	50,000
<b>Salary income chargeable to tax</b>	<b>3,43,464</b>

**Notes:**

- It has been assumed that dearness allowance forms part of salary for retirement benefits and accordingly the perquisite value of rent-free accommodation and employer's contribution to recognized provident fund have been worked out.
  - Where the accommodation is taken on lease or rent by the employer, the value of rent-free accommodation provided to employee would be actual amount of lease rental paid or payable by the employer or 15% of salary, whichever is lower. For the purpose of valuation of rent-free house, salary includes:
    - Basic salary i.e., INR 2,43,000
    - Dearness allowance (assuming that it is included for calculating retirement benefits) i.e., INR 24,300
    - Bonus i.e., INR 21,000
    - Telephone allowance i.e., INR 6,000

Therefore, salary works out to INR 2,43,000 + INR 24,300 + INR 21,000 + INR 6,000 = INR 2,94,300

15% of salary = INR 2,94,300 x 15/100 = INR 44,145

Value of rent-free house = lower of rent paid by the employer i.e. 1,20,000 or 15% of salary (i.e., 44,145).

Therefore, the perquisite value is INR 44,145.
  - Facility of use of laptop is not a taxable perquisite.
  - Conveyance allowance is exempt since it is based on actual reimbursement for official purpose.
  - The value of any gift or voucher or taken in lieu of gifts received by the employer or by member of his household below INR 5,000 in aggregate during the previous year is exempt. In this case, the gift voucher was received on the occasion of marriage anniversary and the sum exceeds the limits of INR 5,000.
- Therefore, the entire amount of INR 10,000 is liable to tax as perquisite.
- Note: An alternate view possible is that only the sum in excess of INR 5,000 is taxable. As per this view, the value of perquisite would be INR 5,000.
- Premium of INR 5,000 paid by the company for personal accident policy is not liable to tax.

**Concept Problem 27**

*This Question Bank is meant for Nov 2022 exams and must be read with our Lectures (Regular or Fast Track) as many additional concepts are covered in class. We do lots of written practice in class & Kishan Sir personally evaluates grand Mock Test. Must cover Income Tax Chalisa Handwritten Notes as well.*



From the following details, find out the salary chargeable to tax of Mr. Anand for the assessment year 2022-23.

Mr. Anand is a regular employee of Malpani Ltd. In Mumbai, he was appointed on 01-03-2021 in the scale of INR 25,000 – INR 2,500 - INR 35,000. He is paid dearness allowance (which forms part of salary for retirement benefits) @ 15% of basic pay and bonus equivalent to one and a half month's basic pay as at the end of the year. He contributes 18% of his salary (basic pay plus dearness allowance) towards 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 INR 15,000 per month. He is also provided with following facilities:

- i) The company reimbursed the medical treatment bill of INR 40,000 of his daughter who is dependent on him.
- ii) The monthly salary of INR 2,000 of a house keeper is reimbursed by the company.
- iii) He is getting telephone allowance @ INR 1,000 per month.
- iv) A gift voucher of INR 4,700 was given on the occasion of his marriage anniversary.
- v) The company pays medical insurance premium to effect an insurance on the health of Mr. Anand INR 12,000.
- vi) Motor car running and maintenance charges of INR 36,600 fully paid by employer.  
(The motor car is owned and driven by Mr. Anand. The engine cubic capacity is below 1.60 litres. The motor car is used for both official and personal purpose by the employee)
- vii) Value of free lunch provided during office hours is INR 2,200.

### Solution

#### Computation of taxable salary of Mr. Anand for A.Y 2022-23

Particulars	Amount
Basic pay [(INR 25,000 x 11) + (INR 27,500 x 1)] = INR 2,75,000 + INR 27,500	3,02,500
Dearness allowance [15% of basic pay]	45,375
Bonus [INR 27,500 x 1.5]	41,250
Employer's contribution to recognized provident fund in excess of 12% (18% -12% = 6% of INR 3,47,875)	20,873
<b>Taxable allowances</b>	
Telephone allowance	12,000
<b>Taxable perquisite</b>	
Rent free accommodation [see note 1 below]	60,169
Medical reimbursement	40,000
Reimbursement of salary of housekeeper [INR 2,000 x 12]	24,000
Gift voucher [see Note 4 below]	-
Motor car owned and driven by employee, running and maintenance charges borne by the employer [INR 36,600 – INR 21,600 (i.e., INR 1,800 x 12)]	15,000
Value of free lunch facility [see note 5 below]	-
<b>Gross Salary</b>	<b>5,61,167</b>
Less: Standard Deduction u/s 16(ia)	50,000
<b>Salary income chargeable to tax</b>	<b>5,11,167</b>

### Notes

Notes											
1.	Where the accommodation is taken on lease or rent by the employer, the value of rent-free accommodation provided to employee would be actual amount of lease rental paid or payable by the employer or 15% of salary; whichever is lower.										
	For the purposes of valuation of rent-free house, salary includes:										
	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%;">Basic salary</td> <td style="text-align: right;">3,02,500</td> </tr> <tr> <td>Dearness allowance</td> <td style="text-align: right;">45,375</td> </tr> <tr> <td>Bonus</td> <td style="text-align: right;">41,250</td> </tr> <tr> <td>Telephone allowance</td> <td style="text-align: right;">12,000</td> </tr> <tr> <td><b>Total</b></td> <td style="text-align: right;"><b>4,01,125</b></td> </tr> </table>	Basic salary	3,02,500	Dearness allowance	45,375	Bonus	41,250	Telephone allowance	12,000	<b>Total</b>	<b>4,01,125</b>
Basic salary	3,02,500										
Dearness allowance	45,375										
Bonus	41,250										
Telephone allowance	12,000										
<b>Total</b>	<b>4,01,125</b>										
	15% of salary = INR 4,01,125 x 15/100 = INR 60,169										
	Value of rent-free house will be <ul style="list-style-type: none"> <li>➤ Actual amount of lease rental paid by employer (i.e. INR 1,80,000) or</li> <li>➤ 15% of salary (i.e. INR 60,169)</li> </ul> whichever is lower.										
	Therefore, the perquisite value is INR 60,169										
2.	Any sum paid by the employer in respect of any expenditure actually incurred by the employee on his medical treatment or treatment of any member of his family in private hospital is taxable.										
3.	Medical insurance premium paid by the employer to effect an insurance on the health of the employee is fully exempt.										
4.	If the value of any gift or voucher or token in lieu of gift received by the employee or by member of his household is less than INR 5,000 in aggregate during the previous year, the perquisite value is Nil. In this case, the gift voucher was received on the occasion of marriage anniversary and the sum is less than INR 5,000. Therefore, the perquisite value of gift voucher is nil.										
5.	Free lunch provided by the employer during office hours is not a perquisite assuming that the value does not exceeds INR 50 per meal.										

### Concept Problem 28

Ms. Arohi is the HR Manager in Shipra Limited. She gives you the following particulars:

Basic Salary = INR 70,000 p.m.

Dearness Allowance = INR 24,000 p.m. (30% of which forms part of retirement benefits)

Bonus = INR 21,000 p.m.

Her employer has provided her with an accommodation on 1<sup>st</sup> April 2021 at a concessional rent. The house was taken on lease by Shipra Ltd. for INR 12,000 p.m. Ms. Arohi occupied the house from 1<sup>st</sup> November, 2021, INR 4,800 p.m. is recovered from the salary of Ms. Arohi.

