

TAXBOOK⁺

Working steps of solutions

B41 to End

Salaries

Build Your Confidence (BYC)

B41. CA2014(N) - Anand, an employee of XYZ Co. Ltd. at Mumbai and not covered by Payment of Gratuity Act.....

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

Particulars	Amount
Basic salary	7,20,000
Bonus	36,000
HRA (Note 1)	1,17,000
Employer's contribution to RPF in excess of 12% of salary (12% of 7,20,000) = 1,10,000 – 86,400	23,600
Gratuity (Note 2)	7,31,640
Accumulated balance of RPF: Exempt since more than 5 years service rendered	-
Uncommuted pension = (8,000 × 1) + (2,000 × 2)	12,000
Commuted pension (Note 3)	2,50,000
Gross salary	18,90,240
Less: Standard deduction	(50,000)
Less: Professional tax paid	(2,000)
Taxable salary	18,38,240

Note 1 - HRA

Computation	Amount	Amount
HRA received		1,35,000
Less: Exempt u/s 10(13A) = Lower of:		
(a) HRA received	1,35,000	
(b) Rent paid – 10% of salary = 90,000 – 10% of 7,20,000	18,000	
(c) 50% of salary	3,60,000	(18,000)
Taxable HRA		1,17,000

Note 2 - Gratuity

Computation	Amount	Amount
Gratuity received		20,51,640
Less: Exempt u/s 10(10) = Lower of:		
(a) Gratuity received	20,51,640	
(b) Statutory limit	20,00,000	
(c) Half month salary for each completed year of service = (Average salary of 10 month preceding retirement ÷ 2) × 33 = (80,000 ÷ 2) × 33	13,20,000	(13,20,000)
Taxable gratuity		7,31,640

Note 3 - Pension

Computation	Amount	Amount
Commuted pension received		4,50,000
Less: Exempt u/s 10(10A) = $\frac{1}{3} \times (4,50,000 \div 75\%) \times 100\%$		(2,00,000)
Taxable amount		2,50,000

B42. CA2013(N), 2010(N) – From the following details, find out the salary chargeable to tax of Anand for AY 2022-23.....

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

Particulars	Rs.	Rs.
Basic salary = 25,000 p.m. for 11 months + 27,500 p.m. for 1 month		3,02,500
Dearness allowance = 15% of basic pay		45,375
Bonus = 1.5 × 27,500		41,250
Own contribution to RPF		-
Employer's contribution to RPF = 18% of 3,47,875 (basic + DA)	62,618	
Less: Exempt = 12% of salary (12% of 3,47,875 being basic + DA forming part of salary for retirement benefits)	(41,745)	
		20,873
Rent free residential accommodation = Lower of:		
• Lease rent @ 15,000 p.m.	1,80,000	
• 15% of salary: Salary = Basic 3,02,500 + DA forming part of salary 45,375 + Bonus 41,250 + Telephone allowance 12,000 = 4,01,125.	60,169	60,169
Laptop: Exempt		-
Medical treatment bill of dependent daughter: Taxable assuming treatment not in specified hospital		25,000
House keeper: 2,000 p.m.		24,000
Telephone allowance		12,000
Conveyance allowance: Exempt as it is based on reimbursement of official expenses		-
Gift voucher: Exempt as < 5,000		-
Medical insurance premium: Exempt		-
Personal accident policy premium: Exempt		-
Motor car = R&M expenses born by employer of 36,600 – 21,600 (@ 1,800 p.m.)		15,000
Free lunch: Exempt assuming it is not exceeding Rs. 50 per meal		-
Gross salary		5,46,167
Less: Standard deduction		(50,000)
Taxable salary		4,96,167

B43. CA2008(N) - Mr. M is an area manager of M/s N Steels Co. Ltd. During the FY 2021-22, he gets the following.....

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

Particulars	Rs.	Rs.
Basic salary = 20,000 p.m. for 5 months + 25,000 p.m. for 7 months		2,75,000
Transport allowance		24,000
Contribution of employer to RPF: Taxable = 3% (15% - 12%) of 2,75,000		8,250
Children education allowance	6,000	
Less: Exempt 100 p.m. per child up to 2 children	(2,400)	
		3,600
City compensatory allowance		3,600
Hostel expenses allowance	3,600	
Less: Exempt 300 p.m. per child up to 2 children	(7,200)	
		-
Tiffin allowance: Fully taxable		5,000
Tax on employment paid by employer		2,500
Gross salary		3,21,950
Less: Deductions u/s 16		
• Standard deduction		(50,000)
• Tax on employment paid		(2,500)
Taxable salary		2,69,450

B44. MASTER QUESTION - Suraj retired from the service of Saya Ltd., Delhi, on 31.1.2022 after completing

