

## Income Under Head Salaries

**Q.1** Mr. Rohan retired from M/s. QRST Ltd. a private sector company, on 31st March, 2024 after completing 28 years and 3 months of service. He received the following sums/gifts on his retirement:

- (i) Gratuity of ₹ 7,50,000. He was covered under the Payment of Gratuity Act, 1972.
- (ii) Leave encashment of ₹ 3,25,000 for 210 days leave balance in his account. He was credited with 30 days leave for each completed year of service.
- (iii) Crockery set worth ₹ 4,500 from his employer at the farewell party which was organised by the HR department a day before his retirement.

He drew a basic salary of ₹ 25,000 per month alongwith 50% of basic salary as dearness allowance (not forming part of retirement benefits) for the period from 1st April, 2023 to 31st March, 2024 .

Further, during the year, his employer provided him a motor car of 1800 cc which was used by him and his family solely for personal purposes. The cost of fuel and repairs were met by Mr. Rohan himself. The car was purchased by the employer on 1st April, 2022 at a cost of ₹ 8,00,000. Salary of driver amounting to ₹ 10,000 per month was met by the employer only. Upon retirement, he gave the car back to the employer.

You are required to compute the taxable salary of Mr. Rohan for A.Y.2024 -25 assuming that he neither claims any relief under section 89 nor does he opt to pay tax under section 115BAC.

(PYP MAY 23 )

**Sol. : 1**

**Computation of taxable salary of Mr. Rohan for A.Y. 2024-25**

Particulars		₹
Basic Salary ₹ 25,000 x 12		3,00,000
Dearness Allowance (50% of basic salary)		1,50,000
Gratuity [₹ 7,50,000 – ₹ 6,05,769]		1,44,231
Less: Exempt under section 10(10) - Least of the following:	₹	
(i) Notified limit	20,00,000	
(ii) Actual gratuity received	7,50,000	
(iii) $15/26 \times \text{last drawn salary} \times \text{no. of completed years of services or part in excess of 6 months}$ [15/26 x 37,500 x 28]	6,05,769	
Leave encashment [₹ 3,25,000 – ₹ 1,75,000]		1,50,000

Less: Exempt under section 10(10AA) - Least of the following:		
(iv) Notified limit as per Amendment	25,00,000	
(v) Actual leave salary received	3,25,000	
(vi) 10 months x ₹ 25,000	2,50,000	
(vii) Cash equivalent of leave to his credit [₹ 25,000 x 210/30]	1,75,000	
Crockery set [not a perquisite, since value of gift does not exceed ₹ 5,000]		-
Perquisite value of car [Driver's salary met by employer ₹ 1,20,000 (i.e., ₹ 10,000 x 12) + ₹ 80,000 (10% of ₹ 8,00,000), being normal wear and tear on car]		2,00,000
Gross Salary		9,44,231
Less: Standard deduction u/s 16(ia)		50,000
Taxable Salary		8,94,231

**Q. 2** Mr. B is a sales manager in PQR Ltd. During F.Y. 2023-24 he has received the following towards his salary and allowances/perquisites;

- (i) Basic pay ₹ 85,000 per month upto December 2023 and thereafter an increase of ₹ 2,000 per month.
- (ii) Dearness allowance 40% of basic pay forming part of retirement benefits.
- (iii) Bonus 1 month basic pay based on the salary drawn during January month every year.
- (iv) He contributes 14% of his basic pay & DA towards his recognized provident fund and his employer company contributes the same amount.
- (v) Travelling allowance of ₹ 5,000 per month towards on duty tours.
- (vi) Research and training allowance ₹ 3,000 per month.
- (vii) Children education allowance of ₹ 600 per month, per child for his 2 sons and 1 daughter.
- (viii) Accommodation owned by PQR Ltd. was provided to him in Hyderabad for the whole year and furniture of ₹ 2,00,000 was provided from 1st October, 2023.
- (ix) Reimbursement of medical expenses on his treatment in private hospital - ₹ 15,000, medical allowance ₹ 1,500 per month. Company has paid premium on medical policy purchased on his health ₹ 12,500.

You are required to:

- I. Compute the income chargeable to tax under the head "Income from Salary", assuming that he does not opt for the provisions under section 115BAC.