The employer gave her a gift voucher of INR 10,000 on her birthday. She contributes 18% of her salary (Basic Pay plus DA) towards recognised provident fund and the company contributes the same amount.

The company pays medical insurance premium to effect insurance on the health of Ms. Arohi INR 20,000. Motor car owned by the employer (cubic capacity of engine exceeds 1.6 litres) provided to Ms. Arohi from 1<sup>st</sup> November, 2021 which is used for both official and personal purposes. Repair and running expenses of INR 70,000 were fully met by the company. The motor car was self-driven by the employee.

Compute the income chargeable to tax under the head "Salaries" in the hands of Ms. Arohi for the AY 2022-23 assuming he has not opted for the provisions of section 115BAC.

### Solution

**Computation of income chargeable to tax under the head “Salaries” in the hands of Ms. Aarohi for A.Y.2022-23**

Particulars	Amount
Basic Salary [INR 70,000 x 12]	8,40,000
Dearness allowance [INR 24,000 x 12]	2,88,000
Bonus [INR 21,000 x 12]	2,52,000
Perquisite value in respect of concessional rent [ <b>See Working Note below</b> ]	36,000
Gift voucher given by employer on Ms. Aarohi's birthday (entire amount is taxable since the perquisite value exceeds INR 5,000) [ <b>See Note for Alternative view</b> ]	10,000
Employer's contribution to recognized provident fund in excess of 12% of salary = 18% x [(INR 70,000 + INR 24,000) x 12] – 12% x {[INR 70,000 + INR 7,200 (being 30% of INR 24,000)] x 12} = 2,03,040 – 1,11,168 [Salary = Basic Salary + Dearness allowance, to the extent it forms part of pay for retirement benefits]	91,872
Medical insurance premium of INR 20,000 paid by the employer to effect an insurance on the health of an employee is an exempt perquisite	-
Provision of motor car (engine cubic capacity more than 1.6 litres) owned by employer to an employee without chauffeur for both official and personal purpose, where the expenses are fully met by the employer - the perquisite value would be INR 2400/- p.m. [INR 2,400 x 5 months]	12,000
<b>Gross salary</b>	<b>15,29,872</b>
Less: Standard deduction under section 16(ia)	50,000
<b>Salary chargeable to tax</b>	<b>14,79,872</b>

**Working Note:**

Where the accommodation is taken on lease or rent by the employer, the actual amount of lease rent paid or payable by the employer or 15% of salary, whichever is lower, **in respect of the period during which the house is occupied by the employee**, as reduced by the rent recoverable from the employee, is the value of the perquisite.

Actual rent paid by the employer from 1.11.2020 to 31.3.2021 = INR 60,000 [ INR 12,000 x 5 months]

15% of salary = INR 73,650 [15% x (INR 70,000 + INR 7,200 + INR 21,000) x 5 months]

Salary = Basic Salary + Dearness Allowance, to the extent it forms part of pay for retirement benefits + Bonus

Lower of the above is INR 60,000 which is to be reduced by the rent recovered from the employee.

Hence, the perquisite value of concessional rent = 60,000 – 24,000 (4,800 x 5 months) = 36,000

**Note:** As per Rule 3(7)(iv), the value of any gift or voucher received by the employee or by member of his household on ceremonial occasions or otherwise from the employer shall be determined as the sum equal to the amount of such gift. However, the value of any gift or voucher received by the employee or by member of his household below INR 5,000 in aggregate during the previous year would be exempt.

In this case, the gift voucher of INR 10,000 was received by Ms. Aarohi from her employer on the occasion of her birthday. Since the value of the gift voucher exceeds the limit of INR 5,000, the entire amount of INR 10,000 is liable to tax as perquisite. The above solution has been worked out accordingly.

**Alternative view** - An alternate view is also possible is that only the sum in excess of INR 5,000 is taxable in view of the language of Circular No.15/2001 dated 12.12.2001, which states that such gifts upto INR 5,000 in the aggregate per annum would be exempt, beyond which it would be taxed as a perquisite. As per this view, the value of perquisite would be INR 5,000. The salary chargeable to tax, in this case, would be INR 14,84,872.

**Concept Problem 29**

Ms. Suhaani, a resident individual, aged 33 years, is an assistant manager of Daily Needs Ltd. She is getting a salary of INR 48,000 per month. During the PY 2020-21, she received the following amounts from her employer.

- i) Dearness allowance (10% of basic pay which forms part of salary for retirement benefits).
- ii) Bonus for the PY 2020-21 amounting to INR 52,000 was received on 30<sup>th</sup> November, 2021.
- iii) Fixed Medical allowance of INR 48,000 for meeting medical expenditure.
- iv) She was also reimbursed the medical bill of her father dependent on her amounting to INR 4,900.
- v) Ms. Suhaani was provided;
  - a laptop both for official and personal use. Laptop was acquired by the company on 1<sup>st</sup> June, 2019 at INR 35,000.
  - a domestic servant at a monthly salary of INR 5,000 which was reimbursed by her employer.
- vi) Daily Needs Ltd. allotted 700 equity shares in the month of October 2021 @ INR 170 per share against the fair market value of INR 280 per share on the date of exercise of option by Ms. Suhaani. The fair market value was computed in accordance with the method prescribed under the Act.
- vii) Professional tax INR 2,200 (out of which INR 1,400 was paid by the employer).

Compute the Income under the head “Salaries” of Ms. Suhaani for the AY 2022-23 assuming he has not opted for the provisions of section 115BAC.

### Solution

Computation of Income under the head “Salaries” in the hands of Ms. Suhaani for the A.Y. 2022-23:

Particulars	Amount
Basic Salary [INR 48,000 x 12]	5,76,000
Dearness allowance [10% of basic salary]	57,600
Bonus [Taxable in the P.Y. 2021-22, since it is taxable on receipt basis]	52,000
Fixed Medical Allowance [Taxable]	48,000
Reimbursement of Medical expenditure incurred for her father [Fully taxable from A.Y. 2022-23, even though father is included in the meaning of “family” on account of standard deduction being introduced in lieu of reimbursement of medical expenditure].	4,900
Facility of laptop [Facility of laptop is an exempt perquisite, whether used for official or personal purpose or both]	Nil
Reimbursement of salary of domestic servant [INR 5,000 x 12] [Fully taxable, since perquisite includes any sum paid by the employer in respect of any obligation which would have been payable by the employee]	60,000
Value of equity shares allotted [700 equity shares x INR 110 (INR 280, being the fair market value – INR 170, being the amount recovered)]	77,000
Professional tax paid by the employer [Perquisite includes any sum paid by the employer in respect of any obligation which would have been payable by the employee]	1,400
<b>Gross Salary</b>	<b>8,76,900</b>
Less: Deduction under section 16	
Professional tax paid	2,200
Standard Deduction (Lower of INR 50,000 or amount of salary)	50,000
<b>Taxable Salary</b>	<b>8,24,700</b>

### Concept Problem 30

Mr. Satya joins Tax Ltd. on 1<sup>st</sup> July, 2015 in the pay scale of 20,000 – 1,000 - 25,000 – 1500 - 32,500 - 2,000 - 42,500. The company has allowed him dearness allowance @ 5% of the basic pay from 01.04.2021 upto 30.06.2021 and thereafter 11% of the basic pay upto 31.12.2021 and after that dearness allowance was allowed @ 18% of the basic pay.