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

Amounts are computed based on 10 months of employment during PY 2021-22

Particulars	Rs.	Rs.	Rs.
Basic salary @ 50,000 p.m.			5,00,000
Dearness allowance @ 50% of basic salary			2,50,000
Commission @ 2.000 p.m.			20,000
Bonus @ 10,000 p.m.			1,00,000
Suraj's contribution to recognized provident fund: Not taxable			-
Employer's contribution to recognized provident fund = 15% of 7,50,000 (basic + DA)		1,12,500	
Less: 12% of salary (basic + DA as per terms + Commission based on fixed % of turnover) = 12% of 6,50,000 (5,00,000 + 60% of 2,50,000 + Nil)		(78,000)	
			34,500
Interest on recognized provident fund: Exempt up to 9.5%			-
Salary from partnership firm: Not taxable under the head Salaries but under PGBP			-
Accumulated balance of recognized provident fund: Exempt as ≥ 5 years of continuous service rendered			-
Gratuity		7,00,000	
Less: Exemption u/s 10(10) = Lower of the following:			
(a) Amount actually received as gratuity	7,00,000		
(b) Rs. 20 lakh – Rs. 2 lakh exempted earlier	18,00,000		
(c) 15 days salary for each year of service			
• Salary = Basic salary + DA (last drawn) = 75,000			
• 15 days salary = $75,000 \times (15 \div 26) = 43,269$			
• Years of service = 15 years (period up to 6 months ignored)			
• 15 days salary for each year of service = $43,269 \times 15$	6,49,035	(6,49,035)	
			50,965
Leave encashment		2,50,000	
Less : Exempt u/s 10(10AA): Lower of the following:			
(A) Leave salary received	2,50,000		
(B) Statutory limit	3,00,000		
(C) 10 months × Average salary	6,50,000		
Average salary = [Basic + DA (as per terms) + Commission (based on % of turnover) of 10 months immediately preceding date of retirement] ÷ 10 = 6,50,000 (5,00,000 + 1,50,000 + Nil) ÷ 10 = 65,000.			
10 months × Average salary = 10 × 65,000			
(D) Leave credit (months) × Average salary	2,60,000	(2,50,000)	
Leave credit = (Leave entitlement* - Leave availed/lapsed/encashed) ÷ 30 days = [(15 years × 30 days) – 280 availed – 50 lapsed] = 120 ÷ 30 = 4 months			
*Max 30 days for each completed year.			
Leave credit (months) × Average salary = 4 × 65,000			
			-
Uncommuted pension of 10,000 for 1 month and 4,000 for 1 month			14,000
Commuted pension		5,00,000	
Less: Exempt = $1/3 \times (\text{Commuted pension received} \div \text{Commutation \%}) \times 100\% = 1/3 \times (5,00,000 \div 60) \times 100$		(2,77,778)	
			2,22,222
Allowances			
Overtime allowance @ 2,000 p.m.			20,000
City compensatory allowance @ 3,000 p.m.			30,000
Project allowance @ 1,000 p.m.			10,000
Fixed medical allowance @ 900 p.m.			9,000
Conveyance allowance for commuting between residence and office @ 1,500 p.m.			15,000
Uniform allowance @ 1,000 p.m.		10,000	
Less: Official expense		(5,000)	
			5,000
House rent allowance received @ 6,000 p.m. for 5 months		30,000	
Less: Exempt u/s 10(13A) based on 4 months for which accommodation occupied = Lower of:			
(A) Actual HRA received	24,000		

