

Income from Salaries

Q1

Study Mat

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 31.10.2021 ₹ 50,000 p.m.
Basic salary from 01.11.2021 ₹ 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 one 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) Professional tax paid ₹ 2,500 of which ₹ 2,000 was paid by the employer.
- (vi) Facility of laptop and computer was provided to Balaji for both official and personal use. Cost of laptop ₹ 45,000 and computer ₹ 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 ₹ 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 employee, his wife and three children (one daughter aged 7 and twin sons aged 3). Cost of air tickets (economy class) reimbursed by the employer ₹ 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

Answer

Computation of Taxable Salary of Mr. Balaji for AY 2022-23

Particulars	₹
Basic salary [(₹ 50,000 × 7) + (₹ 60,000 × 5)]	6,50,000
Dearness Allowance (40% of basic salary)	2,60,000

Bonus (₹ 50,000 + 40% of ₹ 50,000) (See Note 1)		70,000
Employers contribution to recognised provident fund in excess of 12% of salary = 4% of ₹ 6,50,000 (See Note 2)		26,000
Professional tax paid by employer		2,000
Perquisite of Motor Car (₹ 2,400 for 5 months) (See Note 4)		12,000
Gross Salary		10,20,000
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
Taxable Salary		9,67,500

Notes :

- Since bonus was paid in the month of October, the basic salary of ₹ 50,000 for the month of October is considered for its calculation.
- It is assumed that dearness allowance does not form part of salary for computing retirement benefits.
- 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.
- As per the provisions of Rule 3(2), in case a motor car (engine cubic capacity exceeding 1.60 liters) owned by the employer is provided to the employee without chauffeur for personal as well as office use, the value of perquisite shall be ₹ 2,400 per month. The car was provided to the employee from 01.11.2021, therefore the perquisite value has been calculated for 5 months.
- Mr. Balaji can avail exemption under section 10(5) on the entire amount of ₹ 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.

- 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 ₹ 2,000 paid by the employer is taxable as a perquisite in the hands of Mr. Balaji. As per section 16(iii), a deduction from the salary is provided on account of tax on employment i.e. professional tax paid during the year.

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

Q2

Study Mat

From the following details, find out the salary chargeable to tax for the AY 2022-23 -

Mr. X is a regular employee of Rama & Co., in Gurgaon. He was appointed on 1.1.2021 in the scale of ₹ 20,000 - ₹ 1,000 - ₹ 30,000. He is paid 10% D.A. & 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 fund and the company contributes the same amount.

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

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

Answer

Computation of taxable salary of Mr. X for AY 2022-23

Particulars	₹
Basic pay [(₹ 20,000×9) + (₹ 21,000×3)] = ₹ 1,80,000 + ₹ 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 ₹ 2,67,300) [See Note 1 below]	8,019
Taxable allowances	
Telephone allowance	6,000
Taxable perquisites	
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 5 below]	10,000
Gross Salary	3,93,464
Less: Deduction under section 16(ia) – Standard deduction	50,000
Salary income chargeable to tax	3,43,464

Notes:

1. It has been assumed that dearness allowance forms part of salary for retirement benefits and accordingly, the requisite value of rent-free accommodation and employer's contribution to recognized provident fund have been worked out.
2. 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:

- (i) Basic salary i.e., ₹ 2,43,000
- (ii) Dearness allowance (assuming that it is included for calculating retirement benefits) i.e. ₹ 24,300
- (iii) Bonus i.e., ₹ 21,000
- (iv) Telephone allowance i.e., ₹ 6,000

Therefore, salary works out to

$$₹ 2,43,000 + ₹ 24,300 + ₹ 21,000 + ₹ 6,000 = ₹ 2,94,300.$$

$$15\% \text{ of salary} = ₹ 2,94,300 \times 15/100 = ₹ 44,145$$

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 ₹ 44,145.

3. Facility of use of laptop is not a taxable perquisite.
4. Conveyance allowance is exempt since it is based on actual reimbursement for official purposes.
5. The value of any gift or voucher or token in lieu of gift received by the employee or by member of his household below ₹ 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 limit of ₹ 5,000.

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

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

6. Premium of ₹ 5,000 paid by the company for personal accident policy is not liable to tax.

Q3

Study Mat

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

Particulars	₹
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 unrecognised provident fund, the employer's contribution was ₹ 2,20,000 and the interest thereon ₹ 50,000. The employee's contribution was ₹ 2,70,000 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?

Answer

Taxable portion of the amount received from the URPF in the hands of Mr. A for the AY 2022-23 is computed hereunder:

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

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.

Q4

Study Mat

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

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 dependent) abroad	₹ 50,000
Expenses of staying abroad of the patient and	₹ 30,000
Limit specified by RBI	₹ 75,000

Answer

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

Particulars	₹	₹
Treatment of Mrs. G in a Government hospital		-
Treatment of Mr. G's father (75 years and dependent) abroad	50,000	
Expenses of staying abroad of the patient and attendant	30,000	
	80,000	

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 (dependent) by family doctor		8,000
Treatment of Mr. G's sister (dependent) in a nursing home		3,000
Treatment of Mr. G's grandfather in a private clinic		12,000
Treatment of Mr. G's brother (independent)		6,000
Taxable value of perquisite		39,000

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

Q5

Study Mat

X Ltd. provided the following perquisites to its employee Mr. Y for the PY 2021-22 –

- (1) Accommodation taken on lease by X Ltd. for ₹ 15,000 p.m. ₹ 5,000 p.m. is recovered from the salary of Mr. Y.
- (2) Furniture, for which the hire charges paid by X Ltd. is ₹ 3,000 p.m. No amount is recovered from the employee in respect of the same.
- (3) A Car of 1,200 cc 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.
- (4) A gift voucher of ₹ 10,000 on his birthday.

Answer

Compute the value of perquisites chargeable to tax for the AY 2022-23, assuming his salary for perquisite valuation to be ₹ 10 lakh.

Computation of value of perquisites chargeable to tax in the hands of Mr. Y for the AY 2022-23

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

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

Q6

May 17

Mr. Nambi, a salaried employee, furnishes the following details for the financial year 2021-22:

Particulars	₹
Basic salary	6,00,000
Dearness allowance	3,20,000
Commission	50,000
Entertainment allowance	7,500
Medical expenses reimbursed by the employer	21,000
Profession tax (of this, 50% paid by employer)	7,000
Health insurance premium paid by employer	9,000
Gift voucher given by employer on his birthday	12,000
Life insurance premium of Nambi paid by employer	34,000
Laptop provided for use at home. Actual cost of Laptop to employer [Children of the assessee are also using the Laptop at home]	30,000
Employer company owns a Tata Nano car, which was provided to the assessee, both for official and personal use. No driver was provided. (Engine cubic capacity less than 1.6 litres).	
Annual credit card fees paid by employer [Credit card is not exclusively used for official purposes; details of usage are not available]	2,000

You are required to compute the income chargeable under the head Salaries for the assessment year 2022-23.

Answer

Computation of income chargeable under the head "Salaries" of Mr. Nambi for AY 2022-23 :

Particulars	₹
Basic Salary	6,00,000
Dearness allowance	3,20,000
Commission	50,000
Entertainment allowance	7,500
Medical expenses reimbursed by the employer is fully taxable perquisite	21,000
Professional tax paid by the employer is a taxable perquisite as per section 17(2) (iv), since it is an obligation of the employee which is paid by the employer	3,500
Health insurance premium of ₹ 9,000 paid by the employer is an exempt perquisite [Clause (iii) of proviso to section 17(2)]	Nil

Gift voucher given by employer on Mr. Nambi's birthday (entire amount is taxable since the perquisite value exceeds ₹ 5,000) as per Rule 3(7)(iv) [See Note 1 for Alternative view]	12,000
Life insurance premium of Mr. Nambi paid by employer is a taxable perquisite as per section 17(2)(v)	34,000
Laptop provided for use at home is an exempt perquisite as per Rule 3(7)(vii)	Nil
Provision of motor car (engine cubic capacity less than 1.6 litres) owned by employer to employee – Assuming that the expenses are met or reimbursed by the employer, the perquisite value would be ₹ 21,600 [$₹1,800 \times 12$] as per Rule 3(2) [See Note 2 for Alternate assumption]	21,600
Annual credit card fees paid by employer is a taxable perquisite as per Rule 3(7)(v) since the credit card is not exclusively used for official purposes and details of usage are not available	2,000
Gross Salary	
Less: Deductions under section 16	10,71,600
Standard deduction u/s 16(a)	50,000
Entertainment allowance (deduction not allowable since Mr. Nambi is not a Government employee)	Nil
Professional tax paid allowable as deduction as per section 16(iii)	7,000
Income chargeable under the head "Salaries"	10,14,600

Notes:

- (1) 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 ₹ 5,000 in aggregate during the previous year would be exempt as per the proviso to Rule 3(7)(iv). In this case, the gift voucher of ₹12,000 was received by Mr. Nambi from his employer on the occasion of his birthday.