What will be the income under the head “Salaries”, if he opts for the provisions under section 115BAC? ( PYP NOV 2022)

Sol. : 2

Computation of income chargeable to tax under the head “Salaries” for A.Y.2024-25 , if Mr. B does not opt for the provisions of section 115BAC

Particulars	₹	₹
Basic Pay [₹ 85,000 x 9 + ₹ 87,000 x 3]		10,26,000
Dearness Allowance [₹ 10,26,000 x 40%]		4,10,400
Bonus		87,000
Travelling allowance [Exempt, since provided towards duty tours <sup>1</sup> ]		-
Research and training allowance [₹ 3,000 x 12]		36,000
Medical allowance [₹ 1500 x 12]		18,000
Children Education allowance [₹ 600 x 12 x 3]	21,600	
Less: Exempt [₹100 x 12 x 2]	2,400	19,200
Salary (for the purpose of valuation of Rent-free accommodation)		15,96,600
Value of Rent-free accommodation [10% of 15,96,600] As per amendment it is 10% of salary in cities having population > 40 lakhs in censuses 2011 Rs 1,59,660	2,39,490	
Add: Value of furniture [₹ 2,00,000 x 10% p.a. for 6 months] Rs 10,000	10,000	1,69,660
Reimbursement of medical expenses [taxable, since amount is reimbursed for treatment in private hospital]		15,000
Health insurance premium paid by PQR Ltd. [Exempt]		-
Employers' contribution to RPF in excess of 12% of salary = 2% of ₹ 14,36,400 (₹ 10,26,000 + ₹ 4,10,400)		28,728
Gross Salary		18,09,988
Less: Deductions under section 16		
Standard deduction		50,000
Income chargeable under the head “Salaries”		17,59,988

Computation of income chargeable to tax under the head “Salaries” for A.Y.2024-25 , if Mr. B opts for the provisions of section 115BAC

Income chargeable under the head “Salaries”		17,59,988
Add: Exemption in respect of children education allowance [Not allowable as per section 115BAC]		2400
		17,62,388
Less: Value of rent-free accommodation (As per regular provisions)		1,69,660
		15,92,728

Add: Value of Rent-free accommodation		
10% of ₹ 15,99,000 (₹ 15,96,600 (as calculated above) + ₹ 2,400)	1,59,900	
Add: Value of furniture [₹ 2,00,000 × 10% p.a. for 6 months]	10,000	1,69,900
Income chargeable under the head "Salaries"		17,62,628

**Q. 3** Examine with brief reasons, whether the following are chargeable to income-tax and the amount liable to tax with reference to the provisions of the Income-tax Act, 1961:

- (i) Allowance received by an employee Mr. Ram working in a transport system at ₹ 12,000 p.m. which has been granted to meet his personal expenditure while on duty. He is not in receipt of any daily allowance from his employer

(PYP NOV 2018 )

**Sol. : 3**

	Chargeability	Amount liable to tax (₹)	Reason
(i)	Partly taxable	43,200	Any allowance granted to an employee working in a transport system to meet his personal expenditure during his duty is exempt provided he is not in receipt of any daily allowance. The exemption is 70% of such allowance (i.e., ₹ 8,400 per month being, 70% of ₹ 12,000) or ₹ 10,000 per month, whichever is less. Hence, 1,00,800 (i.e., ₹ 8,400 x 12) is exempt. Balance ₹ 43,200 (₹ 1,44,000 – ₹ 1,00,800) is taxable in the hands of Mr. Ram.

**Q. 4** Mr. Honey is working with a domestic company having a production unit in the U.S.A. for last 15 years. He has been regularly visiting India for export promotion of company's product. He has been staying in India for atleast 184 days every year.

He submits the following information:

Salary received outside India (For 6 months) ₹ 50,000 P.M Salary received in India (For 6 months) ₹ 50,000 P.M.

He has been given rent free accommodation in U.S.A for which company pays ₹ 15,000 per month as rent, but when he comes to India, he stays in the guest house of the company. During this period he is given free lunch facility.