(B) Rent paid – 10% of salary = 30,000 – 26,000. Salary p.m. = Basic 50,000 + 60% of DA 15,000 + Commission based on % of turnover Nil = 65,000. Salary for 4 months = 2,60,000.	4,000		
(C) 40% of salary = 40% of 2,60,000	1,04,000	(4,000)	26,000
Travelling allowance for tour		20,000	
Less: Exempt: Cost of travel		(15,000)	
			5,000
Daily allowance for tour		5,000	
Less: Exempt: Ordinary daily charges		(6,000)	
			-
Education allowance @ 500 p.m.		5,000	
Less: Exempt @ 100 p.m.		(1,000)	
			4,000
Hostel allowance @ 1,000 p.m.		10,000	
Less: Exempt @ 300 p.m.		(3,000)	
			7,000
Perquisites			-
Health insurance premium for Suraj and members of family: Exempt			-
Medical treatment of dependent father: Exempt as expenditure on member of family in approved hospital for prescribed disease			-
Medical treatment of son in a private clinic: Not exempt			10,000
Personal accident premium on life of Suraj: Exempt			-
Life insurance premium: Taxable			5,000
Leave travel concession received @ 10,000 for 5 persons		50,000	
Less: Exempt: Air India economy class air fare for 4 persons @ 7,000. Max 2 children born after 1.10.1998 are eligible.		(28,000)	
			22,000
Sweeper and personal attendant @ 4,000 p.m.			40,000
Free education for son in school maintained and owned by employer: Cost of such education in nearby school of 1,200 p.m. is taxable as it is > 1,000 p.m. ¹			12,000
Equity shares allotted at concessional rate: Value = 500 shares × 150 (FMV on date of exercise of option 250 – Amount paid 100)			75,000
Transport facility by employer for personal journey of self and member of household: Value = 15,000 – 2,000 paid by Suraj			13,000
Credit card expenses: Entire amount taxable in absence of details of official spend			12,000
Profession tax paid by employer			1,250
Motor car: Owned by employer and running and maintenance expenses born by employer. Value = 3,300 p.m. (2,400 + 900) for 9 months of use			29,700
Transfer of motor car: Value = Actual cost		7,00,000	
Less: Depreciation for every completed year of use, i.e., 1 year, @ 20% on reducing balance method = 20% of 7,00,000		(1,40,000)	
Less: Amount paid by Suraj		(2,50,000)	
			3,10,000
Use of laptop: Exempt			-
Transfer of laptop: Value = Actual cost		40,000	
Less: Depreciation for every completed year of use, i.e., 0 year, @ 50% on reducing balance method		-	
Less: Amount paid by Suraj		-	
			40,000
Use of motor cycle by member of household = 10% p.a. of actual cost of 60,000 for 9 months		4,500	
Less: Amount paid by Suraj		-	
			4,500
Transfer of motor cycle: Value = Actual cost		60,000	
Less: Depreciation for every completed year of use, i.e., 2 years, @ 10% on SLM method		(12,000)	

¹ Alternatively, amount in excess of 1,000 p.m. can be taken to be the taxable value, i.e., @ 200 p.m.

Less: Amount paid by Suraj		(20,000)	
			28,000
Gifts:			
• Gift cheque		2,500	
• Gift voucher: Taxable as value $\geq 5,000^2$		6,000	
• Gift from friends: Not covered under the head 'Salaries' but under IFOS		-	
			8,500
Residential accommodation for 5 months:			
• Salary = Basic 2,50,000 + DA as per terms 75,000 + Bonus 50,000 + Commission 10,000 + taxable allowances 1,31,000 = 5,16,000			
• Value of rent free accommodation = 15% of salary as Bangalore has population > 25 lakh		77,400	
• Add: Value of furniture = 10% p.a. of 1,20,000 for 5 months		5,000	
• Less: Rent paid by Suraj @ 2,000 p.m.		(10,000)	
			72,400
Gross salary			20,06,037
Less: Deductions u/s 16			
• Standard deduction			(50,000)
• Profession tax paid			(2,500)
Income chargeable under the head 'Salaries'			19,53,537

B45. MASTER QUESTION - Mr. Jaggi, an employee of Central Government, retired from services on

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

Particulars	Computation/Remarks	Rs.
Basic salary		4,50,000
Dearness allowance		2,70,000
Commission		50,000
Arrears of salary not taxed earlier		3,00,000
Gratuity	Exempt	-
Uncommuted pension	10,000 for 2 months and 4,000 for 1 month	24,000
Commuted pension	Exempt	-
Leave encashment	Exempt	-
Payment from statutory provident fund	Exempt	-
Voluntary retirement compensation	Exempt = Lower of: (a) Amount received Rs. 15 lakh (b) Statutory limit Rs. 5 lakh (c) 3 month salary \times 20 years = 2,17,500 \times 20 = 43,50,000 (d) Salary \times 60 months = 72,500 \times 60 = 43,50,000. Salary = Basic 50,000 + DA(T) 22,500 = 72,500 Taxable = 15,00,000 – 5,00,000	10,00,000
General conveyance allowance		27,000
Helper allowance	Taxable p.m. = 5,000 p.m. – 3,000 p.m. spend for official purpose	18,000
Entertainment allowance	Taxable	18,000
Free electricity	Taxable	50,000
Free holiday home facility	Taxable	10,000
Tea and snacks in office	Exempt	-
Lunch facility in office	Rs. 50 (100 expenditure – 50 exempt) \times 175 meals	8,750
Telephone bills paid by employer	Exempt	-
Club fee		7,500
Fees for training program	Exempt	-
Personal loan	Value = 8% (10% - 2%) \times aggregate outstanding balance on last day of each month = 8% \times 2,00,000 / 12	1,333
	Month Outstanding balance on last day	

² Alternatively, amount in excess of 5,000 can be taken to be the taxable value, i.e., 1,000

	April 21	80,000	
	May 21	60,000	
	June 21	40,000	
	July 21	20,000	
	Total	2,00,000	
Gross salary			22,34,583
Less: Deductions u/s 16:			
Standard deduction			(50,000)
Entertainment allowance	Lower of (a) 20% of basic salary, i.e, 90,000, (b) Rs. 5,000, (c) Rs. 18,000		(5,000)
Taxable salary			21,79,583