Since the value of the gift voucher exceeds the limit of ₹ 5,000, the entire amount of ₹12,000 is liable to tax as perquisite. The above solution has been worked out accordingly.

An alternate view possible is that only the sum in excess of ₹5,000 is taxable in view of the language of Circular No.15/2001 dated 12.12.2001, which states that such gifts upto ₹ 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 ₹ 7,000.

- (2) The question does not specify whether the running and maintenance expenditure of the motor car are met or reimbursed by the employer -company or by Mr. Nambi himself. The main solution above has been worked out on the assumption that such expenses are met or reimbursed by the employer company, in which case, the perquisite value would be ₹ 21,600 [i.e., ₹1,800 × 12]. The above solution has been worked out accordingly.

Alternatively, it is possible to calculate the perquisite value assuming that the running and maintenance expenditure of the motor car are fully met by Mr. Nambi himself. In such a case, the perquisite value would be ₹ 7,200 [i.e., ₹ 600 × 12].

The figures of gross salary and net salary would, accordingly, vary depending on the view taken and assumption made by the candidate in respect of the perquisites mentioned in (1) and (2) above, respectively.

Q7

Nov 17

Ms. Jaya is the marketing manager in XYZ limited. She gives you the following particulars:

Basic Salary	₹ 65,000 p.m.
Dearness Allowance	₹ 22,000 p.m. (30% is for retirement benefits)
Bonus	₹ 17,000 p.m.

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

The employer gave her a gift voucher of ₹ 8,000 on her birthday. She contributes 18% of her salary (Basic Pay + 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. Jaya ₹ 18,000.

Motor car owned by the employer (cubic capacity of engine exceeds 1.6 litres) provided to Ms. Jaya from 1st November, 2021 which is used for both official and personal purposes. Repair and running expenses of ₹ 50,000 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. Jaya for the Assessment Year 2022-23.

Answer

Computation of income chargeable to tax under the head "Salaries" in the hands of Ms. Jaya for AY 2022-23

Particulars	₹
Basic Salary [₹ 65,000 x 12]	7,80,000
Dearness allowance [₹ 22,000 x 12]	2,64,000
Bonus [₹ 17,000 x 12]	2,04,000
Perquisite value in respect of concessional rent 3 [See Note (1) below]	36,000
Gift voucher given by employer on Ms. Jaya's birthday (entire amount is taxable since the perquisite value exceeds ₹ 5,000) [See Note 2 below]	8,000
Employer's contribution to recognized provident fund in excess of 12% of salary is taxable as per section 17(1)(vi)	84,816
$18\% \times [(\text{₹ } 65,000 + \text{₹ } 22,000) \times 12] - 12\% \times \{[\text{₹ } 65,000 + \text{₹ } 6,600 \text{ (being 30\% of ₹ 22,000)}] \times 12\} = 1,87,920 - 1,03,104$	
[Salary = Basic Salary + Dearness allowance, to the extent it forms part of pay for retirement benefits]	
Medical insurance premium of ₹18,000 paid by the employer to effect an insurance on the health of an employee is an exempt perquisite as per sub- clause (iii) of proviso to section 17(2)	-

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 ₹ 2,400 p.m. [₹ 2,400 × 5 months] as per Rule 3(2) of the Income-tax Rules, 1962	12,000
Gross Salary	13,88,816
Less: Standard deduction u/s 16(a)	50,000
Salary chargeable to tax	13,38,816

Notes:

- (1) 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 employer from 1.11.2021 to 31.3.2022 = ₹ 60,000 [₹ 12,000 × 5 months]

15% of salary = ₹ 66,450 [15% × (₹ 65,000 + ₹ 6,600 + ₹ 17,000) × 5 months]

Lower of the above is ₹ 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 × 5 months] = ₹ 36,000

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

- (2) 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 ₹ 5,000 in aggregate during the previous year would be exempt as per the proviso to Rule 3(7)(iv). In this case, the gift voucher of ₹ 8,000 was received by Ms. Jaya from her employer on the occasion of her birthday. Since the value of the gift voucher exceeds the limit of ₹ 5,000, the entire amount of ₹ 8,000 is liable to tax as perquisite. The above solution has been worked out accordingly.

Alternative view - An alternate view possible is that only the sum in excess of ₹ 5,000 is taxable in view of the language of Circular No.15/2001 dated 12.12.2001, which states that such gifts upto ₹ 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 ₹ 3,000. The salary chargeable to tax, in this case, would be ₹ 13,33,816.

Q8

MTP Mar 18

Mrs. Anjali is a Finance Manager of Anand Construction Ltd. in Mumbai, furnishes the following particulars for the financial year 2021-22:

- She was appointed on 01-03-2021 in the scale of ₹ 20,000 - ₹ 2,500 - ₹ 35,000.
- She is paid dearness allowance (which forms part of salary for retirement benefits) @30% of basic pay and bonus equivalent to two month's basic pay as at the end of the year.
- She receives ₹ 2,000 per month as transport allowance (for commuting between place of residence and office) and ₹ 4,000 each as hostel allowance for three children.

- (iv) She contributes 15% of his salary (basic pay plus dearness allowance) towards recognized provident fund and the Company contributes the same amount.
- (v) Lunch provided by the company during office hours
Cost to the employer ₹ 10,000
- (vi) Rent free unfurnished accommodation provided by the company for which the company pays ₹ 60,000 per annum.
- (vii) The Company reimbursed the medical treatment bill of ₹ 35,000 of her son, who is dependent on her.
- (viii) A gift voucher of ₹ 6,000 was given on the occasion of her marriage anniversary. It is given by the company to all employees above certain grade.
- (ix) Facility of laptop and computer was provided to Mrs. Anjali for both official and personal use. Cost of laptop ₹ 45,000 and computer ₹ 35,000 were acquired by the company on 01.12.2020.
- (x) Professional tax paid by the company ₹ 2,000

Compute the amount of salary chargeable to tax in the hands of Mrs. Anjali for AY 2022-23.

Answer

Computation of taxable salary of Mrs. Anjali for AY 2022-23

Particulars	₹
Basic pay [(₹ 20,000×11) + (₹ 22,500×1)] = ₹ 2,20,000 + ₹ 22,500	2,42,500
Dearness allowance [30% of basic pay]	72,750
Bonus [₹ 22,500 × 2]	45,000
Employer's contribution to Recognized Provident Fund in excess of 12% (15% - 12% = 3% of ₹ 3,15,250)	9,458
Taxable allowances	
Transport allowance (₹ 2,000 x 12)	24,000
Hostel allowance (₹ 4,000 x 3)	12,000
Less: Exemption under section 10(14) read with Rule 2BB) @ ₹ 300 p.m. per child maximum for two children	(7,200)
Taxable perquisites	
Rent-free accommodation [See Note 1 below]	58,358
Medical reimbursement (fully taxable) [See Note 2 below]	35,000
Gift voucher [See Note 3 below]	6,000
Value of free lunch facility [See Note 4 below]	-
Professional tax paid by the company [See Note 6 below]	2,000
Gross Salary	4,99,866
Less: Standard deduction u/s 16(ia)	50,000
Less: Professional tax paid by the company [Section 16(iii)]	2,000
Salary chargeable to tax	4,47,866

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:

(i) Basic salary	2,42,500
(ii) Dearness allowance	72,750
(iii) Bonus	45,000
(iv) Transport allowance	24,000
(v) Hostel allowance	4,800
Total	3,89,050

15% of salary = ₹ 3,89,050 × 15/100 = ₹ 58,358

Value of rent-free house will be

- Actual amount of lease rental paid by employer (i.e. ₹ 60,000) or
- 15% of salary (i.e., ₹ 58,358), whichever is lower.