During the previous year, company incurred an expenditure of ₹ 48,000 on this facility. He has been provided a car of 2000 cc capacity in U.S.A. which is used by him for both office and private purposes. The actual cost of the car is ₹ 8,00,000. But when he is in India, the car is used by him and the members of his family only for personal purpose. The monthly expenditure of car is ₹ 5,000. His elder son is studying in India for which his employer spends ₹ 12,000 per year whereas his younger son is studying in U.S.A. and stays in a hostel for which Mr. Honey gets ₹ 3,000 per month as combined allowance.

The company has taken an accident insurance policy and a life insurance policy. During the previous year, the company paid premium of ₹ 5,000 and ₹ 10,000, respectively.

Compute Mr. Honey's taxable income from salary for the Assessment Year 2024 -25.

(PYP MAY 2018)

**Sol. : 4**

Since Mr. Honey stays in India for atleast 184 days every year, he is resident and ordinarily resident in India, every year. Therefore, his global income would be taxable in India. The salary received by him in India and outside India would be taxable in India as per the provisions of the Income-tax Act, 1961.

Computation of total income from salary of Mr. Honey for the A.Y. 2024-25

Particulars	₹	₹
Basic Salary		
Salary received outside India for 6 months (₹ 50,000 x 6)	3,00,000	
Salary received in India for 6 months (₹ 50,000 x 6)	3,00,000	6,00,000
Children Education and Hostel Allowance		
Amount received from employer (₹ 3,000 x 12)	36,000	
[No exemption is available in respect of allowance received for any education or hostel facility of children outside India]	Nil	36,000
Perquisites:		
Value of rent-free accommodation in USA		63,600
Lower of:		

- 10% of ₹ 6,36,000 (Basic Salary + Children Education and Hostel Allowance)		63,600	
- Rent paid by employer = ₹ 15,000 x 12		1,80,000	
Value of guest house in India			-
[not taxable, since it is provided for stay when he visits India wholly for official purposes]			
Lunch facility provided by employer 48000 – 184 days x 50 per meal			38,800
Motor car provided by employer [₹14,400 + ₹ 70,000] [See Note 2 below]			84,400
Used for both official and personal purposes for 6 months when he is in US. Hence, the perquisite value is ₹14,400 [₹ 2,400 x 6], since cubic capacity exceeds 1.6 litres, assuming that expenses are fully met by employer		14,400	
Used for personal purposes by his family members for 6 months when he is in India			
Actual running and maintenance expenditure [₹ 5,000 x 6]	30,000		
Normal wear and tear [10% of actual cost of motor car for 6 months] = ₹ 8,00,000 x 10% x 6/12	40,000	70,000	
Education expenditure of elder son in India met by employer [Fully taxable perquisite]			12,000
Life insurance premium paid by the employer – any sum payable by the employer to effect an assurance on the life of the employee is a taxable perquisite			10,000
Accident insurance premium paid by employer – exempt perquisite, since such policy is taken by the employer in business interest so as to indemnify the company from payment of compensation.			-
Gross Salary			8,44,800
Less: Deductions under section 16 Standard Deduction Rs 50,000 or actual salary whichever is lower			50,000
Taxable Salary			7,94,800

**Q. 5** Mr. Mukesh, a State Government Employee receives the following emoluments during the previous year ended 31.3.2024:

Basic Pay	Rs 2,00,000
Dearness Allowance	Rs 75,000
Commission	Rs 50,000
Entertainment Allowance	Rs 20,000
Medical Expenses reimbursed	Rs 25,000
Professional tax paid	Rs 2,000 ( 50% was paid by his employer)
Mukesh contributes Rs 5,000 towards RPF.	
Determine his income from Salary for AY 2024-25 .	

Sol. : 5

Computation of Income from Salary of Mr.Mukesh under Default tax Regime as per Sec 115 BAC

Particulars	Amount	Amount
Basic Salary		2,00,000
Dearness Allowance		75,000
Commission		50,000
Entertainment Allowance		20,000
Employee's contribution to RPF (Note )		-
Medical Expenses fully reimbursed		25,000
Professional tax paid by the employer		1,000
Gross Salary		3,71,000
Less : Standard Deduction		50,000
Income from Salary		3,21,000

NOTE : Employee 's contribution to RPF is not taxable . It is eligible for deduction u/s 80 C . However such deduction is not available under Default tax Regime u/s 115 BAC .