Compute employee's Tax Liability for the Assessment Year 2022-23 assuming he has not opted for the provisions of section 115BAC.

### Solution

#### Computation of Total Income for AY 2022-23

Particulars	Amount
Basis pay [(25,000 x 3) + (26,500 x 9)] (WN 1)	3,13,500
Dearness Allowance (WN 2)	35,550
<b>Gross salary</b>	<b>3,49,050</b>
Less: Standard Deduction u/s 16(ia)	50,000
<b>Income u/s Salary</b>	<b>2,99,050</b>
<b>Gross Total Income</b>	<b>2,99,050</b>
Less: Deduction u/s 80C to 80U	Nil
<b>Total Income</b>	<b>2,99,050</b>

#### Computation of Tax Liability

Particulars	Amount
Tax on INR 2,99,050 at slab rate	2,450
Less: Rebate u/s 87A	(2,450)
<b>Tax before Health and education cess</b>	<b>Nil</b>

Working Note 1: Basic Salary	Amount
01.07.2015 - 30.06.2016	20,000 p.m.
01.07.2016 - 30.06.2017	21,000 p.m.
01.07.2017 – 30.06.2018	22,000 p.m.
01.07.2018 – 30.06.2019	23,000 p.m.
01.07.2019 – 30.06.2020	24,000 p.m.
01.07.2020 - 30.06.2021	25,000 p.m.
01.07.2021 - 30.06.2022	26,500 p.m.

Working Note 2: Dearness Allowance	Amount
From April to June (25,000 x 3) x 5%	3,750
From July to December (26,500 x 6) x 11%	17,490
From January to March (26,500 x 3) x 18%	14,310
	<b>35,550</b>

#### Concept problem 31

Mr. Pankaj is employed in Tax Ltd. and getting basic pay of INR 60,000 p.m. and dearness allowance of INR 10,000 p.m. which forms part of employment contract. Employers has paid bonus INR 20,000 during the year. Commission was allowed @ 2% of sales turnover of INR 50,00,000. The employer and employee are both

contributing INR 11,000 p.m. (each) to the recognized provident fund. During the year interest of INR 1,00,000 was credited to the RPF @ 10% p.a.

Compute tax liability of Mr. Pankaj for AY 2021-22 assuming he has not opted for section 115BAC.

### Solution

#### Computation of Income under the head Salary for AY 2021-22

Particulars	Amount
Basis pay (60,000 x 12)	7,20,000
Dearness allowance (10,000 x 12)	1,20,000
Bonus	20,000
Commission (50,00,000 x 2%)	1,00,000
Employer's contribution to recognized provident fund in excess of 12% of retirement benefit salary (Working Note)	19,200
Interest credited in excess of 9.5% p.a. (1,00,000 / 10% x .5%)	5,000
<b>Gross Salary</b>	<b>9,84,200</b>
Less: Standard Deduction u/s 16(ia)	50,000
<b>Income under Salary</b>	<b>9,34,200</b>

#### Computation of Total Income

Particulars	Amount
Income under the head Salary	<b>9,34,200</b>
<b>Gross Total Income</b>	<b>9,34,200</b>
Less: Deductions u/s 80C – Employee's contribution to recognized provident fund	1,32,000
<b>Total Income</b>	<b>8,02,200</b>

Computation of Tax Liability	Amount
Tax on INR 8,02,200 at slab rate	72,940
Add: Health and education Cess @ 4%	2,918
<b>Tax liability</b>	<b>75,858</b>
<b>Rounded off u/s 288B</b>	<b>75,860</b>

#### Working Note:

Retirement benefit salary = 7,20,000+1,20,000+1,00,000	9,40,000
Employer's contribution = 11,000 x 12	1,32,000
Contribution exempt upto 12% of RBS	1,12,800
<b>Excess taxable contribution (1,32,000 – 1,12,800)</b>	<b>19,200</b>

#### Concept problem 32

Presume that the provident fund in concept problem above is an unrecognized one.

### Solution

#### Computation of Income under the head Salary for AY 2022-23

Particulars	Amount
Basis pay (60,000 x 12)	7,20,000

Particulars	Amount
Dearness allowance (10,000 x 12)	1,20,000
Bonus	20,000
Commission (50,00,000 x 2%)	1,00,000
Employer's contribution to unrecognized provident fund in excess of 12% of retirement benefit salary	Nil
Interest credited in excess of 9.5% p.a.	Nil
<b>Gross Salary</b>	<b>9,60,000</b>
<b>Less: Standard Deduction u/s 16(ia)</b>	<b>50,000</b>
<b>Income uth Salary</b>	<b>9,10,000</b>

**Computation of Total Income**

Particulars	Amount
Income under the head Salary	<b>9,10,000</b>
<b>Gross Total Income</b>	<b>9,10,000</b>
Less: Deductions u/s 80C – Employee's contribution to unrecognized provident fund	Nil
<b>Total Income</b>	<b>9,10,000</b>

Computation of Tax Liability	Amount
Tax on INR 9,10,000 at slab rate	94,500
Add: Health and education cess @ 4%	3,780
<b>Tax liability</b>	<b>98,280</b>

**Concept Problem 33**

Miss Neha is employed in Central Government since 01.01.2021 and is getting basic pay of INR 1,00,000 p.m. She has contributed INR 10,000 p.m. to the notified pension scheme of Central Government and employer has also contributed an equal amount. She has paid premium of Jeevan Suraksha policy of INR 3,000 and invested INR 1,00,000 in NSC. Compute her tax liability for the assessment year 2022-23 assuming he has not opted for the provisions of section 115BAC.

**Solution**

Particulars	Amount	Amount
Basic pay (1,00,000 x12)		12,00,000
Contribution to the pension fund by Central Government (10,000 x12)		1,20,000
<b>Gross Salary</b>		<b>13,20,000</b>
Less: Standard Deduction u/s 16(ia)		50,000
<b>Income under the head salary</b>		<b>12,70,000</b>
<b>Gross total income</b>		<b>12,70,000</b>
Less: Deduction u/s 80C (NSC)	1,00,000	
Less: Deduction u/s 80CCC	3,000	
Less: Deduction u/s 80CCD	1,20,000	
Deduction under section 80C + 80CCC +80CCD restricted to		1,50,000
Less: Additional deduction u/s 80CCD		50,000
Less: Employer contribution		1,20,000

Particulars	Amount	Amount
<b>Total income</b>		<b>9,50,000</b>

**Computation of tax liability**

Particulars	Amount
Tax on INR 9,50,000 at slab rate	1,02,500
Add: Health and education cess @4%	4,100
<b>Tax Liability</b>	<b>1,06,600</b>

**(b) Presume investment in NSC is INR 30,000.**

In this case deduction allowed shall be

Particulars	Amount	Amount
Deduction u/s 80C (NSC)	30,000	
Deduction u/s 80CCC	3,000	
Deduction u/s 80CCD	1,20,000	
Deduction under section 80C + 80CCC +80CCD restricted to		1,50,000
Additional deduction u/s 80CCD		3,000
Employer contribution		1,20,000
<b>Total Deduction from GTI</b>		<b>2,73,000</b>
<b>Revised Total Income</b>		<b>9,97,000</b>
<b>Tax Liability (Round off)</b>		<b>1,16,380</b>

**Concept Problem 34**

Mr. Ashish retired from Tax Ltd. wef. 01.12.2021 after serving the employer for 20 years and 10 months. The employer has paid him leave salary of INR 3,75,000. The employee was entitled for 20 days leave per year of service. During entire service, he has availed 35 days of leave and has encased 10 days of leave. The employee was getting basic pay INR 27,000 p.m. at the time of retirement. The employer has allowed him pension of INR 6,000 p.m. and employee was allowed commutation of 1/3<sup>rd</sup> of his pension on 01.03.2022 amounting to INR 2,40,000.