Therefore, the perquisite value is ₹ 58,358.

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 is fully taxable.
3. The value of any gift or voucher or token in lieu of gift received by the employee or by member of his household is below ₹ 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 limit of ₹ 5,000. Therefore, entire amount of ₹ 6,000 is liable to tax as perquisite.

Alternative View : An alternate view possible is that only the sum in excess of ₹ 5,000 is taxable in view of the language of Circular No. 15/2001 dated 12.12.2011 that such gifts upto ₹ 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 ₹ 1,000.

4. Free lunch provided by the employer during office hours is not a perquisite, assuming that the value does not exceed ₹ 50 per meal.
5. 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.
6. Professional tax paid by employer on behalf of employee is a taxable perquisite, hence, included in gross salary as a perquisite.

Q9

RTP May 18

Mr. Kashyap retired from the services of M/s ABC Ltd. on 31.01.2022, after completing service of 30 years and one month. He had joined the company on 1.1.1990 at the age of 30 years and received the following on his retirement:

- (i) Gratuity ₹ 5,50,000. He was covered under the Payment of Gratuity Act, 1972.

- (ii) Leave encashment of ₹ 3,30,000 for 330 days leave balance in his account. He was credited 30 days leave for each completed year of service.
- (iii) As per the scheme of the company, he was offered a car on 31.01.2022 which was purchased on 01.03.2019 by the company for ₹ 5,00,000. Company has recovered ₹ 2,00,000 from him for the car. Company depreciates the vehicles at the rate of 15% on Straight Line Method.
- (iv) An amount of ₹ 3,00,000 as commutation of pension for 2/3 of his pension commutation.
- (v) Company presented him a gift voucher worth ₹ 8,000 on his retirement. Following are the other particulars:
- He has drawn a basic salary of ₹ 20,000 and dearness allowance @50% of basic salary for the period from 01.04.2021 to 31.01.2022. Dearness allowance does not form part of pay for retirement benefits.
 - Received pension of ₹ 7,000 per month for the period 01.02.2022 to 31.03.2022 after commutation of pension.

Compute his income taxable under the head "Salaries" for Assessment Year 2022-23.

Answer

Computation of income chargeable under the head "Salaries" of Mr. Kashyap for AY 2022-23 :

Particulars	₹
Basic Salary = ₹ 20,000 x 10	2,00,000
Dearness Allowance = 50% of basic salary	1,00,000
Gift Voucher (See Note - 1)	8,000
Transfer of car (See Note - 2)	1,20,000
Gratuity (See Note - 3)	30,769
Leave encashment (See Note - 4)	1,30,000
Uncommuted pension (₹ 7000 x 2)	14,000
Committed pension (See Note - 5)	1,50,000
Taxable Salary /Gross Total Income	7,52,769

Notes:

- (1) As per Rule 3(7)(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 ₹ 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 ₹ 5,000.

Therefore, the entire amount of ₹ 8,000 is liable to tax as perquisite.

Note - An alternate view is possible that only the sum in excess of ₹ 5,000 is taxable in view of the language of Circular No.15/2001 dated 12.12.2001. Gifts upto ₹ 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 ₹ 3,000 and gross total income would be ₹ 7,47,769.

- (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% on a written down value basis for each completed year during which such motor car was put to use by the employer. Therefore, the value of perquisite

on transfer of motor car, in this case, would be:

Particulars	₹
Purchase price (1.3.2019)	5,00,000
Less: Depreciation @ 20%	1,00,000
WDV on 28.2.2020	4,00,000
Less: Depreciation @ 20%	80,000
WDV on 28.2.2021	3,20,000
Less: Amount recovered	2,00,000
Value of perquisite	1,20,000

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 car is completed on 28.2.2022 whereas the car was sold to the employee on 31.1.2022. Accordingly, wear and tear has to be calculated @20% on reducing balance method for only two years.

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. Kashyap.

(3) Taxable gratuity

Particulars	₹
Gratuity received	5,50,000
Less: Exempt under section 10(10) - Least of the following:	
(i) Notified limit = ₹ 20,00,000	
(ii) Actual gratuity received = ₹ 5,50,000	
(iii) $15/26 \times$ last drawn salary \times no. of completed years or part in excess of 6 months	
$15/26 \times 30,000 \times 30 = ₹ 5,19,231$	5,19,231
Taxable Gratuity	30,769

Note : As per the Payment of Gratuity Act, 1972, dearness allowance is included in the meaning of salary. Since, in this case, Mr. Kashyap is covered under the Payment of Gratuity Act, 1972, dearness allowance has to be included within the meaning of salary for computation of exemption under section 10(10).

(4) Taxable leave encashment

Particulars	₹
Leave Salary received	3,30,000
Less: Exempt under section 10(10AA) - Least of the following:	
(i) Notified limit	₹ 3,00,000
(ii) Actual leave salary received	₹ 3,30,000
(iii) 10 months \times ₹ 20,000	₹ 2,00,000
(iv) Cash equivalent of leave to his credit	<u>₹ 2,20,000</u> [330/30*20,000]
Taxable Leave encashment	1,30,000

Note - Salary, for the purpose of exemption under section 10(10AA), would include dearness allowance only if it forms part of pay for retirement benefits. Therefore, in this case, since dearness allowance does not form part of pay for retirement benefits, only basic salary has to be considered for computing exemption under section 10(10AA).

(5) Commuted Pension

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

Particulars	₹
Amount received	3,00,000
Less: Exemption under section 10(10A) = $\frac{1}{3} \times \left[3,00,000 \times \frac{3}{2} \right]$	1,50,000
Taxable amount	1,50,000

Q10

MTP Oct 18

From the following details furnished by Mrs. Heena, a finance manager of AB Ltd., Delhi, compute the gross total income for the Assessment Year 2022-23.

Particulars	Amount (₹)
Salary including Dearness Allowance (Dearness Allowance forms part of salary for retirement benefits)	6,50,000
Conveyance allowance of ₹ 900 p.m.	10,800
Children education allowance for two children	₹ 500 p.m.
Bonus	50,000
Salary of servant provided by the employer	48,000
Bills paid by the employer for gas, electricity and water provided free of cost at the residence of Mrs. Heena	82,000
Computer (cost ₹ 35,000) kept by the employer in the residence of Mrs. Heena from 01.07.2021	
Contribution to recognized provident fund	15% of salary including D.A.

Heena purchased a flat in a co-operative housing society in Rohini, Delhi for self occupation for ₹35,00,000 in April 2018, which was financed by a loan from State Bank of India of ₹20,00,000 @11% interest and her own savings of ₹5,00,000 and a deposit of ₹ 10,00,000 from Bank of Baroda, to whom she let out her another house in Dwarka, Delhi on lease for ten years. The rent payable by Bank of Baroda is ₹ 35,000 per month. Other relevant particulars are given below:

- Municipal taxes paid by Heena for her flat in Rohini are ₹ 15,000 per annum and for her house in Dwarka are ₹ 12,000 per annum.
- Principal loan amount outstanding as on 01-04-2021 was ₹18,50,000.
- She also paid ₹ 7,000 towards insurance of both the houses.

- (iv) Mrs. Heena's son is studying in a school run by the employer company throughout the financial year 2021-22. The education facility was provided free of cost. The cost of such education in similar school is ₹ 2,500 per month.
- (v) Heena also received gifts of ₹ 45,000 each from her two friends during the financial year 2021-22.

