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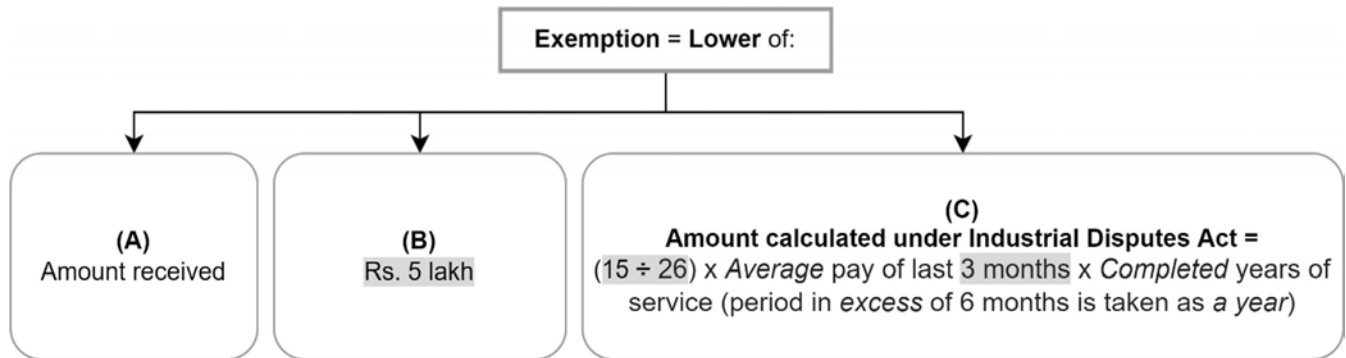
Salaries

Extra provisions for detailed and comprehensive study

Note: Provisions already given in TaxBook+ are denoted with grey color. Extra provisions are denoted with black color.

46. RETRENCHMENT COMPENSATION [S. 17(3), 10(10B)]¹

Any compensation received by a **workman** under the Industrial Disputes Act, 1947 or under any other Act, Rule, Order or Notification, at the time of his **retrenchment**, is entitled to exemption. Exemption is computed as under.



Solve BYC Question No. B23 in TaxBook+ (Practice)

72. SPECIFIED EMPLOYEE [S. 17(2)(iii)]

Certain perquisites are taxable **only** in the hands of a **specified** employee. Following is a specified employee:

1. Employee of a company who is a **director** thereof, or
2. Employee of a company who has a **substantial interest** ($\geq 20\%$ equity shares) in the company, or
3. Employee whose income under the head 'Salaries' (*exclusive* of the value of all benefits or amenities not provided for by way of **monetary** payment) is $>$ Rs. 50,000.

Following perquisites are taxable **only** in the hands of a **specified** employee:

1. Motor car (para 55)	2. Domestic servants (para 52)
3. Gas, electricity, water (para 51)	4. Education facility (para 59)
5. LTC (para 54)	6. Medical facility (para 47)
7. Transport facility by transporter (para 56)	

Interplay with section 17(2)(iv): If the above items are in the nature of an obligation of employee for which the employer pays (see para 70), perquisite will be taxable for all employees. Otherwise, it will be taxable only for a specified employee.

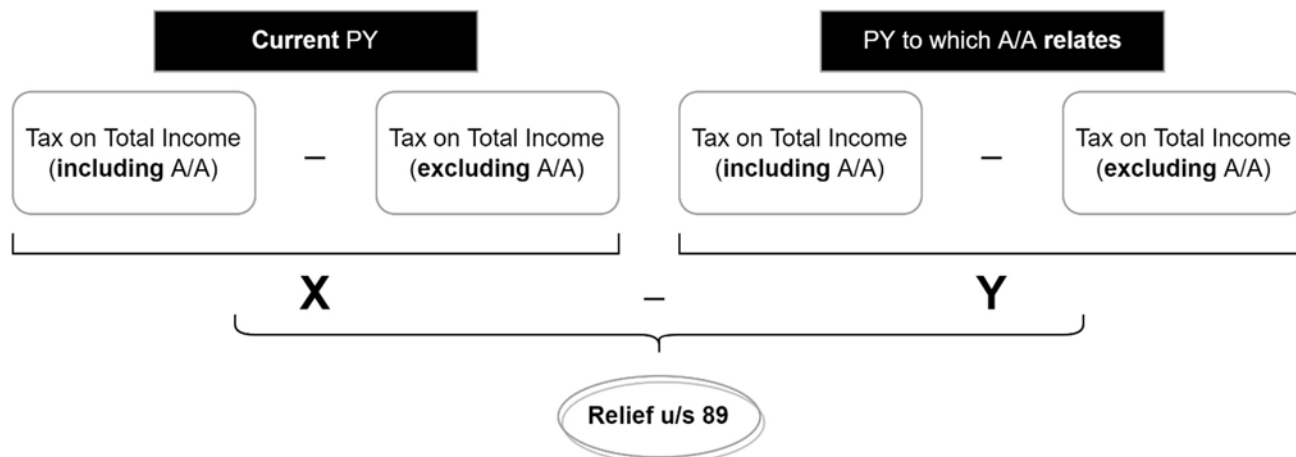
Concept of specified employee does not have much utility in the present times since practically all tax-paying employees can be classified as a specified employee. Thus, there would hardly be a case where the aforesaid perquisites are not taxable because the employee is not a specified employee.