Compute his taxable salary for the assessment year 2022-23 assuming he has not opted for the provisions of section 115BAC.

**Solution**

Particulars	Amount
Basis Pay [(27,000 x 8)	2,16,000
Uncommuted pension {Sec 17(1)(ii)} (6,000 x 3m + 6,000 x 2/3)	22,000
Commutated Pension {Sec 10(10A)}	Nil
Leave Salary {Sec 10(10AA)} Refer working Note	1,05,000
<b>Gross salary</b>	<b>3,43,000</b>
Less: Standard Deduction u/s 16(ia)	50,000
<b>Income under the head salary</b>	<b>2,93,000</b>

**Working Note:**

Least of the following shall be exempt	
a) INR 3,75,000	



b) $10 \times 27,000 = \text{INR } 2,70,000$	
c) INR 3,00,000	
d) $355/30 \times 27,000 = \text{INR } 3,19,500$	
Leave salary Received	3,75,000
Leave salary Exempt	2,70,000
<b>Taxable leave salary</b>	<b>1,05,000</b>
<b>Computation of Leave at credit</b>	
Leave entitlement (20 x 20)	400
Less: Leave availed	35
Less: Leave encashed	10
<b>Leave at credit</b>	<b>355</b>

**Concept Problem 35**

Mr. Garg received retrenchment compensation of INR 10,00,000 after 30 years 4 months of service. At the time of retrenchment, he was receiving basic salary of INR 20,000 p.m. and dearness allowance of INR 5,000 p.m.

Compute his taxable retrenchment compensation.

**Solution**

The taxable retrenchment compensation will be:

Particulars	Amount
Retrenchment compensation received	10,00,000
Less: Exemption under section 10(10B) (W.N.)	(4,32,692)
<b>Taxable Retrenchment Compensation</b>	<b>5,67,308</b>

**Working Note:**

As per section 10(10B) exemptions available to Mr. Rohit in respect of retrenchment compensation in this case will be the least of the following limits:

Particulars	Amount
Compensation actually received	10,00,000
Statutory limit	5,00,000
Amount calculated in accordance with the provisions of section 25F of the Industrial Disputes act, 1947 $[15/26 \times (20,000 \times 3) + (5,000 \times 3)/3 \times 30 \text{ years}]$	4,32,692
Therefore, INR 4,32,692 being the least of the above limits, would be exempt u/s 10(10B)	

**Concept problem 36**

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

Name of the employee	Mr. A	Mr. B
Basic Pay	20,000 p.m.	20,000 p.m.
House rent allowance	5,000 p.m.	5,000 p.m.
Rent paid	1,500 p.m.	12,000 p.m.
Place of residence	Delhi	Patna

**Situation 1: (Mr. A)****Computation of taxable amount of House rent allowance**

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Particulars	Amount
HRA Received	60,000
HRA Exempt (WN)	Nil
<b>Taxable HRA</b>	<b>60,000</b>
<b>WN</b>	
Least of the three shall be exempt	
a) House rent allowance received (5,000 x 12)	60,000
b) Rent paid over 10% of retirement benefit salary (18,000 – 24,000)	Nil
c) 50% of retirement benefit salary (Retirement benefit salary = 2,40,000)	1,20,000

**Situation 2: (Mr. B)****Computation of taxable amount of House rent allowance**

Particulars	Amount
HRA Received	60,000
HRA Exempt (WN)	60,000
<b>Taxable HRA</b>	<b>Nil</b>
<b>WN</b>	
Least of the three shall be exempt	
a) House rent allowance received (5,000 x 12)	60,000
b) Rent paid over 10% of retirement benefit salary (1,44,000 – 24,000)	1,20,000
c) 40% of retirement benefit salary	96,000

**Concept Problem 37**

Mr. Sohan is employed in Central Government getting basic pay of INR 30,000 p.m., dearness allowance INR 7,000 p.m., servant allowance INR 2,000 p.m., entertainment allowance INR 1,000 p.m., city compensatory allowance INR 600 p.m.

Compute the income under the head Salary of Mr. Sohan.

**Solution****Computation of Income under the head Salary for AY 2022-23**

Particulars	Amount
Basic salary (30,000 x 12)	3,60,000
Dearness allowance (7,000 x 12)	84,000
Servant allowance (2,000 x 12)	24,000
Entertainment allowance (1,000 x 12) (WN)	12,000
City compensatory allowance (600 x 12)	7,200
<b>Gross salary</b>	<b>4,87,200</b>
Less: Entertainment allowance ( <b>Working Note</b> )	5,000
Less: Standard Deduction u/s 16(ia)	50,000
<b>Income under Salary</b>	<b>4,32,200</b>

**Working Note:**

**Least of the following is allowed as deduction:**

a) 20% of basic salary (3,60,000 x 20% = 72,000)
b) INR 5,000
c) The actual allowance received by the employee INR 12,000

**Concept Problem 38**

Mr. Prakash is employed in Tax Ltd. and getting basic pay INR 50,000 p.m. but it was increased to INR 70,000 p.m. wef 1<sup>st</sup> July, 2021. Compute his salary income for FY 2021-22 in different scenarios when salary becomes due.

**Solution****i. Salary is due on last day of the month**

In this case salary shall be taxable from April 2021 to March 2022 and shall be as given below:

Particulars	Amount
April 2021 to June 2021 (50,000 x 3)	1,50,000
July 2021 to March 2022 (70,000 x 9)	6,30,000
<b>Gross salary</b>	<b>7,80,000</b>
Less: Standard Deduction u/s 16(ia)	50,000
<b>Income uth Salary</b>	<b>7,30,000</b>

**ii. Salary is due on first of next month**

In this case salary shall be taxable from March 2021 to February 2022 and shall be as given below:

Particulars	Amount
March 2021 to June 2021 (50,000 x 4)	2,00,000
July 2021 to February 2022 (70,000 x 8)	5,60,000
<b>Gross salary</b>	<b>7,60,000</b>
Less: Standard Deduction u/s 16(ia)	50,000
<b>Income uth Salary</b>	<b>7,10,000</b>

**Concept Problem 39**

Mr. Ashok, an employee of a PSU, furnishes the following particulars for the previous year ending 31.03.2022:

Particulars	Amount
Salary income for the year	7,25,000
Salary for financial year 2010-11 received during the year	80,000
Assessed income for the financial year 2010-11	2,40,000

You are requested by the Assessee to compute relief under section 89 and the tax payable for AY 2022-23 assuming he has not opted for the provisions of section 115BAC.