Answer

Computation of Gross Total Income of Mrs. Heena for the AY 2022-23

Particulars	₹	₹
Salaries		
Salary including dearness allowance		6,50,000
Bonus		50,000
Employer's contribution to recognized provident fund in excess of 12% of salary (i.e., 3% of ₹ 6,50,000)		19,500
Conveyance allowance (Fully exempt under section 10(14)(i) read with Rule 2BB(1)(c), assuming that it is granted to meet the expenditure actually incurred on conveyance in performance of duties of an office or employment of profit).		Nil
Children education allowance (₹ 500 x 12)	6,000	
Less: Exempt under section 10(14) (₹100 x 2 x 12)	2,400	3,600
Value of perquisites:		
(i) Salary of servant [Rule 3(3)]	48,000	
(ii) Free gas, electricity and water [Rule 3(4)]	82,000	
(iii) Cost of free education provided by employer (₹ 2,500 x 12) is fully taxable, since the cost of education exceeds ₹1,000 per month [Rule 3(5)].	30,000	
(iv) Computer provided in the residence of employee by the employer - not chargeable to tax [Rule 3(7)(vii)]	Nil	1,60,000
Gross Salary		8,83,100
Less: Deduction u/s 16(ia)		50,000
Income chargeable under the head "Salaries"		8,33,100
Income from house property		
Let-out property (At Dwarka)		
Gross Annual Value (GAV) (Lease rental is taken as GAV in the absence of other information) (₹35,000 x 12)	4,20,000	
Less: Municipal taxes paid	12,000	
Net Annual Value (NAV)	4,08,000	
Less: Deduction under section 24(a): 30% of NAV* (A)	1,22,400	
	(A)	2,85,600
Self-occupied property (At Rohini)		
Net Annual Value (NAV) [Since the property is self-occupied]	Nil	
Less: Deduction under section 24(b)		

Interest on loan from State Bank of India @11% of ₹18,50,000 = ₹ 2,03,500 restricted to	(2,00,000)	
	(B)	(2,00,000)
Income from house property [A - B]		85,600
Income from Other Sources		
Gift received from two friends [taxable under section 56(2)(x)] since the aggregate amount received during the year exceeds ₹50,000 (₹ 45,000 x 2)		90,000
Gross Total Income		10,08,700

Q11

RTP Nov 18

You are required to compute the income chargeable under the head Salaries in the hands of Mr. Narayan for the assessment year 2022-23 from the following details pertaining to the financial year 2021-22:

Particulars	₹
Basic salary	7,20,000
Dearness allowance	3,60,000
Commission	60,000
Entertainment allowance	7,500
Medical expenses reimbursed by the employer	25,000
Profession tax (of this, 50% paid by employer)	3,000
Health insurance premium paid by employer	9,000
Gift voucher given by employer on his birthday	15,000
Life insurance premium of Narayan paid by employer	42,000
Laptop provided for use at home. Actual cost of Laptop to employer [Children of the assessee are also using the Laptop at home]	45,000
Employer company owns a motor car, which was provided to the assessee, both for official and personal use. All repair and maintenance expenses are fully reimbursed by the employer. No driver was provided. (Engine cubic capacity less than 1.6 litres).	
Annual credit card fees paid by employer [Credit card is not exclusively used for official purposes]	5,000

Answer

Computation of income chargeable under the head "Salaries" of Mr. Narayan for AY 2022-23

Particulars	₹
Basic Salary	7,20,000
Dearness allowance	3,60,000

Commission	60,000
Entertainment allowance	7,500
Medical expenses reimbursed by the employer is a taxable perquisite	25,000
Professional tax paid by the employer is a taxable perquisite as per section 17(2) (iv), since it is an obligation of the employee which is paid by the employer	1,500
Health insurance premium of ₹ 9,000 paid by the employer is an exempt perquisite [Clause (iii) of proviso to section 17(2)]	Nil
Gift voucher given by employer on Mr. Narayan's birthday (entire amount is taxable since the perquisite value exceeds ₹ 5,000) as per Rule 3(7)(iv) [See Note below]	15,000
Life insurance premium of Mr. Narayan paid by employer is a taxable perquisite as per section 17(2)(v)	42,000
Laptop provided for use at home is an exempt perquisite as per Rule 3(7)(vii)	Nil
Provision of motor car (engine cubic capacity less than 1.6 litres) owned by employer to employee for both official and personal purposes – perquisite value would be ₹ 21,600 [₹1,800 × 12] as per Rule 3(2)	21,600
Annual credit card fees paid by employer is a taxable perquisite as per Rule 3(7)(v) since the credit card is not exclusively used for official purposes.	5,000
Gross Salary	12,57,600
Less: Deductions under section 16	
Standard Deduction u/s 16(ia)	50,000
Entertainment allowance (deduction under section 16(ii) not allowable since Mr. Narayan is not a Government employee)	Nil
Professional tax paid allowable as deduction as per section 16(iii)	3,000
Income chargeable under the head "Salaries"	12,04,600

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 ₹ 5,000 in aggregate during the previous year would be exempt as per the proviso to Rule 3(7)(iv). In this case, the gift voucher of ₹ 15,000 was received by Mr. Narayan from his employer on the occasion of his birthday.

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

An alternate view possible is that only the sum in excess of ₹ 5,000 is taxable in view of the language of Circular No.15/2001 dated 12.12.2001, which states that such gifts upto ₹ 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 ₹ 10,000.

In such case, the gross salary and net salary would be, ₹ 12,52,600 and ₹ 11,99,600, respectively.

Q12

Nov 18

Ms. Nandini, a resident individual, aged 48 years, is an assistant manager of Dye Hard Ltd. She was appointed on 1st June, 2019 at a salary of ₹ 32,000 per month. During the previous year 2021-22, 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 previous year 2021-22 amounting to ₹ 32,000 was received on 1st October, 2021.
- (iii) Fixed Medical allowance of ₹ 20,000 for meeting medical expenditure.
- (iv) She was also reimbursed the medical bill of her father-in-law dependent on her amounting to ₹ 3,000.
- (v) Ms. Nandini was provided;
 - a laptop both for official and personal use. Laptop was acquired by the company on 1st June, 2019 at ₹ 15,000.
 - a domestic servant at a monthly salary of ₹ 1,000 which was reimbursed by her employer.
- (vi) Dye Hard Ltd. allotted 500 equity shares in the month of December 2021 @ ₹ 150 per share against the fair market value of ₹ 250 per share on the date of exercise of option by Ms. Nandini. The fair market value was computed in accordance with the method prescribed under the Act.
- (vii) Professional tax ₹ 2,500 (out of which ₹ 1,800 was paid by the employer).

Compute the total Income of Ms. Nandini for the assessment year 2022-23. (Assume that Ms. Nandini pays tax on the receipt basis).

Answer

Computation of total income of Ms. Nandini for the AY 2022-23

Particulars	₹
Basic Salary [₹ 32,000 x 12]	3,84,000
Dearness allowance [10% of basic salary]	38,400
Bonus [Taxable in the PY 2021-22, assuming that the same was not subject to tax in PY 2021-22]	32,000
Fixed Medical Allowance [Taxable]	20,000
Reimbursement of Medical expenditure incurred for her father-in law [Fully taxable, since father-in law is not included in the meaning of "family"].	3,000
Facility of laptop [Facility of laptop is an exempt perquisite, whether used for official or personal purpose or both]	Nil
Reimbursement of salary of domestic servant [₹ 1,000 x 12] [Fully taxable, since perquisite includes any sum paid by the employer in respect of any obligation which would have been payable by the employee]	12,000
Value of equity shares allotted to her [500 equity shares x ₹ 100 (₹ 250, being the fair market value – ₹ 150, being the amount recovered)]	50,000
Professional tax paid by the employer [Perquisite includes any sum paid by the employer in respect of any obligation which would have been payable by the employee]	1,800
Gross Salary	5,41,200
Less: Deduction u/s 16 - Professional tax paid	2,500
Less: Standard Deduction u/s 16(ia)	50,000
Taxable Salary/Gross Total Income	4,88,700
Less: Deduction under Chapter VI-A	Nil
Total Income	4,88,700

Q13

RTP May 19

Ms. Aarohi is the HR manager in Shipra limited. She gives you the following particulars:

Basic Salary	₹ 70,000 p.m.
Dearness Allowance	₹ 24,000 p.m. (30% of which forms part of retirement benefits)
Bonus	₹ 21,000 p.m.

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

The employer gave her a gift voucher of ₹ 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. Aarohi ₹ 20,000.

