

INCOME FROM SALARY

An income shall be taxable under the head of Income From Salary, only if the relationship between payer and payee is that of employer and employee.

At the end of every previous year, the employee shall prepare a statement of Income From Salary.

Statement of Income From Salary

Particular	Amount	Amount
1. Basic Salary		XX
2. Allowances		XX
3. Bonus		XX
4. Commission		XX
5. Advance Salary		XX
6. Arrears of Salary		XX
7. Provident Fund		XX
8. Perquisites		XX
9. Gratuity		XX
10. Pension		XX
11. Leave salary		XX
12. Vol. Retirement Compensation		XX
13. Award or Reward from Employer		XX
14. Profit in lieu of Salary		XX
GROSS SALARY		XX
<u>(Less) Deduction U/s 16</u>		
a. Standard Deduction	XX	
b. Entertainment Allowance	XX	
c. Professional Tax	XX	(XX)
NET TAXABLE INCOME FROM SALARY		XX

NOTES:-

DEDUCTION U/S 16

1. Standard Deduction

The standard deduction of Rs. 50,000 is allowed to an employee.

2. Entertainment Allowance

(I) If Non-Government employee is there
Then First INCLUDE (tx.)
And then NO DEDUCTION

(II) If Government employee is there
Then First INCLUDE (tx.)
Then YES DEDUCTION
a. 1/5 of Basic Salary (gross).
b. Annual amount received

- c. Rs. 5,000
Whichever is LOWER

3. Professional Tax

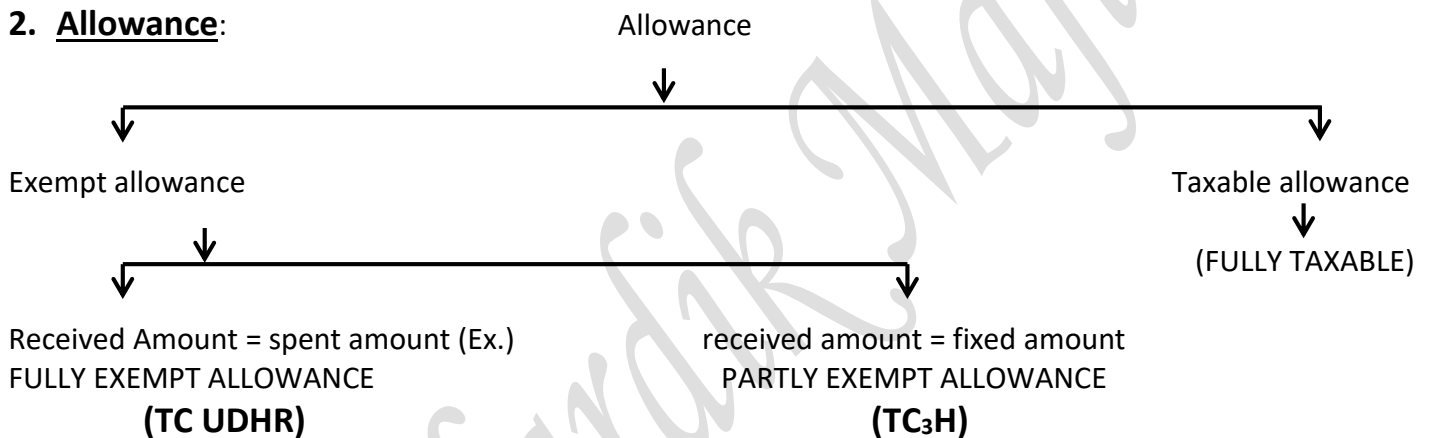
Professional Tax means Tax on employment. Professional Tax paid is allowed as deduction for all employment.

OTHER NOTES:

1. Basic Salary:

Basic salary is always fully taxable, if Net Basic Salary is given than we must have to make it **Gross Basic Salary**, by adding whatever is deducted from salary

2. Allowance:



TC UDHR:

T = Travelling Allowance
C = Conveyance Allowance
U = uniform Allowance
D = Daily Allowance
H = Helper Allowance
R = Research Allowance

NOTE:

1. All TC UDHR allowances are for office purpose.
2. If spent amount is not given in question in case of TC UDHR, then it shall be assume that the amount received is fully spent.

NOTE:

1. All TC3H allowance are for personal purpose
2. In case of HRA, exempt amount is not given in question, then HRA received is fully taxable, and amount spent is given must be ignore.

NOTE FOR FULLY TAXABLE ALLOWANCE:

Any other allowance, which is neither in TC UDHR nor in TC3H, then that allowance shall be fully taxable, for e.g. dearness allowance, lunch allowance etc.(amount spent is given must be ignore)

3. Bonus:

Bonus is taxable on received basis. Bonus is taxable only if it is actually received, **bonus receivable OR bonus declared shall be ignored**, bonus is also known as "**Ex-gratia**"

4. Commission:

Commission is always fully taxable, weather it is received or receivable.

5. Advance salary:

Advance salary is always fully taxable, any other advance is given in question shall always be ignored. e.g. advance for purchase for car, for furniture, **advance against salary** etc. because there are in nature of loan, therefore it is not an income, therefore ignore.

6. Arrears of Salary:

It means salary is under dispute or in dispatch, it is taxable in the year, in which dispute is settled and the amount is actually received.

Illustration – 1

Mr. A is provide the following details of his salary for PY 2019-20.

1. Basic salary Rs. 5,000 pm
2. Dearness allowance Rs. 3,000 pm
3. Lunch allowance Rs. 600 pm
4. Travelling allowance Rs. 300 pm (amount spent Rs. 2,000)
5. Overtime allowance Rs. 300 pm
6. Uniform allowance Rs. 600 pm (amount spent Rs. 3,800)
7. Servant allowance Rs. 7,200 (amount spent Rs. 4,000)
8. Children education allowance Rs. 300 pm per child (Mr. A has 3 children)
9. Medical allowance Rs. 4,000 (amount spent on medical treatment Rs. 1,500)
10. Professional Tax paid during the year Rs. 1,500
11. Other expense related to employment Rs. 25,000

Calculate taxable income from salary for AY 2020-21

Solution :

Statement Of Income Form Salary Of Mr. A for PY 2019-20 or AY 2020-21

Particular	Amount	Amount
1. Basic salary (Rs. 5,000 pm x 12 months)		60,000
2. Dearness allowance (Rs. 3,000 pm x 12 months)		36,000
3. Lunch allowance (Rs. 600 pm x 12 months)		7,200
4. Travelling allowance (Rs. 300 pm x 12 months) Less: Exempt (amount spent)	3,600 (2,000)	1,600
5. Overtime allowance (Rs. 300 pm x 12 months)		3,600
6. Uniform allowance (Rs. 600 pm x 12 months) Less: Exempt (amount spent)	7,200 (3,800)	3,400
7. Servant allowance		7,200
8. Children education allowance (Mr. A has 3 children) Rs. 300 pm x 12 month x 3 child Less: Exempt Rs. 100 pm x 12 months x 2 child	10,800 (2,400)	8,400
9. Medical allowance		4,000
GROSS SALARY		1,31,400
(Less): Deduction U/s 16		
1. Standard Deduction	40,000	
2. Entertainment Allowance	-	
3. Professional Tax	1,500	(41,500)
Net Taxable Income From Salary		89,900