Computation of Income from Salary of Mr.Mukesh under Optional tax Regime as per normal provisions

Particulars	Amount	Amount
Basic Salary		2,00,000
Dearness Allowance		75,000
Commission		50,000
Entertainment Allowance		20,000
Employee's contribution to RPF (Note )		-
Medical Expenses fully reimbursed		25,000
Professional tax paid by the employer		1,000
Gross Salary		3,71,000
Less : Standard Deduction		50,000

Less : Entertainment Allowance : Least of the following		
i) Actual Amount received Rs 20,000	20,000	
ii) $1/5^{\text{th}}$ of Basic Salary Rs 2,00,000 x $1/5$	40,000	
iii) Statutory Amount	5,000	5,000
Less : Professional Tax paid		2,000
Income from Salary		3,14,000

NOTE : Employee 's contribution to RPF is not taxable . It is eligible for deduction u/s 80 C .

Q. 6 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

Her employer has provided her with an accommodation on 1st April 2023 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, 2023, , Rs ₹ 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, 2023 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 2024-25. ( RTP MAY 2019)



Sol. : 6

## Computation of Income from Salary of Ms. Aarohi for AY 24-25

Particulars	Amount	Amount
Basic Salary Rs 70,000 x 12		8,40,000
Dearness Allowance Rs 24,000 x 12		2,88,000
Bonus Rs 21,000 x 12		2,52,000
Perquisite value in respect of concessional rent		25,100
Gift voucher given by employer on Ms. Aarohi's birthday (entire amount is taxable since the perquisite value exceeds ₹5,000)		10,000
Employer's contribution to recognized provident fund in excess of 12% of salary $= 18\% \times [(\text{₹ } 70,000 + \text{₹ } 24,000) \times 12] - 12\% \times \{[\text{₹ } 70,000 + \text{₹ } 7,200 \text{ (being 30\% of ₹ 24,000)}] \times 12\} = 2,03,040 - 1,11,168$ [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 × 5 months]		12,000
Gross Salary		15,18,972
Less : Standard Deduction		50,000
Income from Salary		14,68,972

## 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 10% 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 1.11.2023 to 31.3.2024 = ₹ 60,000 [ ₹ 12,000 x 5 months] 10% of salary = ₹ 49,100 [10% 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 ₹ 49,100 which is to be reduced by the rent recovered from the employee.

Hence, the perquisite value of concessional rent = ₹ 49,100 – ₹ 24,000 [₹ 4,800 x 5 months] = ₹ 25,100

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 Rs 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 ₹ 14,84,872.

**Q. 7** 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 2023-24, 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 2022-23 amounting to ₹ 52,000 was received on 30th November, 2023.
- (iii) Fixed Medical allowance of ₹ 48,000 for meeting medical expenditure.
- (iv) She was also reimbursed the medical bill of her father dependent on her amounting to ₹ 4,900.
- (v) Ms. Suhaani was provided;
  - a laptop both for official and personal use. Laptop was acquired by the company on 1st June, 2021 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 2023 @ ₹ 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 AY 2024-25

( RTP NOV 2019 )

Sol. : 7

Computation of Income from Salary of Ms . Suhaani for AY 24-25

Particulars	Amount	Amount
Basic Salary [₹ 48,000 x 12]		5,76,000
Dearness allowance [10% of basic salary]		57,600
Bonus [Taxable in the P.Y. 2023-24, 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. 2024-25, 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		1,400

the employee]		
Gross Salary		8,76,900
Less : Standard Deduction		50,000
Less : Professional Tax paid		2,200
Income from Salary		8,24,700

Q. 8 You are required to compute the income chargeable under the head Salaries in the hands of Mr. Narayan for the assessment year 2024-25 from the following details pertaining to the financial year 2023-24 :

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

( RTP NOV 2018)

Sol. : 8

Computation of income chargeable under the head “Salaries” of Mr. Narayan for A.Y. 2024-25

Particulars	Amount	Amount
Basic Salary		7,20,000
Dearness allowance		3,60,000
Commission		60,000
Entertainment allowance		7,500