Motor car owned by the employer (cubic capacity of engine exceeds 1.6 litres) provided to Ms. Aarohi from 1st November, 2021 which is used for both official and personal purposes. Repair and running expenses of ₹ 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. Aarohi for the Assessment Year 2022-23.

Answer

Computation of income chargeable to tax under the head "Salaries" in the hands of Ms. Aarohi for AY 2022-23

Particulars	₹
Basic Salary [₹ 70,000 x 12]	8,40,000
Dearness allowance [₹ 24,000 x 12]	2,88,000
Bonus [₹ 21,000 x 12]	2,52,000
Perquisite value in respect of concessional rent [See Working Note below]	36,000
Gift voucher given by employer on Ms. Aarohi's birthday (entire amount is taxable since the perquisite value exceeds ₹5,000) [See Note for Alternative view]	10,000
Employer's contribution to recognized provident fund in excess of 12% of salary = 18% x [(₹ 70,000 + ₹ 24,000) x 12] – 12% x [(₹ 70,000 + ₹ 7,200 (being 30% of ₹ 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 ₹ 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 ₹2400/- p.m. [₹2,400 x 5 months]	12,000

Gross salary	15,29,872
Less: Standard deduction under section 16(ia)	50,000
Salary chargeable to tax	14,79,872

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 1.11.2021 to 31.3.2022 = ₹ 60,000 [₹ 12,000 x 5 months]

15% of salary = ₹ 73,650 [15% x (₹ 70,000 + ₹ 7,200 + ₹ 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 ₹ 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 ₹ 5,000 in aggregate during the previous year would be exempt as per the proviso to Rule 3(7)(iv).

In this case, the gift voucher of ₹ 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 ₹ 5,000, the entire amount of ₹ 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 ₹ 5,000 is taxable in view of the language of Circular No.15/2001 dated 12.12.2001, which states that such gifts upto ₹ 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 ₹ 5,000. The salary chargeable to tax, in this case, would be ₹ 14,74,872.

Q14

RTP Nov 19

Ms. Suhaani, a resident individual, aged 33 years, is an assistant manager of Daily Needs Ltd. She is getting a salary of ₹ 48,000 per month. During the previous year 2021-22, she received the following amounts from her employer.

- Dearness allowance (10% of basic pay which forms part of salary for retirement benefits).
- Bonus for the previous year 2020-21 amounting to ₹ 52,000 was received on 30th November, 2021.
- Fixed Medical allowance of ₹ 48,000 for meeting medical expenditure.
- She was also reimbursed the medical bill of her father dependent on her amounting to ₹ 4,900.
- Ms. Suhaani was provided;

- a laptop both for official and personal use. Laptop was acquired by the company on 1st June, 2019 at ₹ 35,000.
 - a domestic servant at a monthly salary of ₹ 5,000 which was reimbursed by her employer.
- (vi) Daily Needs Ltd. allotted 700 equity shares in the month of October 2021 @ ₹ 170 per share against the fair market value of ₹ 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 ₹ 2,200 (out of which ₹ 1,400 was paid by the employer).

Compute the Income under the head "Salaries" of Ms. Suhaani for the assessment year 2022-23.

Answer

Computation of Income under the head "Salaries" in the hands of Ms. Suhaani for the AY 2022-23

Particulars	₹
Basic Salary [₹ 48,000 x 12]	5,76,000
Dearness allowance [10% of basic salary]	57,600
Bonus [Taxable in the PY 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 AY 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 [₹ 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 ₹ 110 (₹ 280, being the fair market value – ₹ 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
Gross Salary	8,76,900
Less: Deduction under section 16	
Professional tax paid	2,200
Standard Deduction (Lower of ₹ 50,000 or amount of salary)	50,000
Taxable Salary	8,24,700

Q 15

Nov 19 (Old)

Mr. Swaraj has provided the following particulars for the year ended 31-03-2022:

- (i) He retired on 31-12-2021 at the age of 58, after putting in 25 years and 9 months of service, from a private company at Delhi.
- (ii) He was paid a salary of ₹ 25,000 p.m. and house rent allowance of ₹ 6,000 p.m. He paid rent of ₹ 6,500 p.m., during his tenure of service.

- (iii) On retirement, he was paid a gratuity of ₹ 3,50,000. He was covered by the payment of Gratuity Act, 1972. He had not received any other gratuity at any point of time earlier, other than this gratuity.
- (iv) He had accumulated leave of 15 days per annum during the period of his service; this was encashed by him at the time of his retirement. A sum of ₹ 3,15,000 was received by him in this regard. Employer allowed 30 days leave per annum.
- (v) The company presented him with a gift voucher of ₹ 5,000 on his retirement. His colleagues also gifted him a mobile phone worth ₹ 50,000 from their own contribution.

You are requested to compute his income from salary for the AY 2022-23.

Answer

Computation of income under the head "Salaries" of Mr. Swaraj for the AY 2022-23

Particulars	₹	₹
Basic Salary = ₹ 25,000 x 9 months		2,25,000
House Rent Allowance = ₹ 6,000 x 9 months	54,000	
Less: Least of the following exempt under section 10(13A)	36,000	18,000
(i) House rent allowance actually received = ₹ 6,000 x 9 = ₹ 54,000		
(ii) Rent paid (-) 10% of salary for the relevant period [₹ 58,500 (i.e., ₹ 6,500 x 9) (-) ₹ 22,500 (10% of salary i.e., 10% of ₹ 2,25,000 (Basic Salary))] = ₹ 36,000		
(iii) 50% of salary for the relevant period [50% of ₹ 2,25,000 (Basic salary)] ₹ 1,12,500		
Gratuity	3,50,000	
Less: Least of the following exempt under section 10(10)(ii)	3,50,000	Nil
(i) Actual Gratuity received ₹ 3,50,000		
(ii) 15 days salary for every year of completed service [15/26 x ₹ 25,000 x 26] = ₹ 3,75,000		
(iii) Notified limit = ₹ 20,00,00		
Leave encashment	3,15,000	
Less: Least of the following exempt under section 10(10AA)	2,50,000	65,000
(i) ₹ 3,00,000		
(ii) Leave salary actually received ₹ 3,15,000		
(iii) ₹ 2,50,000, being 10 months' salary x ₹ 25,000		
(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) for every year of actual service rendered for the employer from whose service he has retired		
$375/30 \times ₹ 25,000 = ₹ 3,12,500$		
[Leave Due = Leave allowed – Leave taken]		
= 750 (30 days per year x 25 years) – 375 days (15 days x 25)		
= 375 days		

Gift Voucher [As per Rule 3(7)(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 ₹ 5,000 in aggregate during the previous year is exempt].		Exempt
Mobile Phone received as gift from colleagues (Neither taxable under the head "Salaries" nor "Income from other sources", since taxability provisions under section 56(2)(x) are not attracted in respect of mobile phone received from colleagues, as mobile phone is not included in the definition of "property" thereunder)		Nil
Gross Salary		3,08,000
Less: Standard deduction u/s 16 [Actual salary or ₹ 50,000, whichever is less]		50,000
Net Salary		2,58,000

Q 16

MTP May 20

Mr. Neeraj, aged 45 years, working in Ashiyana Pvt. Ltd. provides the following details pertaining to the financial year 2021-22:

Particulars	₹
Basic salary	7,20,000
Dearness allowance (40% of basic pay) (50% of D.A. forms part of retirement benefits)	-
Commission	50,000
Entertainment allowance	7,500
Medical expenses reimbursed by the employer	10,000
Profession tax (of this, 50% paid by employer)	3,000
Health insurance premium paid by employer	9,000
Gift voucher given by employer on his birthday	15,000
Life insurance premium of Neeraj paid by employer	40,000
Laptop provided for use at home. Actual cost of Laptop to employer [Children of the assessee are also using the Laptop at home]	45,000
Employer company owns a motor car, which was provided to the assessee, both for official and personal use. All repair and maintenance expenses are fully reimbursed by the employer. No driver was provided. (Engine cubic capacity less than 1.6 litres).	
Annual credit card fees paid by employer [Credit card is not exclusively used for official purposes]	

You are required to compute the income chargeable under the head Salaries in the hands of Mr. Neeraj for the assessment year 2022-23.