The rates of income tax for the assessment year 2011-12 are:

Slab	Rate
On first INR 1,60,000	Nil
On INR 1,60,000 to INR 3,00,000	10%
On INR 3,00,000 to INR 5,00,000	20%
Above 5,00,000	30%
Education cess	3%

**Solution****Computation of relief under section 89 of Mr. Ashok for the A.Y. 2022-23**

Particulars	Amount	Amount
<b>Assessment year 2022-23</b>		
Salary Income for the year excluding arrears		7,25,000
<b>Add:</b> Arrears relating to Financial Year 2010-11		80,000
<b>Total Income (including arrears)</b>		<b>8,05,000</b>
Tax on INR 8,05,000		
First INR 2,50,000 Nil	Nil	
Next INR 2,50,000 @ 5%	12,500	
Balance INR 3,05,000 @ 20%	61,000	
<b>Tax before Health and education cess</b>	<b>73,500</b>	
Add: Health and education cess @ 4%	2,940	
<b>Tax on total income (including arrears) (A)</b>	<b>76,440</b>	
<b>Total Income excluding arrears</b>		<b>7,25,000</b>
Tax on INR 7,25,000		
First INR 2,50,000 Nil	Nil	
Next INR 2,50,000 @ 5%	12,500	
Balance INR 2,25,000 @ 20%	45,000	
<b>Tax before Health and education cess</b>	<b>57,500</b>	
Add: Health and education cess @ 4%	2,300	
<b>Tax on total income (excluding arrears) (B)</b>	<b>59,800</b>	
<b>Difference between A &amp; B (I)</b>		<b>16,640</b>
<b>Assessment Year 2011-12</b>		
Total Income assessed		2,40,000
Add: Arrears relating to Financial year 2010-11		80,000
<b>Total income (including arrears)</b>		<b>3,20,000</b>
Tax on INR 3,20,000	18,000	
Add: Education Cess @ 3%	540	
<b>Tax on total income (including arrears) (C)</b>	<b>18,540</b>	
<b>Total Income excluding arrears</b>		<b>2,40,000</b>
Tax on INR 2,40,000	8,000	
Add: Education Cess @ 3%	240	
<b>Tax on total income (excluding arrears) (D)</b>	<b>8,240</b>	
<b>Difference between C &amp; D (II)</b>		<b>10,300</b>
<b>Relief under section 89 (I – II)</b>		<b>6,340</b>

**Note:**

It has been assumed that salary income of INR 7,25,000 for the year, as given in the question, does not include salary of INR 80,000 for the F.Y. 2010-11 received during the year.

### Concept Problem 40

Mr. Ram, employed in Tax Ltd., is getting basic pay of INR 20,000 p.m., dearness allowance of INR 10,000 p.m. and 50% of dearness allowance forms part of the salary. Employer has paid bonus INR 1,000 p.m., commission INR 2,000 p.m., children education allowance INR 150 p.m. per child for 3 children and hostel allowance INR 500 p.m. for one child and entertainment allowance INR 500 p.m., transport allowance INR 1,800 p.m. Employer has paid profession tax INR 200 p.m. on behalf of the employee.

Employer has provided him club facility and has paid membership fee INR 1,000 p.m.

Employer has provided him rent free accommodation for which rent paid by employer is INR 11,000 p.m.

Compute his salary income for AY 2022-23.

### Solution

#### Computation of Total Income for AY 2022-23

Particulars	Amount
Basic salary (20,000 x 12)	2,40,000
Dearness allowance (10,000 x 12)	1,20,000
Bonus (1,000 x 12)	12,000
Commission (2,000 x 12)	24,000
Children education allowance (WN 1)	3,000
Hostel allowance (WN 2)	2,400
Entertainment allowance (500 x 12)	6,000
Transport allowance	21,600
Professional tax (200 x 12)	2,400
Club facility {See 17(2)(viii) Rule 3(7)(vi)} (1,000 x 12)	12,000
Rent free accommodation {See 17(2)(i), Rule 3(i)} (WN 3)	55,350
<b>Gross salary</b>	<b>4,98,750</b>
Less: 16(iii) Professional tax	2,400
Less: Standard deduction	50,000
<b>Income under the head salary</b>	<b>4,46,350</b>

#### WN 1 - Children education allowance {See 10(14) rule 2BB}

Particulars	Amount
Received = INR 150 x 3 x 12	5,400
Exempt = INR 100 x 2 x 12	(2,400)
<b>Taxable</b>	<b>3,000</b>

#### WN 2 - Hostel allowance {See 10(14) Rule 2BB}

Particulars	Amount
Received = 500 x 1 x 12	6,000
Exempt = 300 x 1 x 12	3,600
<b>Taxable</b>	<b>2,400</b>

#### WN 3 – Rent Free Accommodation

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**Working Note:**

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

**Rent free accommodation salary**

= Basic pay+ dearness allowance +Bonus +commission +children education allowance +hostel allowance + entertainment allowance + transport allowance

= 2,40,000 + 60,000 + 12,000 + 24,000 + 3,000 + 2,400 + 6,000 + 21,600 = INR 3,69,000

**Perquisite value of unfurnished house: Higher of**

a) 15% of rent-free accommodation salary = INR 55,350

b) Rent paid = INR 11,000 x 12 = INR 1,32,000

**Perquisite value = INR 55,350**

**Concept Problem 41**

Compute perquisite value in the following situations:

- Mr. Puneet is employed in Tax Ltd. getting basic pay INR 50,000 p.m. and the employer has provided him a rent-free accommodation which is owned by the employer himself at a place with population of 2,00,000.
- Mr. Salil is employed in PwC Ltd. getting basic pay INR 50,000 p.m. and the employer has provided him a rent-free accommodation which is owned by the employer himself at a place with population of 10,00,000.
- Mr. Rishab is employed in PwC Ltd. getting basic pay INR 50,000 p.m. and the employer has provided him a rent-free accommodation which is owned by the employer himself at a place with population of 22,00,000.
- Mr. Sanket is employed in Tax Ltd. getting basic pay INR 50,000 p.m. and the employer has provided him a rent-free accommodation which is owned by the employer himself at a place with population of 32,00,000. Accommodation was provided only for three months.

**Solution****i. Computation of perquisite value of Rent-Free Accommodation**

7.5% of rent-free accommodation salary

Rent free accommodation salary = 50,000 x 12 = 6,00,000

7.5% of 6,00,000 = 45,000

Perquisite value of rent-free accommodation = INR 45,000

**ii. Computation of perquisite value of Rent-Free Accommodation**

7.5% of rent-free accommodation salary

Rent free accommodation salary = 50,000 x 12 = 6,00,000

7.5% of 6,00,000 = 45,000

Perquisite value of rent-free accommodation = INR 45,000

**iii. Computation of perquisite value of Rent-Free Accommodation**

10% of rent-free accommodation salary

Rent free accommodation salary = 50,000 x 12 = 6,00,000

10% of 6,00,000 = 60,000

Perquisite value of rent-free accommodation = INR 60,000

**i. Computation of perquisite value of Rent-Free Accommodation**

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15% of rent-free accommodation salary

Rent free accommodation salary = 50,000 x 3 = 1,50,000

15% of 1,50,000 = 22,500

Perquisite value of rent-free accommodation = INR 22,500

### Concept Problem 42

Compute tax liability in the following situations assuming he has not opted for the provisions of section 115BAC.

Name of the Employee	Mr. A	Mr. B	Mr. C
Basic Pay	25,000 p.m.	25,000 p.m.	25,000 p.m.
Accommodation provided by the employer	Owned by the employer	Owned by the employer	Hired by the employer
Rent paid by the employer	Nil	Nil	4,000 p.m.
Population of the employer	25 lakhs	35 lakhs	10 lakhs
Rent recovered from the employee	500 p.m.	500 p.m.	500 p.m.

