

Topic wise Test Papers of CA Inter - Direct Tax – MAY/NOV-24 Exams

Topic: Income from Salary

Total Marks: 50 Marks

Time Allowed: 70 minute

Answers:

Part-A Multiple Choice Questions

[Total 20 Marks]

1. Answer : A
2. Answer : A
3. Answer : D
4. Answer : C
5. Answer : C
6. Answers : (i) A
(ii) B
(iii) C
(iv) A
7. Answer : B

Part- B Descriptive Questions

[Total 30 Marks]

Solution 1:

Computation of Total Income of Mr. Raghav for the A.Y.2024-25 as per 115BAC

Particulars	₹	₹
Salaries		
Basic Salary = 1,70,000 x 8		13,60,000
Dearness Allowance = 80,000 x 8		6,40,000
Commission = 32,000 x 8		2,56,000
Transport Allowance = 5,000 x 8		40,000
Medical reimbursement [Fully taxable]		40,000
Gratuity – Amount received	25,00,000	
Less: Least of the following exempt u/s 10(10)		
(i) Actual Gratuity received ₹ 25,00,000		

Particulars		₹	₹
(ii) ½ month's salary for every year of completed service [½ x 2,50,000 (Basic salary plus DA) + x 10] = ₹ 12,50,000			
(iii) Notified limit of ₹ 20,00,000			
Least of the above is exempt	12,50,000		
		12,50,000	
Gross Salary		35,86,000	
Less: Standard deduction u/s 16(ia) [Actual salary or ₹ 50,000, whichever is less]		50,000	
Net Salary			35,36,000

Solution 2:**Computation of taxable salary of Mr. X for A.Y. 2024-25**

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. Since dearness allowance forms part of salary for retirement benefits, the requisite value of rent-free accommodation and employer's contribution to recognized provident fund have been accordingly 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.

Solution 3:

Computation of income under the head "Salaries" of Mr. Raja for the A.Y.2024-25 as per 115BAC.

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 u/s 10(13A) [Not available in 115BAC]	N/A	54,000
Gratuity		
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 x ₹ 25,000 x 26] = ₹ 3,75,000		
(iii) Notified limit = ₹ 20,00,000	3,50,000	Nil
Leave encashment	3,15,000	
Less: Least of the following exempt under section 10(10AA)	2,50,000	65,000
(i) ₹ 25,00,000		
(ii) Leave salary actually received ₹ 3,15,000		

Particulars	₹	₹
(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]		
$= 750 (30 \text{ days per year} \times 25 \text{ years}) - 375 \text{ days} (15 \text{ days} \times 25)$		
$= 375 \text{ days}]$		
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		4,86,333
Less: Standard deduction u/s 16 [Actual salary or ₹ 50,000, whichever is less]		50,000
Net Salary		4,36,333

Solution 4:

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