

TAXBOOK⁺

Working steps of solutions

B1 to B10

Salaries

Build Your Confidence (BYC)

BASIC CONCEPTS

B1. BASIC CONCEPTS – Examine if the income would be chargeable under the head ‘Salaries’ in the following cases:

#	Situation	Taxable as ‘Salaries’?	Comment
1	Shahrukh Khan contracts with Balaji Productions Ltd. to act for a film for a fee of Rs. 5 crore.	No	No EE relationship. Taxable as PGBP.
2	CA Ramji Kumar receives Rs. 1.5 lakh as fee for tax advise given to his clients	No	No EE relationship. Taxable as PGBP.
3	CA Ramji Kumar is employed with KPMG in its tax advisory division and receives Rs. 1.5 lakh as salary per month.	Yes	EE relationship. Taxable as salary.
4	Dhruv receives Rs. 50,000 as remuneration for setting question paper for CA examination.	No	No EE relationship. Taxable as IFOS.
5	Jacob instructs his employer to donate his salary to a charitable trust. Consequently, he does not receive salary.	Yes	Application of income post accrual.
6	Shubh receives salary from V&M, a partnership firm, in which he is a partner	No	No EE relationship. Covered under PGBP.
7	Shankar’s employer grants him advance against salary of Rs. 1 lakh to meet emergency expenses. This is repaid by deducting Rs. 10,000 every month from his salary.	No	In nature of loan. Not income. Taxable salary does not reduce by the amount of adjustment.

B2. PAY SCALE – Meena was appointed with a Government undertaking on 1 June 2016 on a pay scale

Period	Salary p.m.
1 June 2016 to 31 May 2017	50,000
1 June 2017 to 31 May 2018	65,000
1 June 2018 to 31 May 2019	80,000
1 June 2019 to 31 May 2020	1,05,000
1 June 2020 to 31 May 2021	1,30,000
1 June 2021 to 31 May 2022	1,55,000

Salary from 1 April 2021 to 31 March 2022 = 1,30,000 p.m. for 2 months + 1,55,000 p.m. for 10 months = 18,10,000.

B3. BASIS OF CHARGE - Raju is employed with BCD Pvt. Ltd. He furnishes the following particulars

Computation of salary chargeable to tax for AY 2022-23

Particulars	Rs.
Salary for April 2021 to February 2022 = 50,000 pm for 11 months (earlier of due or receipt)	5,50,000
Salary for March 2022 (earlier of due or receipt)	70,000

50% salary of May 2022 received on 10.3.2022 (earlier of due or receipt)	35,000
Salary of January 2021 received on 15.12.2021 (was taxed for PY 2020-21) (not again taxed)	-
Loan taken from employer on 15.2.2022 at market rate of interest (not taxable)	-
	6,55,000

DEARNESS & COMPENSATORY

B4. DEARNESS & COMPENSATORY - Determine taxability of the following allowances provided to Josh, employed with Zap India Ltd. in Bangalore, during the PY 2021-22.

Allowance	Amount	Spend details	Taxable	Comment
Basic salary	60,000 p.m.		7,20,000	Fully taxable
Dearness allowance	10,000 p.m.		1,20,000	Fully taxable
Overtime allowance	1,000 p.m.		12,000	Fully taxable
Tribal area allowance for working for 2 months in a remote tribal area (specified under Income Tax Rules)	6,000	5,000 spent	5,600	400 exempt @ 200 p.m.
Underground mine allowance for supervising a project in a mine in Rajasthan for 3 months	500 p.m.	1,000 spent	-	Entire amount exempt @ 800 p.m.
			8,57,600	

RETIREMENT BENEFITS

B5. GRATUITY – CA2010(N) – Mr. Shah, an Accounts Manager, has retired from JK Ltd. on 15.1.2022

Particulars	Computation	Rs.	Rs.
Gratuity received at the time of retirement			8,00,000
Less: Exemption u/s 10(10) = Lower of the following:			
(a) Amount actually received as gratuity		8,00,000	
(b) Rs. 20 lakh		20,00,000	
(c) Half month salary for each year of service			
<ul style="list-style-type: none"> Avg. salary of preceding 10 months (Mar to Dec 21) 	Basic + DA(T) = 2,56,000 (25,000 for 7 mth and 27,000 for 3 mth) + 11,000 (55% of 20,000) = 2,67,000 Avg salary of preceding 10 months = 2,67,000 ÷ 10 = 26,700		
<ul style="list-style-type: none"> Half month salary 	Average salary of preceding 10 months ÷ 2 = 26,700 ÷ 2 = 13,350		
<ul style="list-style-type: none"> Years of service 	Retirement date – Joining date = 30 years (Only completed years taken)		
<ul style="list-style-type: none"> Half month salary for each year of service 	13,350 × 30	4,00,500	(4,00,500)
Taxable gratuity			3,99,500