Medical expenses reimbursed by the employer is fully taxable		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)		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		
Less : Standard Deduction		50,000
Less: Entertainment Allowance (deduction under section 16(ii) not allowable since Mr. Narayan is not a Government employee)		NIL
Income chargeable under the head "Salaries"		12,07,600

**Q. 9** Mr. Kashyap retired from the services of M/s ABC Ltd. on 31.01.2024, after completing service of 30 years and one month. He had 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 31.01.2024 which was purchased on 01.03.2021 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:
  - (i) He has drawn a basic salary of ₹ 20,000 and dearness allowance @50% of basic salary for the period from 01.04.2023 to 31.01.2024. Dearness allowance does not form part of pay for retirement benefits.
  - (ii) Received pension of ₹ 7,000 per month for the period 01.02.2024 to 31.03.2024 after commutation of pension.

Compute his income taxable under the head “Salaries” for Assessment Year 2024-25.

(RTP MAY 2018)

Sol. : 9

Computation of Taxable Income for AY 2024-25

Particulars	Amount	Amount
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
Commuted 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	Amount	Amount
Purchase price (1.3.2021)		5,00,000
Less: Depreciation @ 20%		1,00,000
WDV on 29.2.2022		4,00,000
Less: Depreciation @ 20%		80,000
WDV on 28.2.2023		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 28.2.2024 whereas the car was sold to the employee on 31.1.2024. 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	Amount	Amount
Gratuity received		5,50,000
Less: Exempt under section 10(10) - Least of the following:		
(i) Notified limit = ₹ 10,00,000		
(i) Actual gratuity received = ₹ 5,50,000		
(ii) $15/26 \times \text{last drawn salary} \times \text{no. of completed years or part in excess of 6 months}$		
$15/26 \times 30,000 \times 30 = ₹ 5,19,231$		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).

**Taxable leave encashment**

Particulars	Amount	Amount
Leave Salary received		3,30,000
Less: Exempt under section 10(10 AA) - Least of the following:		
(ii) Notified limit = ₹ 25,00,000		
(iii) Actual Leave Salary received = ₹ 3,30,000		
10 months x ₹ 20,000 = 2,20,000		
Cash equivalent of leave to his credit $330/30 \times 20,000$		2,00,000
<b>Taxable leave encashment</b>		<b>1,30,000</b>

**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).

**(1) 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 1/3 rd of the amount of the commuted pension which he would have received had he commuted the whole of the pension.

Particulars	Amount	Amount
Amount received		3,30,000
Less: Exemption under section 10(10 AA) -		
= ₹ 3,00,000 x $1/3 \times 3/2$		1,50,000
<b>Taxable amount</b>		<b>1,50,000</b>

**Q. 10** Ms. Neelima, a resident of Delhi, was employed by LMN Ltd. upto 15, March, 1992. At the time of leaving LMN Ltd., she was paid ₹ 3,50,000 as leave salary out of which ₹ 59,000 was exempted from tax under section 10(10AA).



Thereafter, she joined CD (P) Ltd. and received ₹ 4,14,000 as leave salary at the time of retirement on December 31, 2023. In addition she received a gratuity of ₹ 12,00,000 from the employer (she is not covered by the Payment of Gratuity Act, 1972). The following information is available:

Average salary received during 11 months ending on December 31, 2023

From February 1 to July 31 (p.m.)	₹ 22,600
From August 1 to December 31 (p.m.)	₹ 22,900
Duration of service	14 years 7 months
Leave entitlement for every year of service	45 days
Leave availed while in service	90 days
Leave at her credit at the of retirement	18 months

She received ₹ 5,20,000 from unrecognized provident fund of which she was a member (This constitutes employee's contribution ₹ 2,00,000; employer's contribution ₹ 2,10,000; interest on employee's contribution ₹ 60,000; interest on employer's contribution ₹ 50,000).

You are required to compute her total income for the assessment year 2024 -25, clearly showing all workings. (Ignore section 115BAC provisions).