Illustration – 2

Mr. B is employed in a company. His salary particulars for the PY 2019-20 are as follow

1. Basic salary Rs. 10,000 pm
 2. Dearness allowance Rs 600 pm
 3. Entertainment allowance Rs 700 pm
 4. Medical allowance Rs. 600 pm (amount spent Rs. 4,000)
 5. Research allowance Rs. 3,000 (amount spent Rs. 2,500)
 6. Children education allowance Rs. 2,400 (Mr. B has 4 children)
 7. House rent allowance Rs. 800 pm (exempt amount u/s 10(13)(A) Rs. 7,000)
 8. Helper allowance Rs. 400 pm
 9. Lunch allowance Rs. 300 pm
 10. Professional Tax paid Rs. 200 pm
- Calculate taxable income from salary of Mr. B

Solution:

Statement Of Income Form Salary Of Mr. A

Particular	Amount	Amount
1. Basic salary (Rs. 10,000 pm x 12 months)		1,20,000
2. Dearness allowance (Rs 600 pm x 12 months)		7,200
3. Entertainment allowance (Rs. 700 x 12 months)		8,400
4. Medical allowance Rs. (600 pm x 12 months)		7,200
5. Research allowance Rs. 3,000	3,000	

(amount spent Rs. 2,500)	(2,500)	500
6. Children education allowance (Mr. A has 4 children) Rs. <u>50</u> pm x 12 month x 4 child Less: amount exempt Rs. <u>50</u> pm x 12 months x 2 child	2,400 (1,200)	 1,200
7. House rent allowance (Rs. 800 pm x 12 months) Less: (exempt amount u/s 10(13)(A) Rs. 7,000)	9,600 (7,000)	 2,600
8. Helper allowance (Rs. 400 pm x 12 month) Less : (exempt = amount spent)	4,800 (4,800)	 NIL
9. Lunch allowance (Rs. 300 pm x 12 months)		3,600
GROSS SALARY		1,50,700
Less: Deduction u/s 16		
1. Standard Deduction	40,000	
2. Entertainment Allowance	-	
3. Professional Tax (Rs. 200 x 12 months)	2,400	(42,400)
Net Taxable Income From Salary		1,08,300

Working note:

Children education allowance = Rs. 2400

(x) pm x 12 month x 4 child = 2400

48x = 2400

X = 2400/48 = 50

50 pm x 12 month x 4 child

(less) exempt

50 pm x 12 months x 2 child = Rs. 1,200

Illustration – 3

Mr. C is an employee of Maharashtra Government. He furnished you the following details of his salary income. Calculate taxable income from salary.

1. Basic salary Rs. 9,400 pm (net) after deduction of
Income tax Rs. 800 pm
Housing loan installment Rs. 300 pm
Professional tax Rs. 500 pm
2. Dearness allowance 80 % of basic salary
3. Bonus declared by employer Rs. 16,000
4. Motor car allowance Rs. 1,000 pm
5. Entertainment allowance Rs. 1,500 pm (actual exp. On allowance Rs. 3,800)
6. Commission on turnover Rs. 50,000
7. Expense to earn salary income Rs. 20,000
8. City compensatory allowance Rs. 800 pm
9. House rent allowance Rs. 400 pm
10. Children hostel allowance Rs. 9,000
(Mr. C has 3 children's)
11. Advance salary Rs. 21,000

12. Advance against salary Rs. 10,000

$$\text{CHA} = 9000$$

$$(x) \text{ pm} \times 12 \text{ m} \times 3 \text{ c}$$

$$36x = 9000$$

$$X = 9000/36 = \text{Rs. } 250 \text{ pm}$$

$$250 \times 12 \times 3 = 9000$$

Exempt

$$250 \text{ pm} \times 12 \text{ month} \times 2 \text{ child} = \text{Rs. } 6000$$

Solution:

Statement Of Income Form Salary Of Mr. A

Particular	Amount	Amount
1. Basic salary (Rs. 9,400 pm x 12 months) + Income tax (Rs. 800 pm x 12 months) + Housing loan installment (Rs. 300 pm x 12 months)	1,12,800 9,600 3,600	1,26,000
2. Dearness allowance 80 % of basic salary		1,00,800
3. Bonus declared by employer		Nil
4. Motor car allowance (Rs. 1,000 pm x 12 months) - Fully exempt	12,000 (12,000)	Nil
5. Entertainment allowance (Rs. 1,500 pm x 12 months)		18,000
6. Commission on turnover		50,000
7. Expense to earn salary income		Nil
8. City compensatory allowance (Rs. 800 pm x 12 months)		9,600
9. House rent allowance (Rs. 400 pm x 12 months) - Exempt	4,800 -	4,800
10. Children hostel allowance (Mr. C has 3 children) Rs. 250 pm x 12 month x 3 child Less: amount exempt Rs. 250 pm x 12 months x 2 child	9,000 (6,000)	3,000
11. Advance salary		21,000
12. Advance against salary		Nil
GROSS SALARY		3,33,200
Less: Deduction		
1. Standard Deduction	40,000	
2. Entertainment Allowance (<u>Whichever is LESS</u>)		
a. 1/5 of basic salary = Rs. 25,200		
b. Actual amount received = Rs. 18,000		
c. Notified amount = Rs. 5,000	5,000	
3. Professional Tax (Rs. 500 pm x 12 month)	6,000	(51,000)
Net Taxable Income From Salary		2,82,200

Note: in case if any allowance is given by vehicle name them it is known as conveyance allowance.

Illustration – 4

Mr. Siddharth is employed with Sydhnem college (Mumbai). He gives his salary particulars as below,

- Salary (net) Rs. 1,00,000
Deduction from salary –
Repayment of festival advance Rs. 8,000 and
Income tax 10 % of salary.