B6. GRATUITY - Sheena resigned from employment on 15 September 2021 after completing 6 years, 6 months

Situation A: Private sector + POGA

Particulars	Computation	Rs.	Rs.
Basic salary	1,00,000 × 5.5 months		5,50,000
Dearness allowance	60% of basic salary		3,30,000
Commission	2% of 5 lakh		10,000
Bonus			3,00,000

Gratuity received			10,00,000
Less: Exemption u/s 10(10) = Lower of the following:			
(a) Amount actually received as gratuity		10,00,000	
(b) Rs. 20 lakh – Rs. 8 lakh exempted earlier		12,00,000	
(c) 15 days salary for each year of service			
• Salary	Basic salary + DA (last drawn) = 1,60,000		
• 15 days salary	$1,60,000 \times (15 \div 26) = 92,307.69$		
• Years of service	6 years (period up to 6 months ignored)		
• 15 days salary for each year of service	$92,307.69 \times 6$	5,53,846	(5,53,846)
Gross salary income			16,36,154

Situation B: Government employee

Particulars	Computation	Rs.
Basic salary	$1,00,000 \times 5.5$ months	5,50,000
Dearness allowance	60% of basic salary	3,30,000
Commission	2% of 5 lakh	10,000
Bonus		3,00,000
Gratuity received		21,00,000
Less: Exemption u/s 10(10)		(21,00,000)
Gross salary income		11,90,000

Situation C: Private sector + Non POGA

Particulars	Computation	Rs.
Basic salary	$1,00,000 \times 5.5$ months	5,50,000
Dearness allowance	60% of basic salary	3,30,000
Commission	2% of 5 lakh	10,000
Bonus		3,00,000
Gratuity received	<i>Working below</i>	3,92,400
Less: Gratuity exempt u/s 10(10)	<i>Working below</i>	(3,92,400)
Gross salary income		11,90,000

Working:

Particulars	Computation	Rs.
Exemption u/s 10(10) = Lower of the following:		
(a) Amount actually received as gratuity		XX
(b) Rs. 20 lakh – Rs. 8 lakh exempted earlier		12,00,000
(c) Half month salary for each year of service		
• Avg. salary of 10 months preceding Sep 2021 (Nov 20 to Aug 21)	<ul style="list-style-type: none"> Apr 21 to Aug 21: Basic + DA(T) + C(TO) = 5,00,000 (1,00,000 × 5) + 2,10,000 (70% of 60% of Basic) + 10,000 (2% of 5,00,000) = 7,20,000 Nov 20 to Mar 21: Basic + DA(T) + C(TO)) = 4,00,000 (80,000 × 5) + 1,68,000 (70% of 60% of Basic) + 20,000 (2% of 10,00,000) = 5,88,000 Avg salary of 10 months = 13,08,000 (7,20,000 + 5,88,000) ÷ 10 = 1,30,800 	
• Half month salary	Average salary of preceding 10 months ÷ 2 = 1,30,800 ÷ 2 = 65,400	
• Years of service	6 years (Only completed years taken)	
• Half month salary for each year of	$65,400 \times 6$	3,92,400

service		
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B7. PENSION – Rishi retired on 1.6.2021 with entitlement to receive Rs. 25,000 p.m. as pension.

Computation of taxable pension for AY 2022-23

Particulars	A	B	C
Uncommuted pension received (June 21 to Mar 22) = 25,000 p.m. for 3 months (June to Aug) + 12,500 p.m. for 7 months (50% for Sep to Mar)	1,62,500	1,62,500	1,62,500
Commuted pension received	8,00,000	8,00,000	8,00,000
Less: Exemption u/s 10(10A):			
• $1/3 \times (\text{Commuted pension received} \div \text{Commutation \%}) \times 100\% = 1/3 \times (8,00,000 \div 50) \times 100$	(5,33,333)		
• $1/2 \times (\text{Commuted pension received} \div \text{Commutation \%}) \times 100\% = 1/2 \times (8,00,000 \div 50) \times 100$		(8,00,000)	
• Fully exempt			(8,00,000)
Taxable pension	4,29,167	1,62,500	1,62,500

B8. LEAVE SALARY - Mr. King retired from employment on 15 September 2021 after completing