Answer

Computation of income chargeable under the head “Salaries” of Mr. Neeraj for AY 2022-23

Particulars	₹
Basic Salary	7,20,000
Dearness allowance	2,88,000
Commission	50,000
Entertainment allowance	7,500
Medical expenses reimbursed by the employer	10,000
Professional tax paid by the employer is a taxable perquisite as per section 17(2)(iv), since it is an obligation of the employee which is paid by the employer	1,500
Health insurance premium of ₹9,000 paid by the employer is an exempt perquisite [Clause (iii) of proviso to section 17(2)]	Nil
Gift voucher given by employer on Mr. Neeraj’s birthday (entire amount is taxable since the perquisite value exceeds ₹5,000) as per Rule 3(7)(iv) [See Note below]	15,000
Life insurance premium of Mr. Neeraj paid by employer is a taxable perquisite as per section 17(2)(v)	40,000
Laptop provided for use at home is an exempt perquisite as per Rule 3(7)(vii)	Nil
Provision of motor car (engine cubic capacity less than 1.6 litres) owned by employer to employee for both official and personal purposes –perquisite value would be ₹21,600 [₹ 1,800 ×12] as per Rule 3(2)	21,600
Annual credit card fees paid by employer is a taxable perquisite as per Rule 3(7)(v) since the credit card is not exclusively used for official purposes.	5,000
Gross Salary	11,58,600
Less: Deductions under section 16	
Standard deduction u/s 16(ia)	50,000
Entertainment allowance (deduction under section 16(ii) not allowable since Mr. Neeraj is not a Government employee)	Nil
Professional tax paid allowable as deduction as per section 16(iii)	3,000
Income chargeable under the head “Salaries”	11,05,600

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 ₹ 5,000 in aggregate during the previous year would be exempt as per the proviso to Rule 3(7)(iv). In this case, the gift voucher of ₹15,000 was received by Mr. Neeraj from his employer on the occasion of his birthday.

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

An alternate view possible is that only the sum in excess of ₹5,000 is taxable in view of the language of Circular No.15/2001 dated 12.12.2001, which states that such gifts upto ₹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 ₹10,000.

In such case, the gross salary and net salary would be, ₹ 11,53,600 and ₹11,00,600, respectively.

Q17

RTP Nov 20

Mr. Neeraj, a salaried employee, furnishes the following details for the financial year 2021-22:

Particulars	₹
Basic salary	5,40,000
Dearness allowance	3,60,000
Commission	50,000
Entertainment allowance	7,500
Medical expenses reimbursed by the employer	21,000
Profession tax (of this, 50% paid by employer)	4,000
Health insurance premium paid by employer	9,000
Gift voucher given by employer on his birthday	12,000
Life insurance premium of Neeraj paid by employer	34,000
Laptop provided for use at home. Actual cost of Laptop to employer Children of the assessee are also using the Laptop at home]	30,000
Employer company owns a Maruti Suzuki Swift car (Engine cubic capacity more than 1.6 litres), which was provided to the assessee, both for official and personal use. No driver was provided. All expenses are met by the employer	
Annual credit card fees paid by employer [Credit card is not exclusively used for official purposes; details of usage are not available]	5,000

Answer

Computation of income chargeable under the head "Salaries" of Mr. Neeraj for A.Y.2022-23

Particulars	₹
Basic Salary	5,40,000
Dearness allowance	3,60,000
Commission	50,000
Entertainment allowance	7,500
Medical expenses reimbursed by the employer is fully taxable	21,000
Professional tax paid by the employer is a taxable perquisite as per section 17(2)(iv), since it is an obligation of the employee which is paid by the employer	2,000
Health insurance premium of ₹ 9,000 paid by the employer is an exempt perquisite [Clause (iii) of proviso to section 17(2)]	Nil
Gift voucher given by employer on Mr. Neeraj birthday [entire amount is taxable since the perquisite value exceeds ₹ 5,000, as per Rule 3(7)(iv)]	12,000
Life insurance premium of Mr. Neeraj paid by employer is a taxable perquisite as per section 17(2)(v)	34,000
Laptop provided for use at home is an exempt perquisite as per Rule 3(7)(vii)	Nil

Provision of motor car (engine cubic capacity more than 1.6 litres) owned by employer provided to employee, the perquisite value would be ₹ 28,800 [₹ 2,400 × 12] as per Rule 3(2)	28,800
Annual credit card fees paid by employer is a taxable perquisite as per Rule 3(7)(v) since the credit card is not exclusively used for official purposes and details of usage are not available	5,000
Gross Salary	10,60,300
Less: Deductions under section 16	
- Standard Deduction as per section 16(ia), lower of gross salary and ₹ 50,000	50,000
- Entertainment allowance (deduction not allowable since Mr. Neeraj is not a Government employee)	Nil
- Professional tax paid allowable as deduction as per section 16(iii)	4,000
Income chargeable under the head "Salaries"	10,06,300

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 ₹ 5,000 in aggregate during the previous year would be exempt as per the proviso to Rule 3(7)(iv). In this case, the gift voucher of ₹ 12,000 was received by Mr. Neeraj from his employer on the occasion of his birthday. Since the value of the gift voucher exceeds the limit of ₹ 5,000, the entire amount of ₹ 12,000 is liable to tax as perquisite. The above solution has been worked out accordingly.

An alternate view possible is that only the sum in excess of ₹ 5,000 is taxable in view of the language of Circular No.15/2001 dated 12.12.2001, which states that such gifts upto ₹ 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 ₹ 7,000. Accordingly, the gross salary and net salary would be 10,55,300 and 10,01,300, respectively.

Q18

Nov 20 (Old)

Mr. Rohan is a Finance Manager in Surya Ltd. He gives you the following information. Compute his income Chargeable under the head Salary for Assessment Year 2022-23.

- Housing Loan @ 5% P.A. provided by Surya Ltd., Amount outstanding as on 01.04.2021 is ₹ 15 Lakhs. ₹ 25,000 is paid by Mr. Rohan every month towards principal. The lending rate of SBI for similar loan as on 01.04.2021 was 8%.
- ₹ 20,000 incurred by the employer Surya Ltd. towards premium for health insurance scheme approved by IRDA for Rohan.
- Received ₹ 15,000 as gift voucher on the occasion of his marriage anniversary from Surya Ltd.
- Surya Ltd. allotted 1000 sweat equity shares in August 2021. The shares were allotted at ₹ 415 per share and the fair market value on the date of exercising the option by Mr Rohan was ₹ 700 per share.
- He was provided with furniture during September 2017. The furniture is used at his residence for personal purpose. The actual cost of the furniture was ₹ 2,10,000. On 31st March, 2022 the

company offered the furniture to him at free of cost. No amount was recovered from him towards the furniture till date.

- (f) Received ₹ 15,000 towards entertainment allowance.
(g) Basic salary is ₹ 75,000 per month.