WORKING NOTE:

BASIC SALARY	=	1,00,000	
+ <u>Repayment of festival advance</u>	=	<u>8,000</u>	
		1,08,000	90
+ <u>INCOME TAX (10% OF SALARY)</u>	=	<u>12,000</u>	10 (108000 * 10 / 90)
<u>TOTAL GROSS SALARY</u>		<u>1,20,000</u>	<u>100</u>

- House rent allowance Rs. 800 pm (amount exempt u/s 10(13A) Rs. 5,000)
 - Dearness allowance Rs. 10,000
 - Received paper setting fees. Rs. 2,000 from college and Rs. 1,000 from university
 - Commutation allowance Rs. 2,200 pm
 - Conveyance allowance Rs. 150 pm (40% spent on office purpose)
 - Advance for purchase for furniture Rs. 20,000
 - Tax on employment Rs. 1,200
- Calculate Net Income From Salary of Mr. Siddharth for PY 2019-20

Solution:

Statement Of Income Form Salary Of Mr. A

Particular	Amount	Amount
1. Salary (net)	1,00,000	
<u>Deduction from salary –</u>		
Repayment of festival advance	<u>8,000</u>	
	1,08,000	
+ income tax (10%)	12,000	1,20,000
2. House rent allowance (Rs. 800 pm x 12 months)	9,600	
- Amount exempt	(5,000)	4,600
3. Dearness allowance		10,000
4. Received paper setting fees		2,000
5. Commutation allowance (Rs. 2,200 pm x 12 month)	26,400	
- Amount exempt (Rs. 1,600 x 12 months)	(19,200)	7,200
6. Conveyance allowance (Rs. 150 pm x 12 months)	1,800	
- Amount exempt (40% of 1,800)	(720)	1,080
7. Advance for purchase for furniture		Nil
GROSS SALARY		1,44,880
Less: Deduction		
1. Standard Deduction	40,000	
2. Entertainment Allowance	-	
3. Professional Tax	1,200	(41,200)
Net Taxable Income From Salary		1,03,680

Important note on dearness allowance:

Dearness allowances are of 2 types.

DA in term and DA not in term. Both type of DA are fully taxable.

DA term is also known as DA performing part of salary, DA entering into retirement benefits

DA not in term is also known as DA not performing part of salary, DA not entering into retirement benefits

Perquisites:

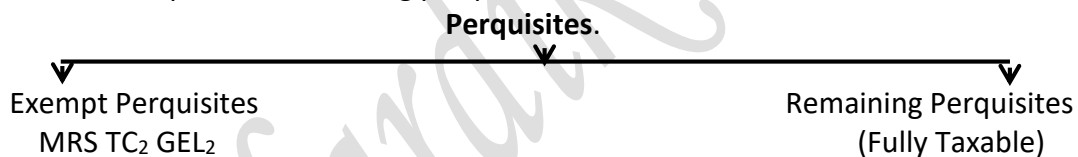
Perquisites are personal benefits given by employer to employee.

Perquisites may be monetary and non-monetary.

Perquisites may be identified as

- Perquisites paid by employer.
- Perquisites reimbursed by employer
- Perquisites free
- Perquisites facilities
- Perquisites provided

Some perquisites are exempt while remaining perquisites are taxable.



MRS TC₂ GEL₂ :

M = Medical Facilities

Treatment in Government Hospital,
Recognized Hospital,
Employer's Hospital

= FULLY EXEMPT

Treatment on otherwise,
e.g. Private Hospital,
Private Clinic

= Exempt maximum Rs. 15,000

R = Refreshment (tea, coffee, etc.)

= Fully Exempt

S = Scholarship (For him as well as his/her Family members)

= Fully Exempt

T = Telephone / Mobile Bill
= Fully Exempt

C = Car Facilities

Office Use

= not a perquisite
= IGNORE

Office to Resident

= Fully Exempt

Partly Office & Partly

Personal Use

= Taxable

Fully Personal Use

= Taxable

C = Club Facilities

= Fully Exempt
(if provided uniformly to all employee)

G = Gift in Kind OR Gift Voucher

= Exempt maximum Rs. 5,000
(cash gift is fully Taxable)

E = Education Facilities

= Fully Exempt
(if provided for employee)

L = Free Lunch / Meal

= Exempt maximum Rs. 50 per meal

L = LTC (Leave Travel Concession)

= Amount – Spent = Amount Exempt.

Pay scale:

Question)

Mr. A join M Ltd. On 01/07/2015 on a pay scale of
5,000 – 500 – 6,000 – 1,000 – 9,000 – 2,000 – 13,000

Calculate his basic salary for PY 2019-20

1st april 2019 – 31st march 2020

1st July to 30th June

1st Year - 5,000

2nd year – 5,500

3rd year – 6,000

4th year – 7,000

5th year – 8,000

6th year – 9,000

7th year – 11,000

8th year – 13,000

9th year – 13,000

10th year – 13,000

Solution:

Date	Amount (per month)
01/07/2015 TO 30/06/2016	5,000
01/07/2016 TO 30/06/2017	5,500
01/07/2017 TO 30/06/2018	6,000
01/07/2018 TO 30/06/2019	7,000
01/07/2019 TO 30/06/2020	8,000

Basic salary of Mr. A for PY 2019-20 (01/04/2019 to 31/03/2020)

April to June = 7,000 x 3 months = 21,000

July to March = 8,000 x 9 months = 72,000

Total Basic Salary = 93,000

Illustration – 5

Mr. X is employed with B Ltd. Since 1987. He provide the following information of salary income.

1. Basic salary Rs. 18,200 pm
2. Research allowance Rs. 6,000 (amount spent Rs. 3,000)
3. Entertainment allowance Rs. 800 pm (actual expense Rs. 700 pm)
4. Mobile bill paid by employer Rs. 10,000
5. House rent allowance Rs. 200 pm
6. Dearness allowance Rs. 200 pm
7. Commutation allowance Rs. 1,500 pm
8. Mr. X was provided with a car for office purpose (expense of employer Rs. 11,000)
9. Medical expense reimbursed by employer for treatment at government hospital Rs. 35,000
10. Professional Tax Rs. 100 pm (out of which Rs. 70 pm paid by employer)

Calculate income from salary of Mr. X

Solution:

Statement Of Income Form Salary Of Mr. X for PY 2019-20 and AY 2020-21.

Particular	Amount	Amount
1. Basic salary (Rs. 18,200 pm x 12 months)		2,18,400
2. Research allowance	6,000	
Less: amount spent	(3,000)	3,000
3. Entertainment allowance (Rs. 800 pm x 12 months)		9,600
4. Mobile bill paid by employer	10,000	
Less : amount exempt	(10,000)	Nil
5. House rent allowance (Rs. 200 pm x 12 months)		2,400
6. Dearness allowance (Rs. 200 pm x 12 months)		2,400
7. Commutation allowance (Rs. 1,500 pm x 12 month)	18,000	
Less: exempt (Rs. 1,500 pm x 12 month)	(18,000)	Nil
8. Mr. X was provided with a car for office purpose		Nil
9. Medical expense reimbursed by employer for treatment at government hospital	35,000	
Less : exempt amount	(35,000)	Nil
GROSS SALARY		2,35,800
Less: Deduction U/S 16		
1. Standard Deduction	40,000	
2. Entertainment Allowance	-	

3. Professional Tax (Rs. 100 pm x 12 months)	1,200	(41,200)
Net Taxable Income From Salary		1,94,600

Illustration – 6

Mr. Gaurav joined a company on 1st January 2016 in a salary scale which is 3,000 – 300 – 6,000 – 400 – 8,000. For the PY 2019-20, he gives following information:

- Dearness allowance (40% of basic salary)
 - Gaurav has a son who is brilliant child for the education of whom the employer allowed allowance of Rs. 500 pm besides granting the child a scholarship of Rs. 5000 per year
 - Mr. Gaurav was sent to Korea for training in computers and the company's expenses on such training were Rs. 20,000
 - Reimbursement of medical expenditure paid to family doctor Rs. 18,000
 - Two telephones are installed at Gaurav's house by employer
Total bill paid by employer amounted to Rs. 25,000
 - Motor car provided for office as well as personal purpose. Employers expense on this Rs. 13,200
- Calculate taxable income from salary of Mr. Gaurav for AY 2020-21