Solve MCQ No. M78-81 in TaxBook+ (Practice)

¹ Retrenchment compensation is a capital receipt but specifically taxable as profits in lieu of salary and then exempt in the manner prescribed. Objective of exemption is to dilute the impact of taxation and mitigate hardship to the assessee on this count.

77. RELIEF U/S 89 [S. 89, R. 21A]

Relief from tax is available on receipt of arrears, advance, gratuity, compensation on termination, commuted pension, etc., due to which the assessee becomes taxable at a **rate higher** than that at which he would **otherwise** have been taxable. Formula for relief in case of **arrears or advance (A/A)** is depicted below:²



In effect, tax on total income is computed (including and excluding A/A). This is done for the current PY (i.e., PY of receipt) as well as the PY to which A/A relates. The result can be denoted by 'X' and 'Y' as shown in the Chart above. Relief u/s 89 = X – Y. The tax on total income of the current year is then reduced by the amount of relief to arrive at the tax liability.

Relief is given after rebate u/s 87A, surcharge and HEC.

If X is not more than Y, there is no relief.

Tax for current PY and PY to which A/A relates is computed at the rates applicable for the respective PY.

Note: Formula for relief is given above only for arrears or advance. Other situations are not relevant for exams.

ILLUS 77.1: Mr. Heera, a resident, earned salary income (computed) for PY 2024-25 of Rs. 9,00,000 and arrears of salary received for PY 2015-16 of Rs. 2,50,000 (not included in Rs. 9,00,000). His income taxable under the head 'Salaries' for PY 2015-16 was Rs. 7,50,000. He celebrated his 62nd birthday on 1.12.2024. He does not have any source of income apart from salary. Compute the tax payable for AY 2025-26 after providing relief u/s 89 assuming that he is covered under the optional tax regime.

Rates of tax for AY 2016-17 for resident individuals of age below 60 years at any time during the PY (assumed)	
Slab of total income	Rate
Up to 2,00,000	Nil
2,00,001 to 5,00,000	10%
5,00,001 to 10,00,000	20%
Above 10,00,000	30%
Education cess @2% and HEC @1%	

² Logic is to compare the tax attributable to the arrears/advance in the year of receipt and in the year it relates to and then give relief of tax so as to reduce the tax to that attributable in the year to which the arrears/advance relates.

Step 1 - Computation of tax payable for AY 2025-26 before relief u/s 89 (at rates applicable for senior citizen)

Particulars	Including arrears	Excluding arrears
Salary (computed)	9,00,000	9,00,000
Arrears of salary	2,50,000	-
Taxable salary	11,50,000	9,00,000
Income-tax	1,55,000	90,000
HEC @4%	6,200	3,600
Total tax payable	1,61,200	93,600
Difference in tax (A)	67,600	

Step 2 - Computation of tax payable for AY 2016-17 (at regular rates)

Particulars	Including arrears	Excluding arrears
Salary (computed)	7,50,000	7,50,000
Arrears of salary	2,50,000	-
Taxable salary	10,00,000	7,50,000
Income-tax	1,30,000	80,000
HEC @3%	3,900	2,400
Total tax payable	1,33,900	82,400
Difference in tax (B)	51,500	

Step 3 – Computation of tax payable for AY 2025-26 after relief u/s 89

Particulars	Amount
Income-tax on total income including arrears	1,61,200
Less: Relief u/s 89 = 67,600 (A) – 51,500 (B)	(16,100)
Total tax payable after relief	1,45,100

Solve MCQ No. M87-88 in TaxBook* (Practice)