Answer

Computation of income under the head "Salaries" of Mr. Rohan for the A.Y.2022 -23

Particulars	₹	₹
Basic Salary [₹ 75,000 x 12 months]		9,00,000
Entertainment allowance		15,000
Interest on housing loan given at concessional rate, would be perquisite, since the amount of loan exceeds ₹ 20,000, For computation, the lending rate of SBI on 1.4.2021 @8% has to be considered. Thus, perquisite value would be determined @ 3% (8% - 5%) [See Working Note]		40,125
Health insurance premium paid by the employer [tax free perquisite]		NIL
Gift voucher on the occasion of his marriage anniversary [As per Rule 3(7) (iv), the value of any gift or voucher or token in lieu of gift received by the employee or by member of his household exceeding ₹ 5,000 in aggregate during the previous year is fully taxable] (See note below)		15,000
Allotment of sweat equity shares		
Fair market value of 1000 sweat equity shares @ ₹ 700 each	7,00,000	
Less: Amount recovered @ ₹ 415 each	4,15,000	2,85,000
Use of furniture by employee		
10% p.a. of the actual cost of ₹ 2,10,000		21,000
Transfer of asset to employee		
Value of furniture transferred to Mr. Rohan	2,10,000	
Less: Normal wear and tear @10% for each completed year of usage on SLM basis [2,10,000 x 10% x 4 years (from September 2017 to September 2021)]	84,000	1,26,000
Gross Salary		14,02,125
Less: Standard deduction u/s 16(ia) [Actual salary or ₹ 50,000, whichever is less]		50,000
Net Salary		13,52,125

Working Note:

Computation of perquisite value of loan given at concessional rate

For computation, the lending rate of SBI on 1.4.2021 @8% has to be considered. Thus, perquisite value would be determined @ 3% (8% - 5%)

Month	Maximum outstanding balance as on last date of month (₹)	Perquisite value at 3% for the month (₹)
April, 2021	14,75,000	3,687.50
May, 2021	14,50,000	3,625.00
June, 2021	14,25,000	3,562.50
July, 2021	14,00,000	3,500.00
August, 2021	13,75,000	3,437.50
September, 2021	13,50,000	3,375.00
October, 2021	13,25,000	3,312.50
November, 2021	13,00,000	3,250.00
December, 2021	12,75,000	3,187.50
January, 2022	12,50,000	3,125.00
February, 2022	12,25,000	3,062.50
March, 2022	12,00,000	3,000.00
Total value of this perquisite		40,125.00

Note: An alternate view possible is that only the sum in excess of ₹ 5,000 is taxable. In such a case, the value of perquisite would be ₹ 10,000 and gross salary and net salary would be ₹ 13,97,125 and ₹ 13,47,125, respectively.

Q19

Jan 21 (New)

Rajesh was employed in Axis Ltd., Mumbai. He received a salary of ₹ 45,000 p.m. from 1.04.2021 to 20.09.2021. He resigned and left for Dubai for the first time on 28.09.2021 and got monthly salary of rupee equivalent of ₹ 90,000 from 1.10.2021 to 31.03.2022. His salary for October to December was credited in his Mumbai bank account directly and the salary for January to March 2022 was credited in his Dubai bank account.

The cost of his air tickets to Dubai costing ₹ 1,50,000 was funded by her sister staying in London. The cost of his initial stay at Dubai costing ₹ 40,000 was funded by one of his friend staying in Delhi.

He further received interest of ₹ 10,500 on his fixed deposits and ₹ 7,500 on his savings a/c with his Mumbai bank. He also paid LIC Premiums of ₹ 15,000 for self, ₹ 10,000 for spouse and ₹ 25,000 for dependent mother aged 71 years.

Compute taxable income of Mr. Rajesh for the Assessment Year 2022-23.

Answer

In case of an Indian citizens leaving India for employment during the relevant previous year, the period of their stay during that previous year for being treated as a resident of India must be 182 days or more.

During the previous year 2021-22, Mr. Rajesh, an Indian citizen, was in India for 181 days only (i.e., 30+31+30+31+31+28 days). Thereafter, he left India for employment purposes.

Since he does not satisfy the minimum criteria of 182 days, he is a non-resident for the A.Y. 2022-23.

A non-resident is chargeable to tax in respect of income received or deemed to be received in India and income which accrues or arises or is deemed to accrue or arise to him in India. Hence, salary for January to March 2022, which was credited in his Dubai bank account for services rendered in Dubai, would not be taxable in the hands of Mr. Rajesh.

Computation of taxable income of Mr. Rajesh for A.Y. 2022-23

Particulars		Amount (₹)
Salary		
Salary from 1.4.2021 to 20.9.2021 [45,000 x 5 + 45,000 x 20/30]	2,55,000	
Salary from 1.10.2021 to 31.12.2021 [90,000 x 3]	2,70,000	
Gross Salary		5,25,000
Less: Standard deduction u/s 16(ia)		50,000
Net Salary		4,75,000
Income from Other Sources		
Interest on fixed deposits	10,500	
Interest on Savings account	7,500	18,000
Gross Total Income		4,93,000
Less: Deduction under Chapter VI-A		
Deduction under section 80C		25,000
LIC premium for self and spouse [LIC premium for mother is not allowed for deduction]		
Deduction under section 80TTA		7,500
[Interest on savings account with Mumbai bank]		
Total Income		4,60,500

Working Notes –

- Cost of his air tickets to Dubai costing ₹ 1,50,000 funded by his sister is not taxable under section 56(2)(x) in the hands of Mr. Rajesh, since “sister” is a relative.
- Cost of initial stay at Dubai costing ₹ 40,000 funded by his friend is also not taxable under section 56(2)(x), since the amount does not exceed ₹ 50,000.

Q 20

MTP Mar 21

Mr. Samaksh is a Marketing Manager in Smile Ltd. From the following information, you are required to compute his income chargeable under the head Salary for assessment year 2022-23.

- Basic salary is ₹ 70,000 per month.
- Dearness allowance @ 40% of basic salary
- He is provided health insurance scheme approved by IRDA for which ₹ 20,000 incurred by Smile Ltd.
- Received ₹ 10,000 as gift voucher on the occasion of his marriage anniversary from Smile Ltd.

- (v) Smile Ltd. allotted 800 sweat equity shares in August 2021. The shares were allotted at ₹ 450 per share and the fair market value on the date of exercising the option by Mr. Samaksh was ₹ 700 per share.
- (vi) He was provided with furniture during September 2017. The furniture is used at his residence for personal purpose. The actual cost of the furniture was ₹ 1,10,000. On 31st March, 2022, the company offered the furniture to him at free of cost. No amount was recovered from him towards the furniture till date.
- (vii) Received ₹ 10,000 towards entertainment allowance.
- (viii) Housing Loan@ 4.5% p.a. provided by Smile Ltd., amount outstanding as on 01.04.2021 is ₹ 12 Lakhs. ₹ 50,000 is paid by Mr. Samaksh every quarter towards principal starting from June 2021. The lending rate of SBI for similar loan as on 01.04.2021 was 8%.
- (ix) Facility of laptop costing ₹ 50,000

Answer

Computation of income under the head "Salaries" of Mr. Samaksh for the A.Y.2022-23

Particulars	₹	₹
Basic Salary [₹70,000 x 12 months]		8,40,000
Dearness allowance [40% of ₹8,40,000]		3,36,000
Entertainment allowance		10,000
Interest on housing loan given at concessional rate, would be perquisite, since the amount of loan exceeds ₹ 20,000, For computation, the lending rate of SBI on 1.4.2021 @8% has to be considered. Thus, perquisite value would be determined @ 3.5% (8% - 4.5%) [See Working Note]		49,291
Health insurance premium paid by the employer [tax free perquisite]		Nil
Gift voucher on the occasion of his marriage anniversary [As per Rule 3(7) (iv), the value of any gift or voucher or token in lieu of gift received by the employee or by member of his household exceeding ₹ 5,000 in aggregate during the previous year is fully taxable] (See note below)		10,000
Allotment of sweat equity shares		
Fair market value of 800 sweat equity shares @ ₹ 700 each	5,60,000	
Less: Amount recovered @ ₹ 450 each	3,60,000	2,00,000
Use of furniture by employee		
10% p.a. of the actual cost of ₹ 1,10,000		11,000
Use of Laptop		
Facility of use of laptop is not a taxable perquisite		Nil
Transfer of asset to employee		
Value of furniture transferred to Mr. Samaksh	1,10,000	
Less: Normal wear and tear @10% for each completed year of usage on SLM basis [1,10,000 x 10% x 4 years (from September 2017 to September 2021)]	44,000	66,000
Gross Salary		15,22,291

Less: Standard deduction u/s 16 [Actual salary or ₹ 50,000, whichever is less]		50,000
Net Salary		14,72,291

Working Note:

Computation of perquisite value of loan given at concessional rate

For computation, the lending rate of SBI on 1.4.2021 @8% has to be considered. Thus, perquisite value would be determined @ 3.5% (8% - 4.5%)

Month	Maximum outstanding balance as on last date of month (₹)	Perquisite value at 3.5% for the month (₹)
April, 2021	15,00,000	4,375
May, 2021	15,00,000	4,375
June, 2021	14,50,000	4,229
July, 2021	14,50,000	4,229
August, 2021	14,50,000	4,229
September, 2021	14,00,000	4,083
October, 2021	14,00,000	4,083
November, 2021	14,00,000	4,083
December, 2021	13,50,000	3,937.50
January, 2022	13,50,000	3,937.50
February, 2022	13,50,000	3,937.50
March, 2022	13,00,000	3,792
Total value of this perquisite		49,290.50

Note: An alternate view possible is that only the sum in excess of ₹ 5,000 is taxable. In such a case, the value of perquisite would be ₹ 5,000 and gross salary and net salary would be ₹ 15,17,291 and ₹ 14,67,291, respectively.