Working note:

- Basic salary (1-4-2019 to 31-3-2020)
3,000 – 300 – 6,000 – 400 – 8,000

1-1-2016 to 31-12-2016	3000 pm
1-1-2017 to 31-12-2017	3300 pm
1-1-2018 to 31-12-2018	3600 pm
1-1-2019 to 31-12-2019	3900 pm x 9 month = 35,100
1-1-2020 to 31-12-2020	4200 pm x 3 month = 12,600 = Rs. 47,700

Solution:

Statement Of Income Form Salary Of Mr. Gaurav for PY 2019-20 and AY 2020-21

Particular	Amount	Amount
Basic salary		47,700
1. DA (40% of basic)		19,080
2. Children education allowance Rs. 500 pm x 12 months x 1 child Less: exempt amount Rs. 100 pm x 12 months x 1 child	6,000 (1,200)	4,800
2. Scholarship Less: exempt amount	5,000 (5,000)	Nil
3. Mr. Gaurav was sent to Korea for training in computers and the company's expenses on such training Less: exempt amount	20,000 (20,000)	Nil
4. Reimbursement of medical expenditure paid to family doctor Less: exempt amount	18,000 (15,000)	3,000

5. Telephones bill paid by employer Less: exempt amount	25,000 (25,000)	Nil
6. Motor car provided for office as well as personal purpose		13,200
GROSS SALARY		87,780
Less: Deduction		
1. Standard Deduction	40,000	
2. Entertainment Allowance	-	
3. Professional Tax	-	(40,000)
Net Taxable Income From Salary		47,780

Illustration – 7

Mr. Rahul, a lecturer, gives the details of his employment as under:

Employed with	College A	College B
Period of employment	01/04/2019 to 30/09/2019 6 months	01/10/2019 to 31/03/2020 6 months
Basic salary	90,000	80,000
Dearness allowance (forming part of salary)	4,800	3,600
City compensatory allowance	3,600	Nil
House rent allowance	8,000	3,600 (exempt Rs. 400)
Remuneration for being an examiner:		
From college	4,000	Nil
From university	Nil	3,600

Compute his taxable income under the head of salary for AY 2020-21.

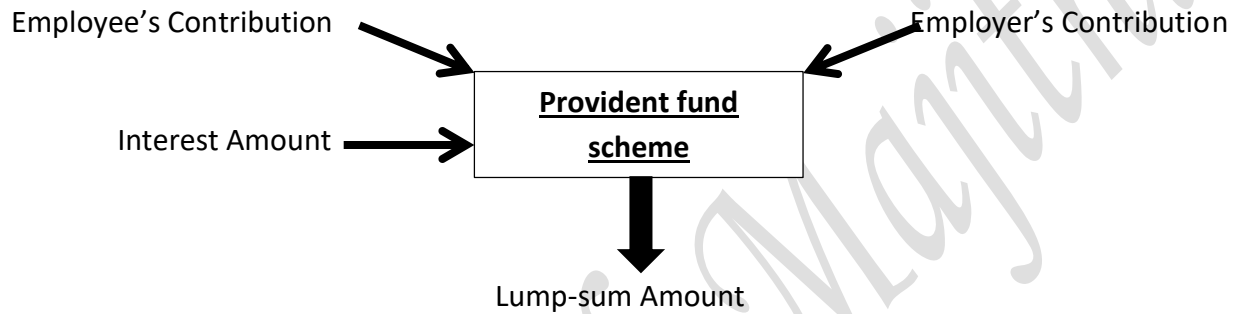
Solution:

Statement Of Income Form Salary Of Mr. Rahul for PY 2019-20 and AY 2020-21

Particular	Amount	Amount
College A:		
• Basic salary		90,000
• DA		4,800
• City compensatory allowance		3,600
• House rent allowance		8,000
• Remuneration from college		4,000
	A	1,10,400
College B:		
• Basic salary		80,000
• DA		3,600
• House rent allowance	3,600	
Less: exempt	(400)	3,200

	B	86,800
GROSS SALARY		1,97,200
Less: Deduction		
1. Standard Deduction	40,000	
2. Entertainment Allowance	-	
3. Professional Tax	-	(40,000)
Net Taxable Income From Salary		1,57,200

:Provident fund scheme: (3 types)



	Statutory Provident Fund (SPF)	Recognized Provident Fund (RPF)	Unrecognized Provident Fund (UPF)
Employee's Contribution	IGNORE	IGNORE	IGNORE
Employer's Contribution	FULLY EXEMPT	Exempt up to 12% of (basic salary + DA (in term)+ turnover commission)	FULLY EXEMPT
Interest Amount	FULLY EXEMPT	Exempt up to 9.5%	FULLY EXEMPT
Lump-sum Amount	FULLY EXEMPT	FULLY EXEMPT	TAXABLE

Statutory Provident Fund

Employee's Contribution: 5,00,000 (IGNORE)
 Employer's Contribution: 5,00,000 (FULLY EXEMPT)
 Interest Amount: 2,00,000 (FULLY EXEMPT)
 Lump-sum Amount : 12,00,000 (FULLY EXEMPT)

Recognized Provident Fund

Employee's Contribution: 5,00,000 (IGNORE)
 Employer's Contribution: 5,00,000 (Partly EXEMPT) – 1,00,000 = 4,00,000
 Interest Amount: 2,00,000 (partly EXEMPT)
 Lump-sum Amount : 12,00,000 (FULLY EXEMPT)

Unrecognized Provident Fund

Employee's Contribution: 5,00,000 (IGNORE)
 Employer's Contribution: 5,00,000 (FULLY EXEMPT)
 Interest Amount: 2,00,000 (FULLY EXEMPT)
 Lump-sum Amount : 12,00,000 (FULLY TAXABLE)

Example:

Interest received on RPF @ 12% → Rs. 12,000
 Less: Exempt @ 9.5% → (?) Rs. 9,500 $\frac{12,000 \times 9.5}{12}$

Lump-sum Amount on UPF

<u>Employee's Contribution</u>	<u>Employer's Contribution</u>	<u>Interest Employee's Contribution</u>	<u>Interest Employer's Contribution</u>
= IGNORE	= FULLY TAXABLE AS ON IFS	= IGNORE (taxable as on IFOS)	= FULLY TAXABLE AS ON IFS

Example:

Lump-sum Amount on UPF = 5,00,000

~~Employee's Contribution – 2,00,000~~

Employer's Contribution – 2,00,000

~~Interest Employee's Contribution – 50,000~~

Interest Employer's Contribution – 50,000

Taxable Income from lump-sum amt. on UPF = 2,50,000

Illustration – 8

Miss. Priti is employed with Reliance IND. Ltd. For PY 2019-20. She gives the following details.

