

TAXBOOK⁺

Working steps of solutions

B31 to B40

Salaries

Build Your Confidence (BYC)

B31. ESOP – SAP India Ltd. allotted 2,000 sweat equity shares to Madhav in June 2021. Allotment

Particulars	Amount
FMV of 2,000 sweat equity shares @ 1,000 each	20,00,000
Less: Amount recovered from Madhav @ 500 per share	(10,00,000)
Value of perquisite	10,00,000

B32. GIFT – Discuss the taxability of perquisite in the following cases for the PY 2021-22.

#	Case	Taxable	Comment
1	Ganga received gift voucher worth Rs. 3,000 from her employer on completing 10 years of service and a gift token worth Rs. 1,500 on her birthday	-	Aggregate less than 5,000
2	During the PY, Ganga received gift voucher worth Rs. 3,000 from her employer on completing 10 years of service and a gift token worth Rs. 2,500 on her birthday	5,500	Alternatively, Rs. 500 (5,500 – 5,000 exempt) can be stated as taxable with a note in the answer.
3	During the PY, Ganga received gift cheque of Rs. 4,000 from her employer on her anniversary as well as various gifts worth Rs. 10,000 from her office colleagues on this occasion.	4,000	Cash gift fully taxable. Gift from colleagues not perquisite but covered in terms of section 56(2)(x) under IFOS (para 172)
4	During the PY, Ganga received a wrist watch worth Rs. 4,000 from her employer on her birthday along with cash gift of Rs. 2,000.	2,000	Cash gift fully taxable. Value of watch is < 5,000.

DEDUCTIONS U/S 16

B33. DEDUCTIONS U/S 16 – Compute the income taxable under the head ‘Salaries’ for the AY 2022-23 in case of Rahul.....

Particulars	CD Pvt. Ltd.	State Govt
Basic salary	2,00,000	48,000
Dearness allowance	50,000	-
Commission	60,000	-
Entertainment allowance	12,000	4,000
Taxable value of residential accommodation provided	35,000	-
Professional tax paid by employer	1,500	1,500
Gross salary	3,58,500	53,500
Less: Deductions u/s 16:		
• Standard deduction u/s 16(ia)	(50,000)	(50,000)
• Entertainment allowance u/s 16(ii) = Lower of (a) allowance received (4,000), (b) statutory amount (5,000), (c) 20% of basic salary (9,600). Only for Government employee.	-	(4,000)
• Professional tax paid: u/s 16(iii)	(2,500)	(2,500)
Income from salary	3,06,000	Nil

COMPREHENSIVE QUESTIONS

B34. – CA 2020(N) - Rohan is a Finance Manager in Surya Ltd. He gives you the following information.

Particulars	Amount
Basic salary	9,00,000
Entertainment allowance	15,000
Housing loan (Note 1)	40,125
Health insurance premium : Not taxable as perquisite	-
Gift voucher: Taxable since value \geq Rs. 5,000. As per alternate view, excess of Rs. 5,000 can be taken as taxable value.	15,000
Sweat equity shares: FMV on date of exercise of option – Amount actually paid = $1,000 \times (700 - 415)$	2,85,000
Use of furniture: 10% p.a. of actual cost of Rs. 2,10,000 during PY 2021-22	21,000
Transfer of furniture: Actual cost Rs. 2,10,000 – Rs. 84,000 being depreciation @ 10% on SLM for 4 years (completed years of use)	1,26,000
Gross salary	14,02,125
Less: Deductions u/s 16	
• Standard deduction u/s 16(ia)	(50,000)
• Entertainment allowance: Deduction allowed only to Government employee	-
Income under the head 'Salary'	13,52,125

Note 1: Housing loan

Perquisite taxable since amount of loan $>$ Rs. 20,000. Value = $3\% (8\% - 5\%) \times$ aggregate outstanding balance on last day of each month = $3\% \times 1,60,50,000 / 12 = 40,125$. Date of payment every month is not given. It is assumed that outstanding balance on last day of each month is after payment of instalment for that month.