Q 21

Nov 21 (Old)

Mr. Joseph a resident aged 33 years is a state government employee at Bangalore. He has the following receipts from his employer:

- (a) Basic pay ₹ 60,000 p.m. *✓ x 12*
- (b) DA (forms part for retirement benefits) ₹ 6,000 p.m. *✓ x 12*
- (c) Entertainment allowances ₹ 500 p.m. *- 16 x 1*
- (d) House Rent Allowance ₹ 15,000 p.m. *12 (10(BM))*
- (e) Motor car for official and also for personal use (cubic capacity of engine does not exceed 1.6 litres) and expenses are met by the employer. *1800 p.m.*

He provides the following information also :

Rest paid → 16000 p.m.

- (ii) He contributes ₹ 5,000 towards recognized provident fund on 15.03.2022. (800)
- (iii) Due to COVID-19, work at home facility was allowed by Karnataka Government w.e.f. 01.10.2021. He went back to Cochin and vacated the house at Bangalore and also motor car. (6)
- (iv) Professional tax paid - ₹ 2,000 (50% was paid by employer) (1000) 3821022 1M-3019 (6)
- (v) He has no other income.

Compute the income chargeable to Mr. Joseph under the head "income from salary" for AY 2022-23.

Answer

Computation of income chargeable to Mr. Joseph under the head "Income from salary" for A.Y.2021-22

Particulars		₹	₹
Basic Pay [₹ 60,000 x 12]		✓	7,20,000
DA [₹ 6,000 x 12]	$\frac{72000 \times 6}{12}$	✓	72,000
Entertainment Allowance [₹ 500 x 12]	12		6,000
House Rent allowance [₹ 15,000 x 12]		1,80,000	
Less: Least of the following, exempt under section 10(13A):		56,400	1,23,600
(a) HRA received	90,000		
(b) Rent paid – 10% of salary for relevant period i.e., from 1.4.2020 to 30.9.2020 [₹ 16,000 x 6 – 10% of ₹ 7,92,000 x 6/12]	56,400		
(c) 40% of salary for relevant period	1,58,400	396000 x 10/1	
Perquisite of Motor car [₹ 1,800 x 6, since cubic capacity of engine does not exceed 1.6 litres and used for both official and personal purpose and expenses are met by the employer till 30.9.2020 only]	1,800 x 6		10,800
Employee's contribution to RPF [Employee's contribution to RPF will not impact computation of salaries. The same is allowable as deduction from gross total income]			-
Professional tax paid by employer [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]			1,000
Gross Salary			9,33,400
Less: Deductions under section 16			
- Standard deduction		50,000	
- Entertainment allowance [Allowable as deduction, since Mr. Joseph is a Government employee]		5,000	
Least of the following -			
(a) ₹ 5,000			
(b) 1/5th of basic salary i.e. $\frac{7,20,000}{5} = ₹ 1,44,000$			
(c) Actual entertainment allowance received ₹ 6000			

- Professional tax		2,000	57,000
Income chargeable under the head "Salaries"			8,76,400

Note – In the additional information provided in (iii), it is mentioned that due to COVID 19, work from home facility was allowed w.e.f. 1.10.2020 and Mr. Joseph vacated the house at Bangalore and also motor car. The perquisite value of motor car has been computed for six months only i.e., from 1.4.2020 to 30.9.2020, since the motor car is surrendered by Mr. Joseph to his employer on 1.10.2020.

Q 22

MTP Oct 21

You are required to compute the income from salary of Mr. Raja from the following particulars for the year ended 31-03-2022:

- (i) He retired on 31-12-2021 at the age of 60 after putting in 25 years and 9 months of service, from a private company at Delhi.
- (ii) He was paid a salary of ₹ 25,000 p.m. and house rent allowance of ₹ 6,000 p.m. He paid rent of ₹ 6,500 p.m. during his tenure of service.
- (iii) On retirement, he was paid a gratuity of ₹ 3,50,000. He was covered by the payment of Gratuity Act, 1972. He had not received any other gratuity at any point of time earlier, other than this gratuity.
- (iv) He had accumulated leave of 15 days per annum during the period of his service; this was encashed by him at the time of his retirement. A sum of ₹ 3,15,000 was received by him in this regard. Employer allowed 30 days leave per annum.
- (v) He is receiving ₹ 5,000 as pension. On 1.2.2022, he commuted 60% of his pension and received ₹ 3,00,000 as commuted pension.
- (vi) The company presented him with a gift voucher of ₹ 5,000 on his retirement. His colleagues also gifted him a mobile phone worth ₹ 50,000 from their own contribution.

Answer

Computation of income under the head "Salaries" of Mr. Raja for the A.Y.2022-23

Particulars	₹	₹
Basic Salary = ₹ 25,000 x 9 months		2,25,000
House Rent Allowance = ₹ 6,000 x 9 months	54,000	
Less: Least of the following exempt under section 10(13A)	36,000	18,000
(i) House rent allowance actually received ₹ 6,000 x 9 = ₹ 54,000		
(ii) Rent paid (-) 10% of salary for the relevant period [₹ 58,500 (i.e., ₹ 6,500 x 9) (-) ₹ 22,500 (10% of salary i.e., 10% of ₹ 2,25,000 (Basic Salary))] = ₹ 36,000		
(iii) 50% of salary for the relevant period [50% of ₹ 2,25,000 (Basic salary)] ₹ 1,12,500		
Gratuity	3,50,000	Nil

Less: Least of the following exempt under section 10(10)(ii)	3,50,000	
(i) Actual Gratuity received ₹ 3,50,000 ✓		
(ii) 15 days salary for every year of completed service $(15/26 \times ₹ 25,000 \times 26) = ₹ 3,75,000$		
(iii) Notified limit = ₹ 20,00,000		
Leave encashment ✓	3,15,000	
Less: Least of the following exempt under section 10(10AA)	2,50,000	65,000
(i) ₹ 3,00,000 ✓		
(ii) Leave salary actually received ₹ 3,15,000 ✓		
(iii) ₹ 2,50,000, being 10 months' salary x ₹ 25,000		
(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) for every year of actual service rendered for the employer from whose service he has retired		
$375/30 \times ₹ 25,000 = ₹ 3,12,500$		
[Leave Due = Leave allowed - Leave taken]		
= 750 (30 days per year x 25 years) - 375 days (15 days x 25)		
= 375 days]		
Uncommuted Pension received [₹ 5,000 x 1) + (₹ 5,000 x 2 x 40%)		9,000
Commuted Pension received	3,00,000	
Less: Exempt under section 10(10A)		
$1/3 \times ₹ 3,00,000/60\% \times 100\%$	1,66,667	1,33,333
Gift Voucher [As per Rule 3(7)(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 ₹ 5,000 in aggregate during the previous year is exempt]		Exempt
Mobile Phone received as gift from colleagues (Neither taxable under the head "Salaries" nor "Income from other sources", since taxability provisions under section 56(2)(x) are not attracted in respect of mobile phone received from colleagues, as mobile phone is not included in the definition of "property" thereunder)		Nil
Gross Salary		4,50,333
Less: Standard deduction u/s 16 [Actual salary or ₹ 50,000, whichever is less]		50,000
Net Salary		4,00,333

4,00,330

Q 23

MTP Nov 21

Mr. Kashyap, aged 38 years, is entitled to a salary of ₹ 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 ₹ 8,000 per month. The rent for the hired accommodation was ₹ 6,500 per month at New Delhi. Advice 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.

Answer

Computation of tax liability of Kashyap under both the options

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

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)
Net Inflow	4,98,000	4,66,580

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