- Salary Rs. 8,000 pm
- DA (not in term) 50% of basic salary
- Fixed commission Rs. 1,000 pm
- Employee's contribution to RPF Rs. 900 pm
- Commission on turnover 1% (her turnover is Rs. 6,00,000)
- Interest credited to RPF at 11% Rs. 11,000
- Employer's contribution to RPF Rs. 900 pm
- Bonus receivable Rs. 8,000
- Professional Tax Rs. 1,500
- Entertainment allowance Rs. 700 pm

Calculate her income from salary for PY 2019-20, AY 2020-21.

Solution:

Statement Of Income Form Salary Of Miss. Priti for PY 2019-20 and AY 2020-21

Particular	Amount	Amount
1. Salary (Rs. 8,000 pm x 12 month)		96,000
2. DA (not in term) 50% of basic salary		48,000

3. Fixed commission (Rs. 1,000 pm x 12 month)		12,000
4. Employee's contribution to RPF		Nil
5. Commission on turnover		6,000
6. Interest credited to RPF at Less: exempt	11% → 11,000 9.5% → (9,500)	1,500
7. Employer's contribution to RPF (Rs. 900 pm x 12 month) Less: exempt [12% of (96,000 + NIL + 6,000)]	10,800 (12,240)	Nil
8. Bonus receivable		Nil
9. Entertainment allowance (Rs. 700 pm x 12 months)		8,400
GROSS SALARY		1,71,900
Less: Deduction U/S 16		
1. Standard Deduction	40,000	
2. Entertainment Allowance	-	
3. Professional Tax	1,500	(41,500)
Net Taxable Income From Salary		1,30,400

Illustration – 9

Mr. Kishan employed with RP Ltd. Retired on 31/12/2019. During the PY 2019-20 he received following amounts from the company.

- Salary Rs. 10,000 pm
- DA Rs. 20,000
- Conveyance allowance Rs. 800 pm
- He contribute to UPF Rs. 2,000 pm
- Employer's contribute to UPF Rs. 2,000 pm
- Interest @ 10% credited to the above fund amount to Rs. 8,000
- Received Rs. 6,00,000 from UPF (including interest Rs. 2,00,000)

Calculate his taxable salary for AY 2020-21.

Solution:

Statement Of Income Form Salary Of Mr. Kishan for PY 2019-20 and AY 2020-21

Particular	Amount	Amount
1. Basic Salary (Rs. 10,000 pm x 9 months)		90,000
2. DA		20,000
3. Conveyance allowance (Rs. 800 x 9 months) Less: fully exempt	7,200 (7,200)	Nil
4. Employee's contribute to UPF		Nil
5. Employer's contribute to UPF (Rs. 2,000 pm x 9 months) Less: fully exempt	18,000 (18,000)	Nil
6. Interest on UPF Less: fully exempt	8,000 (8,000)	Nil
7. Lump-sum amount received from UPF Less: amount exempt (WN)	6,00,000 (3,00,000)	3,00,000
GROSS SALARY		4,10,000
Less: Deduction U/ S 16		

1. Standard Deduction	40,000	
2. Entertainment Allowance	-	
3. Professional Tax	-	(40,000)
Net Taxable Income From Salary		3,70,000

Working note:

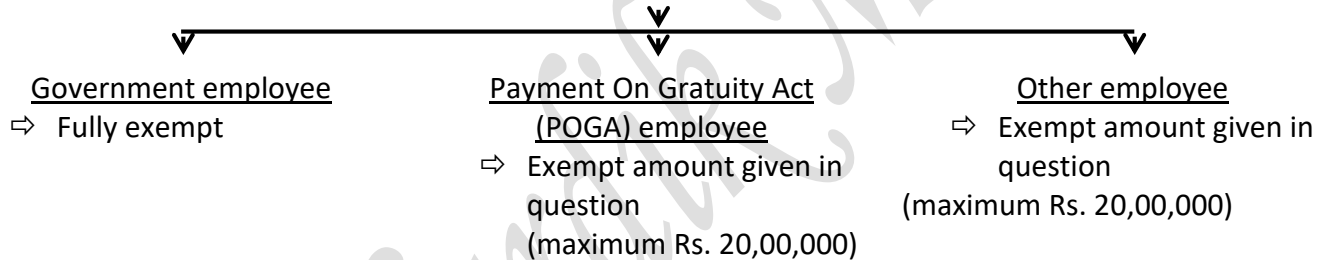
Lump-sum amount received from UPF = 6,00,000 (interest Rs. 2,00,000)

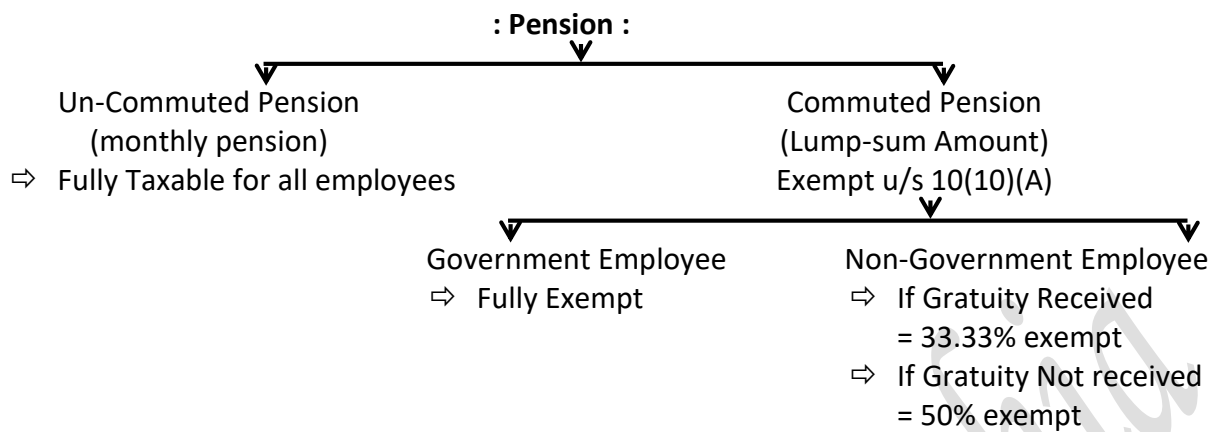
<u>Employee's Contribution</u>	<u>Employer's Contribution</u>	<u>Interest Employee's Contribution</u>	<u>Interest Employer's Contribution</u>
= 2,00,000 Ignore	= 2,00,000 Fully taxable	= 1,00,000 Ignore	= 1,00,000 Fully taxable

: Gratuity :

Gratuity is like a gift given by the employer to his employee on his retirement. Gratuity received is exempt u/s 10(10) as follow, and gratuity received in services is fully taxable.

Gratuity u/s 10(10)





Some examples:

1. Mr. A retires on 31/12/2019, his pension was fixed Rs. 10,000 pm

Solution:

Un-Commuted pension of Rs. 30,000 shall be Fully Taxable.