(NOV 23)

Sol. : 10

Computation of Total income of Ms. Neelima for A.Y. 2024-25

Particulars	₹	₹	₹
Income under the head "Salaries"			
Basic Salary [₹ 22,600 x 4 + ₹ 22,900 x 5]		2,04,900	
Gratuity [₹ 12,00,000 – ₹ 1,59,040]		10,40,960	
Less: Exempt under section 10(10) - Least of the following:			
(i) Notified limit	20,00,000		
(ii) Actual gratuity received	12,00,000		
(iii) $\frac{1}{2} \times 22,720 [(22,600 \times 6 + 22,900 \times 4)/10] \times 14$ [No. of completed years of services, ignore fraction]	1,59,040		
Leave encashment [₹ 4,14,000 – ₹ 2,27,500]		1,86,500	
Less: Exempt under section 10(10AA) - Least of the following:			
(i) Notified limit [₹ 25,00,000 – ₹ 59,000, amount exempted earlier]	24,41,000		
(ii) Actual leave salary received	4,14,000		

(iii) 10 months x 22,750 [(₹ 22,600 x 5 + 22,900 x 5)/10]	2,27,500		
(iv) Cash equivalent of leave to his credit [₹ 22,750 x 11 [420 days (30 days x 14 years of service) less 90 days of leave availed /30]	2,50,250		
Employer's contribution from unrecognized provident fund received on retirement		2,10,000	
Interest on Employer's contribution from unrecognized provident fund received on retirement		50,000	
Gross Salary		16,92,360	
Less: Standard deduction u/s 16(ia)		50,000	16,42,360
Taxable Salary			
Income from Other Sources			
Interest on employee's contribution from unrecognized provident fund		60,000	
Employee's contribution from unrecognized provident fund received on retirement [Not Taxable]		NIL -	60,000
Gross Total Income/Total Income			17,02,360

**Q. 11** Mr. Kashyap (aged 38 years) is entitled to a salary Rs 40,000 per month . He is given an option by his employer either to take HRA or RFA-rent free accommodation which is owned by the company. The HRA amount payable was Rs 8000 per month . The rent of the hired accommodation was Rs 6500 per month at New Delhi .

Advice Mr. Kashyap whether it would be beneficial for him to avail HRA or RFA on the basis of Net Salary .  
(RTP NOV 21)

**Sol. :11**

**Computation of Net Salary of Kashyap**

Particulars	Option-1 HRA	Option -ii RFA
Basic Salary 40,000 X 12	4,80,000	4,80,000
Perquisite Value of RFA -10% of salary in cities having population > 40lakhs as per 2011 census	N.A	48 ,000
HRA 8,000 X 12 = 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 = 6500 x 12 less 48000 = 30,000		
Taxable HRA = 96,000 - 30,000	66,000	
GROSS SALARY	5,46,000	5,28,000
Less Standard Deduction	50,000	50,000
NET SALARY	4,96,000	4,78,000

Q. 12 Mr. Neeraj, a salaried employee, furnishes the following details for the financial year 2023-24:

Particulars	Amount	Amount
Basic salary		6,20,000
Dearness allowance		4,20,000
Commission		75,000
Entertainment allowance		9,000
Medical expenses reimbursed by the employer		18,000
Profession tax (of this, 50% paid by employer)		4,000
Health insurance premium paid by employer		8,000
Gift voucher given by employer on his birthday		10,000
Life insurance premium of Neeraj paid by employer		26,000
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 Maruti Suzuki Swift car (Engine cubic capacity more than 1.6 litres), which was provided to the assessee, both for official and personal use. Driver was also 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]		7,000

You are required to compute the income chargeable under the head Salaries for the assessment year 2024-25.  
(RTP Nov 2020)

Sol. : 12

Computation of income chargeable under the head “Salaries” of Mr. Neeraj for A.Y.2024-25

Particulars	Amount	Amount
Basic salary		6,20,000
Dearness allowance		4,20,000
Commission		75,000
Entertainment allowance		9,000
Medical expenses reimbursed by the employer is fully taxable		18,000
Profession tax paid by the employer is a taxable perquisite as per Sec 17(2)(iv), since it is an obligation of the employee which is paid by the employer		2,000
Health insurance premium Rs 8, 000 paid by employer is an exempt perquisite ( Sec 17(2)(iii)		NIL
Gift voucher given by employer on his birthday Entire amount is taxable since perquisites value exceeds Rs 5,000		10,000
Life insurance premium of Neeraj paid by employer is taxable perquisites as per sec 17(2)(v)		26,000
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 Rs 39,600 [ $\text{₹ } 2,400 + 900 \times 12$ ] as per Rule 3(2)		39,600
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		7,000
Gross Salary		12,26,000
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"		11,72,600