Computation of gross salary income of Mr. King for PY 2021-22

Particulars	Computation	Rs.	A	B
Basic salary	1,00,000 p.m. for 5.5 months		5,50,000	5,50,000
Dearness allowance	50% of basic salary		2,75,000	2,75,000
Sales commission	1% of 10 lakh		10,000	10,000
Fixed commission	5,000 p.m. for 5.5 months		27,500	27,500
Gratuity	Fully exempt in Case A and 1.5 lakh exempt in Case B		-	1,00,000
Pension	Uncommuted pension is taxable. For 6.5 months.		65,000	65,000
Leave encashment	Received		3,00,000	3,00,000
	Less : Exempt u/s 10(10AA):			
	Fully exempt for State Government employee		(3,00,000)	
	Lower of the following for private sector employee:			
	(A) Leave salary received	3,00,000		
	(B) Statutory limit = 3,00,000 - 50,000 exempted earlier	2,50,000		
	(C) 10 months × Average salary Average salary = [Basic + DA(T) + C(TO) of 10 months immediately preceding date of retirement (16 Nov 2020 to 15 Sep 2021)] ÷ 10 = $\{[(1,00,000 + 37,500) \times 10] + 10,000\} \div 10 = 1,38,500$. 10 months × Average salary = 10 × 1,38,500	13,85,000		
	(D) Leave credit (months) × Average salary Leave credit = (Leave entitlement* - Leave availed/lapsed/encashed) ÷ 30 days = [(6 years × 30 days) – 20 availed – 10 lapsed – 15 encashed] = 135 ÷ 30 = 4.5 months *Max 30 days for each completed year. Leave credit (months) × Average salary = 4.5 × 1,38,500	6,23,250		
				(2,50,000)
Gross salary income			9,27,500	10,77,500

B9. PF - Compute the gross salary income of Shalini after taking into account the following particulars

Computation of gross salary income of Shalini for AY 2022-23

Particulars	RPF	UPF	SPF	PPF
Basic salary @ 30,000 p.m.	3,60,000	3,60,000	3,60,000	3,60,000

Dearness allowance @ 1/3 of basic salary	1,20,000	1,20,000	1,20,000	1,20,000
Commission	60,000	60,000	60,000	60,000
Overtime allowance	12,000	12,000	12,000	12,000
Employer's contribution to PF account:	2,160	-	-	-
<ul style="list-style-type: none"> Exempt for SPF/UPF. Employer does not contribute for PPF. Exempt up to 12% of salary (Basic + DA(T) + C(TO)) for RPF = 12% of (3,60,000 + 72,000 (60% of DA) + Nil) = 51,840. Taxable = 54,000 (15% of basic) – 51,840 = 2,160 				
Shalini's contribution to PF account: Deduction u/s 80C available for RPF, SPF, PPF.	-	-	-	-
Interest credited to PF account:	6,000	-	-	-
<ul style="list-style-type: none"> Exempt for UPF/SPF/PPF Taxable for RPF in excess of 9.5% = 25,000 × (3 / 12.5) 				
Gross salary income	5,60,160	5,52,000	5,52,000	5,52,000

B10. PF – Suhail is employed with JK Ltd. He is entitled to basic salary of Rs. 6 lakh per month. During the PY 2021-22.....

Computation of gross salary of Suhail for AY 2022-23

Particulars	Rs.
Basic salary	72,00,000
Taxable allowances	10,00,000
Employer's contribution to RPF: Exempt up to 12% of salary	-
Interest on RPF: Exempt up to 9.5%	-
Employer's contribution to RPF in excess of 7.5 lakh = 8,64,000 – 7,50,000	1,14,000
Taxable annual accretion on employer's contribution to RPF computed as per Rule 3B (see Note)	8,655
Gross salary	83,22,655

In addition, interest accrued relating to contribution of Suhail exceeding Rs. 2,50,000, i.e., 6,14,000, will not be exempt and will be computed in the manner to be prescribed and taxed under the head IFOS.

Note:

Particulars	Amount	
PY 2020-21		
Aggregate of taxable employer's contribution (i.e., > 7.5 lakh) for each PY	PC1	50,000
Aggregate of Taxable Accretion u/s 17(2)(vii) for each PY	TP1	3,500
PY 2021-22		
Taxable employer's contribution > 7.5 lakh	PC	1,14,000
Income accrued	I	3,15,000
Balance on 1 April of PY		30,00,000
Balance on 31 March of PY = 30,00,000 + 8,64,000 + 8,64,000 + 3,15,000		50,43,000
Average balance = (Balance on 1 April of PY + Balance on 31 March of PY) / 2	Favg	40,21,500
Return = I / Favg	R	
Taxable accretion = [(PC/2) + [PC1+ TP1]] × R = [57,000 + 53,500] × (3,15,000/40,21,500)		8,655