2. Mr. B receive Rs. 6,00,000 as pension on his retirement, he does not received Gratuity.

Solution:

• Pension (commuted)	6,00,000	
Less: exempt (50%)	<u>(3,00,000)</u>	= 3,00,000

3. Mr. C receive Rs. 6,00,000 as pension on his retirement, he also received Gratuity.

Solution:

• Pension (commuted)	6,00,000	
Less: exempt (33.33%)	<u>(2,00,000)</u>	= 4,00,000

4. Mr. D retired on 01/12/2019 his pension was fixed @ Rs. 5,000 pm. He got 60% of pension commuted and received Rs. 2,40,000 as commuted pension.

Solution:

Pension (Rs. 5,000 pm)	
<p>Commuted 60% Rs. 3,000 pm</p> <p>Lump-sum (60%) exempt Less: 50% → <u>Rs. 2,40,000</u> <u>(Rs. 2,00,000)</u> Taxable Amount <u>Rs. 40,000</u></p>	<p>Un-Commuted 40% Rs. 2,000 pm <u>X 4 months</u> <u>Rs. 8,000</u> Fully Taxable</p>

Total taxable amount = Rs. 48,000

Illustration – 10

Mr. Dipen retires on 31st march 2020 after 20 year and 10 months of services. Calculate his taxable income from salary for PY 2019-20

1. Basic salary Rs. 10,000 pm.
2. Dearness allowance 40% of basic salary (of which 60% is in terms)
3. Commission on sales (turnover) Rs. 12,000
4. Uniform allowance Rs. 5,000 (amount spent Rs. 3,000)
5. Helper allowance Rs. 500 pm (amount spent Rs. 3,000)
6. Tribal area allowance Rs. 500 pm (fully spent)
7. Transport allowance Rs. 2,000 pm
8. Servant allowance Rs. 400 pm (fully spent)
9. Refreshment allowance Rs. 300 pm
10. Telephone bill paid by employer Rs. 3,000
11. Free gardener and watchman Rs. 2,000
12. Free lunch Rs. 70 per meal (200 days)
13. Electricity bill paid by employer Rs. 2,000
14. Gas bill paid by employer Rs. 4,000
15. Employee's contribution to RPF Rs. 2,000 pm
16. Employer's contribution to RPF 20% of basic salary
17. Interest on RPF @10% Rs. 2,000
18. Lump-sum amount received from RPF Rs. 5,00,000
19. Gratuity Rs. 7,00,000 (amount exempt Rs. 5,00,000)
20. Tax on Employment Rs. 2,000

Solution:

Statement Of Income Form Salary Of Mr. Dipen for PY 2019-20 and AY 2020-21

Particular	Amount	Amount
1. Basic salary (Rs. 10,000 pm x 12 months)		1,20,000
2. Dearness allowance		
In terms (1, 20,000 x 40% x 60%)		28,800
Not in terms (1, 20,000 x 40% x 40%)		19,200
3. Commission on sales (turnover)		12,000
4. Uniform allowance	5,000	
Less: exempt	(3,000)	2,000
5. Helper allowance (Rs. 500 pm x 12 months)	6,000	
Less: exempt	(3,000)	3,000
6. Tribal area allowance (Rs. 500 pm x 12 months)	6,000	
Less: exempt (Rs. 200 pm x 12 months)	(2,400)	3,600
7. Transport allowance (Rs. 2,000 pm x 12 months)	24,000	
Less: exempt (Rs. 1,600 pm x 12 months)	(19,200)	4,800
8. Servant allowance (Rs. 400 pm x 12 months)		4,800
9. Refreshment allowance (Rs. 300 pm x 12 months)		3,600
10. Telephone bill paid by employer	3,000	
Less: fully exempt	(3,000)	Nil
11. Free gardener and watchman		2,000
12. Free lunch (Rs. 70 pm x 200 days)	14,000	
Less: exempt (Rs. 50 pm x 200 days)	(10,000)	4,000

13. Electricity bill paid by employer			2,000
14. Gas bill paid by employer			4,000
15. Employee's contribution to RPF			Nil
16. Employer's contribution to RPF 20% of basic salary Less: exempt [12% of (BS + DA(T) + TC)]		24,000 (19,296)	4,704
17. Interest on RPF Less: exempt	10% 9.5%	2,000 (1,900)	100
18. Lump-sum amount received from RPF Less: fully exempt		5,00,000 (5,00,000)	Nil
19. Gratuity Less: exempt		7,00,000 (5,00,000)	2,00,000
GROSS SALARY			4,18,604
Less: Deduction U/S 16			
1. Standard Deduction		40,000	
2. Entertainment Allowance		-	
3. Professional Tax		2,000	(42,000)
Net Taxable Income From Salary			3,76,604

Illustration – 11

Mr. X is employed with ABC traders. He retires w.e.f. 1st February 2020. He submits the following information:

Basic salary Rs. 10,000 pm

Dearness allowance 100% of basic salary

His pension was determined at Rs. 5,000 pm

He got 60% commuted pension and received Rs. 2,40,000

He received Rs. 3,20,000 from UPF which includes

- Employee's contribution Rs. 1,00,000
- Employer's contribution Rs. 1,00,000
- Interest Employee's contribution Rs. 60,000
- Interest Employer's contribution Rs. 60,000

He received gratuity of Rs. 12,00,000 (exempt amount Rs. 8,00,000)

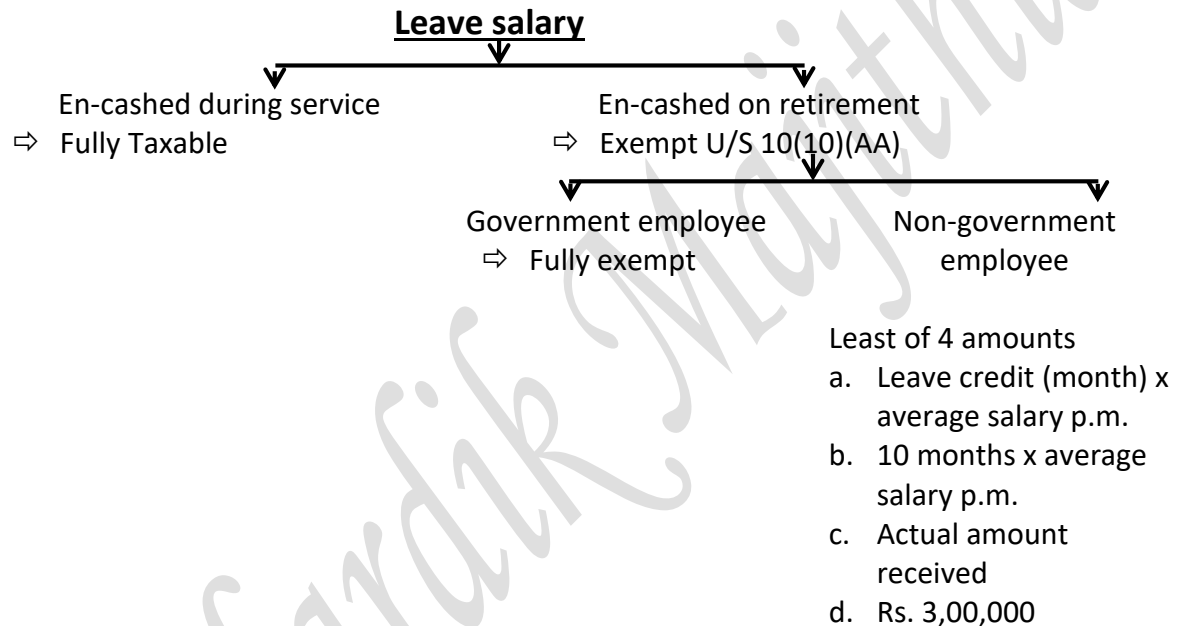
Calculate his income from salary for PY 2019-20 AY 2020-21