### Solution

#### Computation of tax liability for AY 2022-23

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

Particulars	Amount
Basic salary (25,000 x 12)	3,00,000
Accommodation at concessional rent {Sec 17(2)(ii) Rule 3(1)}	24,000
<b>Gross salary</b>	<b>3,24,000</b>
Less: Standard Deduction u/s 16(ia)	50,000
<b>Income under the head salary</b>	<b>2,74,000</b>
Tax on INR 2,74,000 at slab rate	1,200
Less: rebate u/s 87A	1,200
<b>Tax liability</b>	<b>Nil</b>

Working Note:	Amount
Rent free accommodation salary	3,00,000
10% of rent-free accommodation salary	30,000
<b>Value of unfurnished house</b>	<b>30,000</b>
Less: Amount recovered from the employee (500 x 12)	(6,000)
<b>Perquisite value of accommodation at concessional rent</b>	<b>24,000</b>

##### Situation 2 (Mr. B)

Particulars	Amount
Basic salary (25,000 x 12)	3,00,000
Accommodation at concessional rent {Sec 17(2)(ii) Rule 3 (1)}	39,000
<b>Gross salary</b>	<b>3,39,000</b>
Less: Standard Deduction u/s 16(ia)	50,000
<b>Income under the head salary</b>	<b>2,89,000</b>

Particulars	Amount
Tax on INR 2,89,000 at slab rate	1,950
Less: rebate u/s 87A	1,950
<b>Tax liability</b>	<b>Nil</b>

Working Note:	Amount
Rent free accommodation salary	3,00,000
15% of rent-free accommodation salary	45,000
<b>Value of unfurnished house</b>	<b>45,000</b>
Less: Amount recovered from the employee (500 x 12)	6,000
<b>Perquisite value of accommodation at concessional rent</b>	<b>39,000</b>

**Situation 3 (Mr. C)**

Particulars	Amount
Basic salary (25,000 x 12)	3,00,000
Accommodation at concessional rent {Sec 17(2)(ii) Rule 3(1)}	39,000
<b>Gross salary</b>	<b>3,39,000</b>
Less: Standard Deduction u/s 16(ia)	50,000
<b>Income under the head salary</b>	<b>2,89,000</b>
Tax on INR 2,89,000 at slab rate	1,950
Less: rebate u/s 87A	1,950
<b>Tax liability</b>	<b>Nil</b>

Working Note:	Amount
Rent paid or 15% of rent-free accommodation salary whichever is less	
Rent free accommodation salary	3,00,000
15% of rent-free accommodation salary	45,000
Rent paid (4,000 x 12)	48,000
<b>Value of unfurnished house</b>	<b>45,000</b>
Less: amount recovered from the employee (500 x 12)	6,000
<b>Perquisite value of accommodation at concessional rent</b>	<b>39,000</b>

**Concept Problem 43**

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

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

Particulars	I	II	III
Actual cost	4,00,000	3,00,000	2,50,000
Engine capacity	1.8 liters	1.6 liters	1.4 liters
Petrol expense	3,000	10,000	15,000
Repairs	5,000	4,000	3,000

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Particulars	I	II	III
Driver	4,000 p.m.	3,000 p.m.	No driver

All the expenses are met by the employer. Compute his salary income for the assessment year 2022-23 assuming he has not opted for the provisions of section 115BAC.

### Solution

#### Computation of Total Income for AY 2022-23

Particulars	Amount
Basis pay (22,000 x 12)	2,64,000
Professional Tax paid by employer (75 x 12)	900
Rent free accommodation {Sec 17(2)(i) Rule 3(1)} [WN 1]	19,800
Motor Car {Sec 17(2)(iii) Rule 3(2)} [WN 2]	1,62,600
<b>Gross salary</b>	<b>4,47,300</b>
Less: 16(iii)Professional Tax	(1,200)
Less: Standard Deduction u/s 16(ia)	(50,000)
<b>Income under the head salary</b>	<b>3,96,100</b>

#### Working Note 1 - Perquisite value of rent-free accommodation

Particulars	Amount
Rent free accommodation salary	2,64,000
7.5% of rent-free accommodation salary	19,800
Perquisite value of rent-free accommodation	19,800

#### Working Note 2 - Perquisite value of rent-free accommodation

##### Working Note:

##### option I

Presuming Car 1 is for official & personal purposes and Car II & Car III for personal use, perquisite value shall be:

$$\text{Car I} = (\text{INR } 2,400 + \text{INR } 900) \times 12 = \text{INR } 39,600$$

$$\text{Car II} = \text{INR } 30,000 + \text{INR } 10,000 + \text{INR } 4,000 + \text{INR } 36,000 = \text{INR } 80,000$$

$$\text{Car III} = \text{INR } 25,000 + \text{INR } 15,000 + \text{INR } 3,000 = \text{INR } 43,000$$

$$\text{Perquisite value} = \text{INR } 1,62,600$$

##### Option II

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

$$\text{Car I} = \text{INR } 40,000 + \text{INR } 3,000 + \text{INR } 5,000 + \text{INR } 48,000 = \text{INR } 96,000$$

$$\text{Car II} = (\text{INR } 1,800 + \text{INR } 900) \times 12 = \text{INR } 32,400$$

$$\text{Car III} = \text{INR } 43,000$$

$$\text{Perquisite value} = \text{INR } 1,71,400$$

##### Option III

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

$$\text{Car I} = \text{INR } 96,000$$

Car II= INR 80,000

Car III = INR 1,800 x 12 = INR 21,600

Perquisite value = INR 1,97,600

So, 1<sup>st</sup> Option is better.

Perquisite value of motor car = INR 1,62,600.

#### Concept Problem 44

Compute perquisite value in following situations

- a) Mr. Ravi is employed in Tax Ltd. and is getting salary of INR 4,000 p.m. The employer has incurred INR 1,500 p.m. on the education of his one son.

In this case, perquisite value shall be Nil.

- b) Mr. Bharat is employed in ABC Ltd. and is getting a salary of INR 4,200 p.m. and the employer has incurred INR 1,500 p.m. on the education of his one adopted son.

In this case, perquisite value shall be INR 6,000.

- c) Mr. Shyam is employed in ABC Ltd. and is getting a salary of INR 5,000 p.m. and employer has spent INR 500 p.m. on the education of his daughter in law.

In this case, perquisite value shall be INR 6,000.

- d) Mr. Anubhav is employed in Tax Ltd. and is getting a salary of INR 4,000 p.m. and he has incurred INR 700 p.m. on the education of his one son.

In this case, perquisite value shall be Nil.