Month	Outstanding balance on last day
April 20	14,75,000
May 20	14,50,000
June 20	14,25,000
July 20	14,00,000
Aug 20	13,75,000
Sep 20	13,50,000
Oct 20	13,25,000
Nov 20	13,00,000
Dec 20	12,75,000
Jan 21	12,50,000
Feb 21	12,25,000
Mar 21	12,00,000
Total	1,60,50,000

B35. CA2019(N) – Swaraj has provided the following particulars for the year ended 31.3.2022.....

Computation of income under the head 'Salaries' of Swaraj for AY 2022-23

Particulars	Rs.	Rs.
Basic salary @ 25,000 p.m. for 9 months		2,25,000
HRA @ 6,000 p.m. for 9 months	54,000	
Less: Exempt u/s 10(13A) = Lower of:		
(a) HRA received = 54,000		
(b) Rent paid – 10% of salary = 58,500 (@ 6,500 p.m. for 9 months) – 22,500 (10% of 2,25,000) = 36,000		
(c) 50% of salary = 50% of 2,25,000 = 1,12,500	(36,000)	
		18,000
Gratuity	3,50,000	
Less: Exempt u/s 10(10) = Lower of:		
(a) Gratuity received = 3,50,000		
(b) Statutory limit = 20,00,000		
(c) 15 days salary for each year of service (period in excess of 6 months taken as one year) = $(15/26)$	(3,50,000)	

$\times 25,000 \times 26 = 3,75,000$		
		-
Leave encashment	3,15,000	
Less: Exempt u/s 10(10AA) = Lower of:		
(a) Leave encashment received = 3,15,000		
(b) Statutory limit = 3,00,000		
(c) 10 months average salary = $10 \times 25,000 = 2,50,000$		
(d) Leave credit (months) \times Average salary = $(375 \text{ days} / 30) \times 25,000 = 3,12,500$	(2,50,000)	
		65,000
Gift voucher: Exempt as value $< 5,000$		-
Gift of mobile phone: Not covered under salary as not received from employer		-
Gross salary		3,08,000
Less: Standard deduction u/s 16(ia)		(50,000)
Income under the head 'Salaries'		2,58,000

B36. CA2018(N) – Nandini, a resident individual, aged 48 years, is an assistant manager of Dye Hard Ltd.

Computation of total income of Nandini for AY 2022-23

Particulars	Rs.
Basic salary @ 32,000 p.m.	3,84,000
Dearness allowance @ 10% of basic pay	38,400
Bonus: Taxable assuming it was not subject to tax in PY 2020-21	32,000
Fixed medical allowance: Taxable	20,000
Medical bill of father in law: Taxable; father in law is not included in meaning of family	3,000
Use of laptop: Exempt	-
Domestic servant @ 1,000 p.m.	12,000
Value of equity shares = 500 shares @ Rs. 100 per share (FMV on date of exercise of option Rs. 250 – Amount paid Rs. 150)	50,000
Professional tax paid by employer	1,800
Gross salary	5,41,200
Less: Deductions u/s 16	
• Standard deduction	(50,000)
• Professional tax paid	(2,500)
Total income	4,88,700

B37. CA2018(N), 2011(N) – Janakaraj, employed as General Manager in Rajus Refractories Pvt. Ltd.,

Computation of taxable salary of Janakaraj for AY 2022-23

Particulars	Rs.	Rs.
Basic salary = 70,000 p.m. for 8 months and 80,000 p.m. for 4 months		8,80,000
Dearness allowance @ 50% of basic salary		4,40,000
Bonus = 70,000 + 50% of 70,000		1,05,000
Employer's contribution to RPF @ 18% of 8,80,000	1,58,400	
Less: Exempt up to 12% of Basic + DA if terms of employment provide + Commission based on fixed percentage of turnover = 12% of 8,80,000	(1,05,600)	
		52,800
Profession tax paid by employer		3,000
Use of laptop: Exempt		-
LTC	45,000	
Less: Exempt = Economy class air fare (assumed it is for Air India for shortest route) for the entire family. Twins born after first child are considered as one child.	(45,000)	
		-
Gross salary		14,80,800
Less: Deductions u/s 16		
• Standard deduction		(50,000)
• Professional tax paid		(6,000)

Taxable salary	14,24,800
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B38. CA2018(M) - Mr. Honey is working with a domestic company having a production unit in USA for last

Residential status of Mr. Honey = Resident and ordinarily resident, since stay in India \geq 182 days during the PY. Thus, global income is taxable in India.