Solution:

Statement Of Income Form Salary Of Mr. Kishan for PY 2019-20 and AY 2020-21

Particular		Amount	Amount
1. Basic salary (10,000 x 10)			1,00,000
2. Dearness allowance			1,00,000
3. Pension			
⇒ Commuted	60	2,40,000	
	33.33	(1,33,333)	1,06,667
⇒ Un-commuted	(2,000 x 2 month)		4,000
4. Lump-sum from UPF			
a. Employer's contribution		1,00,000	
b. Interest Employer's contribution		60,000	1,60,000

5. Gratuity	12,00,000	
Less: Exempt	(8,00,000)	4,00,000
GROSS SALARY		8,70,667
Less: Deduction U/ S 16		
1. Standard Deduction	40,000	
2. Entertainment Allowance	-	
3. Professional Tax	-	(40,000)
Net Taxable Income From Salary		8,30,667



Leave credit = leave allowed – leave taken

NOTE: while calculating leave credit, leave allowed must not exceeds Maximum 1 month OR 30 days per year of service

Examples:

1. Leave allowed = 1 month per year
 Leave taken = ½ month per year
 Number of year of service = 10 years ~~and 8 months~~

Solution:

$$\begin{aligned}
 LC &= LA - LT \\
 &= (1 \text{ month} \times 10 \text{ years}) - (1/2 \text{ months} \times 10 \text{ years}) \\
 &= 10 \text{ months} - 5 \text{ months} \\
 &= 5 \text{ months}
 \end{aligned}$$

Examples:

2. Leave allowed = 30 days per year

Leave taken = 20 days per year

Number of year of service = 15 years ~~and 10 months~~

Solution:

$$LC = LA - LT$$

$$= (30 \text{ days} \times 15 \text{ years}) - (20 \text{ days} \times 15 \text{ years})$$

$$= 450 \text{ days} - 300 \text{ days}$$

$$= 150 \text{ days}$$

$$= 5 \text{ months (always divide by 30)}$$

Examples:

3. Leave allowed = 2 month per year

Leave taken = $\frac{1}{2}$ month per year

Number of year of service = 20 years ~~and 9 months~~

Solution:

$$LC = LA - LT$$

$$= (1 \text{ month} \times 20 \text{ years}) - (1/2 \text{ months} \times 20 \text{ years})$$

$$= 20 \text{ months} - 10 \text{ months}$$

$$= 10 \text{ months}$$

Examples:

4. Leave allowed = 40 days per year

Leave taken = 20 days per year

Number of year of service = 12 years ~~and 10 months~~

Solution:

$$LC = LA - LT$$

$$= (30 \text{ days} \times 12 \text{ years}) - (20 \text{ days} \times 12 \text{ years})$$

$$= 360 \text{ days} - 240 \text{ days}$$

$$= 120 \text{ days}$$

$$= 4 \text{ months (always divide by 30)}$$

Average salary p.m. = basic salary p.m. + DA (in term) p.m. + turnover commission p.m.

(average of last 10 months immediately preceding the date of retirement)

Voluntary retirement compensation:

Exempt U/S 10(10)(C) maximum amount Rs. 5,00,000

Ret-ranchmen compensation:

Exempt U/S 10(10)(B) maximum amount Rs. 5,00,000

Award from employer:

Fully taxable

Salary in lieu of notice period:

Fully taxable

Foreign salary:

Fully taxable

Surrender of salary:

IGNORE (not an income)

Illustration – 12

Mr. Smith retires on 1st September 2019 from the service of X traders after completing 23 years and 10 months service. He provide the following information:

1. Basic salary Rs. 25,000 pm
2. DA (in term) Rs. 8,000 pm
3. Leave salary Rs. 3,00,000 (he was entitled to leave of 35 days every year during his service, but he actually avail 600 days during his service)
4. He received Rs. 3,00,000 for RPF
5. He received voluntary retirement compensation Rs. 7,50,000
6. Award from employer Rs. 10,000

Calculate his income from salary for PY 2019-20 AY 2020-21

Solution:

Statement Of Income Form Salary Of Mr. Kishan for PY 2019-20 and AY 2020-21

Particular	Amount	Amount
1. Basic salary (25,000 x 5 month)		1,25,000
2. DA (in term) (8,000 x 5 months)		40,000
3. Leave salary	3,00,000	
a. Leave credit (month) x average salary p.m. 3 month x (25,000 + 8,000 + _____)	= 99,000	
b. 10 months x average salary p.m.+ 10 month x (25,000 + 8,000 + _____)	= 3,30,000	
c. Actual amount received	= 3,00,000	
d. Rs. 3,00,000	= 3,00,000	
	(99,000)	2,01,000
4. received for RPF	3,00,000	
less: fully exempt	(3,00,000)	Nil
5. voluntary retirement compensation	7,50,000	
less: exempt	(5,00,000)	2,50,000
6. Award from employer		10,000
GROSS SALARY		6,26,000
Less: Deduction U/ S 16	40,000	
1. Standard Deduction	-	
2. Entertainment Allowance	-	(40,000)
3. Professional Tax		
Net Taxable Income From Salary		5,86,000

LC = LA – LT
= (30 days x 23 years) – 600 days
= 690 days – 600 days
= 90 days
= 3 months (always divide by 30)

: EXTRA QUESTION :

Q – 1)

Mrs. Arora is a lecturer in Swami Vivekanand College, Pune. She furnishes you the following details:

- (1) Monthly salary Rs. 3,600.
- (2) House rent allowance Rs. 450 p.m. (of which Rs. 200 p.m. is exempt)
- (3) Allowance for looking after the evening shift of the college Rs. 500 p.m.
- (4) Examiner ship fees from Pune University Rs. 2,000 and from Baroda University Rs. 1,200.
- (5) Expenditure on books for her employment Rs. 3,700.
- (6) Professional tax deducted at source Rs. 600.
- (7) Expenditure on attending a seminar at Goa Rs. 1,750 was re-imbursed by College.

You are required to compute income from salaries of Mrs. Arora for assessment year 2020-21.

Q – 2)

Compute the income of Mr. Kumar under the head salaries for the year ended 31-3-2020.