#### Concept Problem 45

Compute the perquisite value in the following cases:

Particulars	Furniture	Microwave oven	Motor car	Computer
Original cost	75,000	25,000	2,40,000	55,000
Date of purchase by the employer	07.03.2017	01.06.2019	10.07.2018	01.01.2019
Date of putting to use	31.03.2017	01.06.2019	11.07.2018	10.01.2019
Date of sale of asset to the employee	01.07.2021	01.04.2021	01.07.2021	09.01.2022
Payment made by the employee	25,000	Gift to the employee	95,000	30,000

#### Solution

##### Computation of perquisite value of furniture

Particulars	Amount
Cost of the furniture	75,000
Less: Depreciation on straight line method @ 10% from 31.03.2017 to 30.03.2021	30,000
<b>Written down value</b>	<b>45,000</b>
Less: amount paid by the Assessee	25,000
<b>Perquisite value to Furniture</b>	<b>20,000</b>

##### Computation of perquisite value of Microwave oven

Particulars	Amount
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Particulars	Amount
Cost of microwave oven	25,000
Less: Depreciation on straight line method @ 10% from 01.06.2019 to 31.05.2020	2,500
<b>Written down value</b>	<b>22,500</b>
Less: amount paid by the Assessee	-
<b>Perquisite value of microwave oven</b>	<b>22,500</b>

#### Computation of perquisite value of Motor car

Particulars	Amount
Cost of the motor	2,40,000
Less: Depreciation on reducing balance method @ 20% from 11.07.2018 to 10.07.2019	48,000
<b>Written down value</b>	<b>1,92,000</b>
Less: Depreciation on reducing balance method @ 20% from 11.07.2019 to 10.07.2020	38,400
<b>Written down value</b>	<b>1,53,600</b>
Less: amount paid by the Assessee	95,000
<b>Perquisite value of motor car</b>	<b>58,600</b>

#### Computer of perquisite value of Computer

Particulars	Amount
Cost of the computer	55,000
Less: Depreciation on reducing balance method @ 50% from 10.01.2019 to 09.01.2020	27,500
<b>Written down value</b>	<b>27,500</b>
Less: Depreciation on reducing balance method @ 50% from 10.01.2020 to 09.01.2021	13,750
<b>Written down value</b>	<b>13,750</b>
Less: Depreciation on reducing balance method @ 50% from 10.01.2021 to 09.01.2022	6,875
<b>Written down value</b>	<b>6,875</b>
Less: amount paid by the Assessee	30,000
<b>Perquisite value of computer</b>	<b>Nil</b>

#### Concept Problem 46

An employee instructs his employer to pay a certain portion of his salary to a charity and claims it as exempt as it is diverted by overriding charge / title. Discuss.

#### Solution

In the instant case, it is an application of income and in the nature of foregoing of salary. Hence, the amount paid by the employer to a charity as per the employee's directions is taxable in the hands of the employee. As per Income-tax Act, income of a person is taxable and not the savings.

#### Concept problem 47

Mr. Vignesh, Finance Manager of KLM Ltd., Mumbai, furnishes the following particulars for the FY 2021-22:

- Salary INR 46,000 per month
- Value of medical facility in a hospital maintained by the company INR 7,000
- Rent free accommodation owned by the company.
- Housing loan of INR 6,00,000 given on 01.04.2021 at the interest rate of 6% p.a. (No repayment made

*This Question Bank is meant for Nov 2022 exams and must be read with our Lectures (Regular or Fast Track) as many additional concepts are covered in class. We do lots of written practice in class & Kishan Sir personally evaluates grand Mock Test. Must cover Income Tax Chalisa Handwritten Notes as well.*

during the year). Rate of interest charged by SBI as on 01.04.2021 in respect of housing loan is 10%.

- v) Gifts in kind made by the company on the occasion of wedding anniversary of Mr. Vignesh INR 4,750
- vi) A wooden table and 4 chairs were provided to Mr. Vignesh at his residence (dining table). This was purchased on 1.5.2018 for INR 60,000 and sold to Mr. Vignesh on 1.8.2021 for INR 30,000.
- vii) A personal purchase through credit card provided by the company amounting to INR 10,000 was paid by the company. No part of the amount was recovered from Mr. Vignesh.
- viii) An ambassador car which was purchased by the company on 16.7.2018 for INR 2,50,000 was sold to the Assessee on 14.7.2021 for INR 80,000.
- ix) Other income received by the Assessee during the previous year 2021-22:

S No.	Particulars	Amount
1	Interest on Fixed Deposits with a company	5,000
2	Income from specified mutual fund	3,000
3	Interest on bank fixed deposits of a minor married daughter	3,000

- x) Contribution to LIC towards premium under section 80CCC INR 1,00,000
- xi) Deposit in PPF Account made during the year 2021-22 INR 40,000

Compute the taxable income of Mr. Vignesh and the tax thereon for the Assessment year 2022-23 assuming he has not opted for the provisions of section 115BAC.

### Solution

#### Computation of taxable income of Mr. Vignesh for the Assessment Year 2022-23

Particulars	Amount	Amount
Income from salaries (See Working Note below)		<b>7,12,800</b>
Income from other sources		
Interest on fixed deposit with a company	5,000	
Income from specified mutual fund	3,000	
Interest on Fixed Deposit received by minor daughter (3,000 - 1500)	1,500	9,500
<b>Gross total income</b>		<b>7,22,300</b>
Less: Deductions under Chapter VI-A		
Section 80C – PPF	40,000	
Section 80CCC	1,00,000	1,40,000
<b>Total Income</b>		<b>5,82,300</b>
<b>Tax on total income</b>		<b>28,960</b>
Add: Health and education cess @ 4%		1,158
<b>Total tax liability</b>		<b>30,118</b>
<b>Total tax liability (rounded off)</b>		<b>30,120</b>

#### Working Note:

#### Computation of salary income of Mr. Vignesh for the Assessment Year 2022-23

Particulars	Amount
<b>Income under the head “salaries”</b>	
Salary [INR 46,000 x 12]	5,52,000

Particulars	Amount
Medical facility [ in the hospital maintained by the company is exempt]	-
Rent free accommodation (15% of salary is taxable i.e. 5,52,000 × 15%)	82,800
Use of dining table for 4 months [INR 60,000 x 10 /100 x 4 /12]	2,000
Valuation of perquisite of interest on loan [ 10% - 6% = 4%]	24,000
Gift given on the occasion of wedding anniversary is exempt, since value is less than 5,000	Nil
Perquisite on sale of dining tables (WN 1)	12,000
Purchase through credit card – not being a privilege but covered by section 17(2)(iv)	10,000
Perquisite on sale of car (WN 2)	80,000
<b>Gross Salary</b>	<b>7,62,800</b>
Less: Standard Deduction u/s 16(ia)	50,000
<b>Income from Salaries</b>	<b>7,12,800</b>

**Working Note 1 - Perquisite on sale of dining tables**

Cost	60,000
Less: Depreciation on straight line method @ 10% for 3 years	18,000
<b>Written Down Value</b>	<b>42,000</b>
Less: Amount paid by the Assessee	30,000
<b>Perquisite on sale of dining tables</b>	<b>12,000</b>

**Working Note 2 - Perquisite on sale of car**

<b>Perquisite on sale of car</b>	
Original cost of car	2,50,000
Less: Depreciation from 16.7.2018 to 15.7.2019 @ 20%	50,000
	<b>2,00,000</b>
Less: Depreciation from 16.7.2019 to 15.7.2020 @ 20%	40,000
<b>Value as on 14.07.2021 - being the date of sale to employee</b>	<b>1,60,000</b>
Less: Amount received from the Assessee on 14.07.2021	80,000
<b>Perquisite on sale of car</b>	<b>80,000</b>

**Note:**

Under Rule 3(7)(viii), while calculating the perquisite value of benefit to the employee arising from the transfer of any movable asset, the normal wear and tear is to be calculated in respect of each completed year during which the asset was put to use by the employer. In the given case the third year of use of ambassador car is completed on 15.7.2021 whereas the car was sold to the employee on 14.7.2021. The solution worked out above provides for wear and tear for only two years.