Computation of taxable income from salary of Mr. Honey for AY 2022-23

Particulars	Rs.	Rs.
Salary @ 50,000 p.m.		6,00,000
Children education and hostel allowance		
• Amount received	36,000	
• Less: Exemption = Nil since education and hostel outside India	Nil	36,000
Perquisites		
Rent free accommodation in USA = Lower of:		
• Lease rental = 15,000 \times 12	1,80,000	
• 15% of salary (Basic + Taxable allowance) = 15% of 6,36,000	95,400	95,400
Guest house in India – Not taxable since provided for stay when he visits India wholly for official purpose		-
Lunch facility – Taxable on assumption that value exceeds Rs. 50 per meal. Assuming 6 month stay in India during PY and 26 working days per month, Rs. 7,800 (50 \times 26 \times 6) is considered exempt. Taxable = 48,000 – 7,800.		40,200
Motor car in USA = 2,400 \times 6, assuming expenses met by employer, car is self driven and it is used by Honey for 6 months while he is in USA.		14,400
Motor car in India		
• 10% p.a. of 8 lakh for 6 months in India	40,000	
• Running and maintenance expenses for 6 months (assuming these are met by employer)	30,000	70,000
Education for elder son in India		12,000
Life insurance premium paid by employer		10,000
Personal accident policy premium paid by employer		-
Gross salary		8,78,000
Less: Standard deduction		(50,000)
Taxable salary		8,28,000

Mistake by students – Wrongly allowed exemption u/s 10(14) for allowance of education and hostel.

B39. CA2017(N) – Jaya is the marketing manager in XYZ Ltd. She gives you the following particulars.....

Computation of taxable income from salary of Jaya for AY 2022-23

Particulars	Rs.	Rs.
Basic salary @ 65,000 p.m.		7,80,000
Dearness allowance @ 22,000 p.m.		2,64,000
Bonus @ 17,000 p.m.		2,04,000
Residential accommodation:		
• Value of rent free accommodation (for 5 months) = Lower of (a) lease rental Rs. 60,000 or (b) 15% of salary (basic 65,000 + 30% of DA being 6,600 + bonus 17,000 = 88,600 p.m. for 5 months = 4,43,000) being Rs. 66,450	60,000	
• Less: Rent paid by Jaya	(24,000)	
		36,000
Gift voucher: Taxable as \geq 5,000. ¹		8,000
Employee's contribution to RPF: Not taxable		-
Employer's contribution to RPF = 18% of (basic + DA)	1,87,920	
• Less: Exempt up to 12% of Basic + DA if terms of employment provide + Commission based on fixed percentage of turnover = 12% of 8,59,200 (7,80,000 + 79,200 being 30% of DA)	(1,03,104)	
		84,816

¹ Alternative, only value in excess of 5,000 can be said to be taxable.

Medical insurance premium: Exempt	-
Motor car = 2,400 p.m. for 5 months	12,000
Gross salary	13,88,816
Less: Standard deduction u/s 16(ia)	(50,000)
Taxable salary	13,38,816

B40. CA2017(M) – Nambi, a salaried employee, furnishes the following details for FY 2021-22.....

Computation of taxable income from salary of Nambi for AY 2022-23

Particulars	Rs.
Basic salary	6,00,000
Dearness allowance	3,20,000
Commission	50,000
Entertainment allowance	7,500
Medical expenses reimbursed by employer: Assumed not in a specified hospital	21,000
Profession tax paid by employer	3,500
Health insurance premium paid by employer: Exempt	-
Gift voucher given by employer on his birthday: Taxable as $\geq 5,000$. ²	12,000
Life insurance premium of Nambi paid by employer: Taxable	34,000
Laptop provided for use at home: Exempt	-
Motor car: Assuming running and maintenance born by employer: 1,800 p.m.	21,600
Annual credit card fees paid by employer: Fully taxable as details of official usage not available	2,000
Gross salary	10,71,600
Less: Deduction u/s 16	
• Standard deduction	(50,000)
• Profession tax paid	(7,000)
Taxable salary	10,14,600

² Alternatively, only value in excess of 5,000 can be taken to be taxable.