**Q. 13** Mr. Janakaraj, employed as Production Manager in Rajus Refractories Pvt. Ltd., furnishes you the under mentioned information for the year ended 31-03-2018 :

- (i) Basic salary upto 31-10-2023 Rs. 50,000 p.m. Basic salary from 01-11-2023 Rs. 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. This was paid in October, 2023 on basic salary plus dearness allowance applicable for that month.
- (iv) Contribution of employer to recognized provident fund account of the
- (v) employee @ 16% of basic salary,
- (vi) Profession tax paid ₹ 2,500 of which ₹ 2,000 was paid by the employer.
- (vii) Facility of laptop & computer was provided to Janakaraj for both official and
- (viii) personal use. Cost of laptop ₹ 45,000 and computer Rs 35,000 was purchased by the company on 1 dec 23
- (ix) Leave travel concession given to Janakaraj, 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 lumpsum of ₹ 45,000 for three children. Janakaraj is eligible for availing exemption this year to the extent it is permissible under the Income-tax Act, 1961.

**Compute the taxable salary of Mr. Janakaraj. (PYP NOV 2018)**

Sol. : 13

**Computation of Taxable Salary Income of Janakraj for A.Y.2024-25**

Particulars	Amount	Amount
Basic salary ( 50,000 x 7 + 60,000 x 5)		6,50,000
Dearness allowance ( 40% of basic salary )		2,60,000
Bonus ( 50,000+40% of 50,000)		70,000
Employer's contribution to RPF in excess of 12% of Salary ie 4 % of Rs 6,50,000		26,000
Professional tax paid by the employer		2,000
LTC exempt as per sec 10(5) [Mr. Janakaraj can avail exemption on the entire amount of Rs 75,000 reimbursed by the employer towards leave travel concession since the leave travel concession was availed for himself, 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 birth which take place after the first child.]		NIL
Facility of laptop [Facility of laptop is an exempt perquisite, whether used for official or personal purpose or both]		NIL
Gross Salary		10,08,000
Less : Deduction u/s 16		
Standard Deduction	50,000	
Professional tax	2,500	52,500
Net Salary		9,55,500

**Q. 14 Mr Thomas is an executive of M/S A Ltd , Chennai from 1.4.2023. His Salary & other particulars are as follows:**

Particulars	Amount	Amount
Basic salary per month		20,000
Dearness allowance ( 100% forming part of retirement benefits )		15,000
HRA per month		20,000
Rent paid by Thomas per month		25,000
Telephone bills paid by A Ltd for the telephone installed at his residence per annum		24,000
Annual Premium paid by A Ltd towards a personal accident policy on his life		5,000
Motor car running & maintenance charges of Rs 30,600 fully paid by employer ( Motor Car is owned & driven by Thomas himself .Motor car is used for both purposes official & personal .The engine cubic capacity is lower than 1.60 litres		

Compute the taxable amount under the head salary for AY 24-25 Assume that he does not opted sec 115 BAC (RTP MAY 21)

Sol. : 14

Computation of Taxable Salary Income of Thomas for A.Y.2024-25

Particulars	Amount	Amount	Amount
Basic salary Rs 20,000 x 12			2,40,000
Dearness allowance Rs 15,000 x 12			1,80,000
HRA received		2,40,000	
Less Exempt u/s 10(13)A		2,10,000	
<b>Taxable HRA</b>			<b>30,000</b>
Least of the following will be exempt :	2,40,000		
Actual HRA received			
Rent paid less 10% of Salary ( 25,000 x 12 less 10% of 4,20,000	2,58,000		
50% of Salary Chennai Metro city	2,10,000		
Telephone bills paid by ALtd for the telephone installed at his residence per annum is Tax Free Perquisites			NIL
Annual Premium paid by A Ltd towards a personal accident policy on his life is a tax free perquisites			NIL
Motor Car is driven by employee & running & maintenance expenses paid by employer (30,600-21,600) ie 1800 x 12			9,000
Gross Salary			4,59,000
Less Standard Deduction			50,000
Net Salary			4,09,000