**Concept problem 48**

MR. Muhafiz, a resident individual, retires from PwC wef 1<sup>st</sup> February, 2022 after 25 years of service. He joined EY Ltd. on the same day.

The following information is provided by him about his incomes/outgoing during the Previous Year 2021-22:

(a) Salary/allowance/perquisites/other payment from 01.04.2021	Amount
(i) Basic salary	12,000 p.m.
(ii) Dearness allowance (One-half includible for superannuation benefits)	3,000 p.m.

(a) Salary/allowance/perquisites/other payment from 01.04.2021	Amount
(iii) Commission, 5% on turnover achieved by him	6,000
(iv) House accommodation, rent paid by company	5,000 p.m.
(v) Best suggestion award for total quality management scheme (in kind)	12,000
(vi) Lunch Facility	2,000 p.m.
(vii) Gratuity under Gratuity Act, 1972	3,35,000
(viii) Pension	3,000 p.m.
(ix) Commuted value of one-half pension wef. 01.02.2022	2,25,000
(x) Refund of employer contribution from unrecognized PF (Including interest of INR 1,00,000)	2,50,000
(xi) Refund of employee contribution from unrecognized PF (Including interest of INR 1,00,000)	2,50,000
<b>(b) Salary/allowance/perquisites etc. from 01.02.2022 to 31.03.2022 from EY Ltd.</b>	
(i) Salary	8,000 p.m.
(ii) House rent allowance	1,500 p.m.
(iii) Free use of motorcar (exceeding 1.6 liters engine capacity) (expenses met by employer)	
(iv) Rent paid by the Assessee	2,000 p.m.

You are required to compute his income under the head Salary and Tax Liability for the Assessment Year 2022-23 assuming he has not opted for the provisions of section 115BAC.

### Solution

#### Computation of income under the head Salary for AY 2022-23

Particulars	Amount
<b>PwC</b>	
Basic Pay (12,000 x 10)	1,20,000
Dearness Allowance (3,000 x 10)	30,000
Commission	6,000
Rent free accommodation (WN 1)	21,150
Best suggestion award (Gift) (12,000 - 5,000)	7,000
Lunch Facility (10 x 2,000) – (50 x 25 x 10) (assuming 25 working days in a month)	7,500
Gratuity {sec 10(10)} (WN 2)	1,18,654
Uncommuted pension (3,000 x 50 x 2)	3,000
Commuted Pension {sec 10(10A)} (WN 3)	75,000
Refund of employer's Contribution (including interest)	2,50,000
<b>EY Ltd.</b>	
Basic pay (8,000 x 2)	16,000
House rent allowance (WN 4)	600
Motor Car (2,400x22)	4,800
<b>Gross salary</b>	<b>6,59,704</b>
Less: Standard Deduction u/s 16(ia)	50,000
<b>Income under the head Salary</b>	<b>6,09,704</b>
<b>Income under the head Other Sources</b> (interest on employee's contribution to unrecognized provident fund)	<b>1,00,000</b>

Particulars	Amount
<b>Gross Total income</b>	<b>7,09,704</b>
Less; Deduction u/s 80C to 80U	Nil
<b>Total income (R/off u/s 288B)</b>	<b>7,09,700</b>

**Computation of tax Liability**

Particulars	Amount
Tax on Amount 7,09,700 at Slab rate	54,440
Add: Health and education cess @4%	2,178
<b>Tax Liability</b>	<b>56,618</b>
<b>Rounded off u/ s 288 B</b>	<b>56,620</b>

**Working Note 1**

Particulars	
15%of rent-free accommodation salary or rent paid whichever is less	
Rent free accommodation salary	
= Basic Pay + Dearness Allowance +Commission	
= 1,20,000+15,000+6,000=1,41,000	
15%of rent-free accommodation salary	21,150
Rent Paid =5,000x10	50,000
Perquisite value of rent-free accommodation	21,150

**Working Note 2****Least of the following is exempt**

a) Gratuity received 3,35,000
b) 10,00,000
c) $15/26 \times 25 \times 15,000 = 2,16,346.15$
Received = 3,35,000
Exempt = (2,16,346.15)
Taxable =1,18,653.85

**Working Note 3****Least of the following is exempt**

Received	2,25,000
Exempt = $4,50,000 \times 1/3$	(1,50,000)
<b>Taxable</b>	<b>75,000</b>

**Working Note 4****Least of the following is exempt**

a) INR 3,000
b) INR 4,000 - INR 1,600 = INR 2,400
Retirement benefit salary = Amount 16,000
c) 40% of Retirement benefit salary = 6,400
HRA Received = 3,000

HRA Exempt = (2,400)
<b>Taxable HRA = 600</b>

**Concept Problem 49**

Mr. Kashyap, aged 38 years, is entitled to a salary of Rs. 40,000 per month. He is given an option by his employer either to take house rent allowance or a rent free accommodation which is owned by the company. The HRA amount payable was Rs. 8,000 per month. The rent for the hired accommodation was Rs. 6,500 per month at New Delhi. Advise Mr. Kashyap whether it would be beneficial for him to avail HRA or Rent Free Accommodation. Give your advice on the basis of “Net Take Home Cash benefits”. Assume Mr. Kashyap does not opt for the provisions of section 115BAC.

**Solution****Computation of tax liability of Kashyap under both the options**

Particulars	Option I-HRA (Rs.)	Option – II- RFS (Rs.)
Basic Salary (Rs. 40,000 x 12 Months)	4,80,000	4,80,000
Perquisite value of rent –free accommodation = (15% of Rs. 4,80,000)	N.A.	72,000
House rent Allowance (Rs. 8,000 x 12 Months) = Rs. 96,000		
Less: Exempt u/s 10(13A) – least of the following -		
- 50% of Basic Salary Rs. 2,40,000		
- Actual HRA received Rs. 96,000		
- Rent paid less 10% of Salary Rs. 30,000	66,000	
<b>Gross Salary</b>	<b>5,46,000</b>	<b>5,52,000</b>
Less: Standard deduction u/s 16(ia)	50,000	50,000
<b>Net Salary</b>	<b>4,96,000</b>	<b>5,02,000</b>
Less: Deduction under Chapter VI-A	-	-
<b>Total Income</b>	<b>4,96,000</b>	<b>5,02,000</b>
Tax on total income	12,300	12,900
Less: Rebate under section 87A – Lower of Rs. 12,500 or income – tax of Rs. 12,300, since total income does not exceed Rs. 5,00,000.	12,300	Nil
	Nil	12,900
Add: Health and Education cess@4%	Nil	516
<b>Total tax payable</b>	Nil	<b>13,416</b>
<b>Tax payable (Rounded off)</b>	Nil	<b>13,420</b>

**Cash Flow Statement**

Particulars	Option I- HRA	Option II- RFA
Inflow: Salary	5,76,000	4,80,000
Less: Outflow: Rent paid	(78,000)	-
Tax on total income	Nil	(13,420)
<b>Net Flow</b>	<b>4,98,000</b>	<b>4,66,580</b>

Since the net cash inflow under Option I (HRA) is higher than in Option II (RFA), it is beneficial for Mr. Kashyap to avail Option I, i.e., House Rent Allowance.