- (1) Salaries received during the year Rs. 60,000.
- (2) Travelling allowance Rs. 2,500.
- (3) Received D.A. arrears for last three years on February 15, 2020 Rs. 6,500.
- (4) Mr. Kumar received an entertainment allowance amounting to Rs. 15,000 for entertaining the customers on behalf of the company. Out of this sum he has spent Rs. 11,500 only.
- (5) Received bonus during the year equivalent to two months' basic salary.
- (6) He has incurred following expenses during the year
 - (a) Professional tax paid Rs. 600
 - (b) Books required for employment purposes purchased worth Rs. 3,200.

Q – 3)

Mr. Rane a resident in India, furnishes the following particulars of his income for the year ended March 31, 2020.

- (1) He joined the service on 1st July 2017 in the grade of 6,000 - 2,000 - 12,000,
- (2) City Compensatory Allowance Rs. 50,000
- (3) Residential house made available to him free of rent. This perquisite is valued at 10% of the basic salary.
- (4) Life Insurance premium of Rs. 2,000 was paid by his employer.
- (5) Reimbursement of medical bills Rs. 15,000.
- (6) Professional tax paid by him Rs. 2,500.

Compute the income under the head salaries for the year ended 31-3-2020.

Q – 4)

Mr. Pitale, a resident individual gives the following particulars of his income earned during the year ended March 31, 20120.

- (1) Net salary received Rs. 89,000
 - (2) Deduction for Contribution to recognized provident fund Rs. 10,000
 - (3) Tax Deduction at source @ 10% of Salary
 - (4) Taxable conveyance allowance Rs. 2,000
 - (5) Education allowance for 2 children at Rs. 130 p.m. each.
(exempt under rules: @ Rs. 100 p.m. each)
 - (6) Employer's contribution to Statutory Provident Fund Rs. 15,000. Interest credited to the PF is Rs. 16,250.
- Compute his income under the head 'salaries' for the assessment year 2020-21.

Q – 5)

Mr. Narendra is working as Planning & Development Engineer with Sriram Agencies. During the year he received –

- (1) Salary Rs. 60,000.
 - (2) Bonus Rs. 4,500.
 - (3) Commission on value of projects undertaken Rs. 11,000.
 - (4) Tour allowance received Rs. 10,300 spent Rs. 4,300.
 - (5) Transport allowance (for travel between residence and office) received Rs. 6,000.
 - (6) Other taxable allowances Rs. 18,000.
- Compute his income from Salaries for the A.Y. 2020-21.

Q – 6)

Mr. Phatak is working as a production assistant in Suraj Textile Company. He furnishes you the following information for the assessment year 2020-21 and asks you to compute his income taxable under 'salaries' for that period.

1. Salary @ Rs. 50,000 p.m.
2. Bonus equal to one month's salary was paid.
3. Uniform allowance of Rs. 1,700 was received from the company of which Rs. 1,500 was actually spent.
4. Personal expenses of Rs. 3 750 were paid by the company.
5. Mr. Phatak took the salary for April, 2020 in advance on March 21, 2020.
6. The following expenses on the medical treatment of his major son in the U.S.A. were paid by his employer
 - (a) actual medical expenses Rs. 2,50,000 (permitted by the Reserve Bank of India Rs. 2,20,000);
 - (b) stay in the USA of his son and one attendant Rs. 75,000 each (allowed by RBI Rs. 55,000 each);
 - (c) travelling for his son and the attendant Rs. 1,50,000 each.

Q – 7)

Mr. Vinayak is working as chief personnel officer in Bank of Kashmir. The following are the particulars of his income for the year ending March 31, 2020.

1. Basic salary Rs. 5,500 p.m.
2. Dearness Allowance Rs. 1,000 p.m.
3. Special Executive Allowance Rs. 500 pm,
4. Taxable conveyance allowance Rs. 5,200.

5. He received two month's basic salary as Bonus.
 6. He receives Rs. 750p.m. as entertainment allowance of which he spends Rs. 500 p.m. on an average for office purposes only.
 7. During the year he received Rs. 4,800 as Leave Travel Allowance to go to Mysore with his family. He incurred Rs. 4,200 expenses on his tour.
 8. He spent Rs. 2,000 on purchase of law books which are necessary for his job.
 9. Employer deducted profession tax Rs. 600 for the year.
- Compute his income from Salaries for the A.Y. 2020-21.

Q – 8)

Mr. Sunil, a Resident but not ordinarily resident individual, is employed by an Indian Company. For the previous year 2019-20 he submits the following information.

- (1) Salary of 5 months of service in U.S.A. Rs. 1,50,000.
 - (2) Salary of 7 months of service in Mumbai Rs. 21,000.
 - (3) Bonus for the year 2018 Rs. 10,000.
 - (4) Taxable car allowance at Mumbai Rs. 4,000.
 - (5) Car allowance in U.S.A. @ Rs. 15,000 p.m.
 - (6) Employer provided a rent-free furnished flat at U.S.A. Perquisite value U.S.A. flat is Rs. 10,000. Taxable value of house rent allowance paid during service at Mumbai is Rs. 8,500.
 - (7) He received an award of Rs. 10,000 from employer company in U.S.A., for the excellent work done there.
- Determine his taxable salary for the A.Y. 2019-20.

Q – 9)

Mr. Dasgupta was a Government Employee. He retired on October 1, 2019 and joined a private company from that date. He provides you the following information for the year ended March 31, 2020.

1. Basic salary from Govt. Rs. 3,200 p.m.
 2. Dearness Allowance Rs. 800 p.m. .
 3. House Rent Allowance - Rs. 7,500. (Exempt u/s 10(13A) Rs. 4,800).
 4. Leave Salary in respect of earned leave at his credit at the time of retirement Rs. 13,500.
 5. He received Rs. 33,000 - the value of commuted pension on January 15, 2020.
 6. Pension per month from October, 2019 Rs. 2,200.
 7. Gratuity received on retirement Rs. 95,000.
 8. Provident fund received on retirement Rs. 1,10,000.
 9. Salary from private company which he joined immediately after retirement. Rs. 3,000 p.m. (all inclusive)
 10. He received arrears of salary from Government on March 30, 2020 Rs. 4,600.
- Compute his taxable income under the head Salaries for the assessment year 2020-21.

Q – 10)

Mr. Prabhakar was working as Senior foreman in Central Railway. He retired on 31st August, 2019. Following are the particulars of his income relating to the year ending March 31, 2020.

1. Salary received Rs. 20,000.p.m.
2. Arrears of salary received Rs. 37,000 on April 2, 2019.
3. During September 2019, he received Gratuity Rs. 2,50,000.
4. He received Rs. 2,40,000 as commuted value of pension on October 25, 2019. In addition to that will also get Rs. 8,000 p.m. from September, 2019 as uncommuted pension from Railways.

5. He incurred the expenses incidental to employment Rs. 1,500.

6. He was re-imbursed Rs. 35,000 being the medical expenses incurred by him on the medical treatment of his son in a Government hospital.

You are required to compute his taxable income for the assessment year 2020-21.

Prof. Harsh Majithia