

Advance learning on tax treatment of various forms of salary like bonus, overtime pay, salary in lieu of notice period, etc. (Practical)

Illustration on tax treatment of advance salary

On 31st January, 2013, Mr. Shailesh received advance salary of Rs. 1,84,000 pertaining to the months of February, March, April and May, 2013. As per the accountant of his company, advance salary will be charged to tax in the year to which salary pertains to and, hence, advance salary for the month of April, 2013 and May, 2013 will not be charged to tax in the year 2012-13. However, Mr. Shailesh is confused regarding the tax treatment of advance salary. He wants to know the exact legal provisions relating to the tax treatment of advance salary. Advise him in this regard and determine the year of taxability of advance salary.

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Salary is charged to tax on due or receipt basis, whichever is earlier. Hence, advance salary received by an employee will be charged to tax in the year of receipt.

Considering the above provision, advance salary pertaining to the months of April and May, 2013 received in January, 2013, *i.e.*, received during the financial year 2012-13, will be charged to tax in the previous year 2012-13, *i.e.*, the year of receipt.

Illustration on advance salary

Mr. Kapoor is working in Essem Ltd. Due to financial crises he requested his employer to give him advance salary of 3 months. His employer refused to give him advance salary, however, to enable him to overcome financial crises he agreed to provide him loan of Rs. 2,52,000 which will be deducted from his salary in 10 equal installments. The accountant of the company informed Mr. Kapoor that loan of Rs. 2,52,000 will be treated as advance salary, since it is going to be deducted from his salary. Advise Mr. Kapoor in this regard and assist him in determining the tax treatment of loan received from the employer.

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Loan received from the employer cannot be treated as advance salary, even though it is going to be deducted from the salary of the employee. Salary and loan are different items. Salary is the reward of the work done by the employee and loan is an obligation on the employee which is to be repaid to the employer. Thus, if loan is not to be directly repaid but is to be repaid in the form of deduction from salary it will not entitle the loan to be taxed as salary. However, in case of interest free loan or concessional loan, taxable value of perquisite in respect of interest element will arise in the hands of the employee. The tax treatment of perquisite arising from concessional or interest free loan is already discussed in advance learning on perquisite.

Illustration on tax treatment of arrears of salary

On 1st January, 2013, Mr. Rajesh received arrears of salary of Rs. 2,52,000 pertaining to the years 2008-09 to 2011-12. As per the chief accountant of the company, arrears will be charged to tax in the year of receipt since they were not taxed in the year to which they pertain to. However, Mr. Rajesh is of the opinion that arrears pertain to different years and, hence, cannot be charged to tax in one year. As per his view, arrears are to be charged to tax in different years. Advise him in this regard and determine the year of taxability of arrears of salary.

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Arrears of salary received by an employee are taxed in the year of receipt if the same were not taxed earlier on due basis. The rule will remain same even if the arrears pertain to different years. Hence, in this case arrears of salary of Rs. 2,52,000 will be charged to tax in the year of receipt of arrears (since they were not taxed earlier). However, in this case Mr. Rajesh can claim relief under section 89 in respect of arrears of salary.

Illustration on nature of bonus

Mr. Sudhir received bonus from his employer. The details of bonus received by him are as follows :

- Contractual bonus Rs. 84,000.
- Gratuitous bonus Rs. 25,200.

What will be the tax treatment of above items?

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Contractual bonus is charged to tax as salary and gratuitous bonus is charged to tax as perquisite. In this case Mr. Sudhir has received contractual as well as gratuitous bonus, hence, contractual bonus of Rs. 84,000 will be charged to tax as salary and gratuitous bonus of Rs. 25,200 will be charged to tax as perquisite.

Illustration on tax treatment of arrears of bonus

During the previous year 2012-13, Mr. Kapoor received arrears of bonus of earlier years amounting to Rs. 84,000. This amount was not charged to tax earlier. The accountant of the company deducted tax on the amount of bonus and intimated Mr. Kapoor that entire bonus will be charged to tax and he cannot claim relief under section 89 in respect of arrears of bonus. Advise Mr. Kapoor in this regard.

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Bonus is charged to tax on receipt basis if the same was not taxed earlier on due basis. In the current case, arrears of bonus of Rs. 84,000 were not charged to tax in earlier year and, hence, these will be charged to tax in the year of receipt, *i.e.*, previous year 2012-13. However, in respect of arrears of bonus of Rs. 84,000, Mr. Kapoor can claim relief under section 89.

Illustration on tax treatment of commission

Apart from other pay, Mr. Kumar received commission of Rs. 25,200 from his employer. The commission was paid in addition to salary. Mr. Kumar is of the view that

commission of Rs. 25,200 will be charged to tax as income from other sources and not as salary income since it is paid in addition to salary. Advise him in this regard.

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Commission received from employer will be charged to tax as salary income, irrespective of the fact whether it is paid in addition to salary or in lieu of salary. Thus, in the present case, commission of Rs. 25,200 will be charged to tax as salary income and not as income from other sources.

Illustration on tax treatment of commission

Mr. Kumar is receiving monthly commission of Rs. 8,400 from his employer. The accountant of the company informed Mr. Kumar that the company will be treating the commission of Rs. 8,400 as salary income and deduct tax accordingly. Is the view of accountant correct?

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Fees or commission received by the employee from the employer are charged to tax as salary income. Commission will be taxed as salary income, irrespective of the fact whether it is received as fixed monthly amount or is received as a percentage of any particular items like turnover achieved by the employee.

Thus, in the present case, commission of Rs. 8,400 will be charged to tax as salary income and the view of the accountant is correct.

Illustration on tax treatment of salary in lieu of notice period

Mr. Soham was working in Essem Ltd. The company removed him from the job without giving him any notice. As per the terms of his employment, the employer had to give one month notice or pay salary equivalent to one month's salary. The employer paid him salary of one month amounting to Rs. 84,000 and terminated his job without giving him any notice. In this case, Mr. Soham feels that salary in lieu of notice will be charged to tax as income from other sources. Advise him in this regard.

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Any payment received by an employee from his present employer or former employer or prospective employer will be charged to tax under the head "Salaries" (as profits in lieu of salary). Hence, salary in lieu of notice period is charged to tax as salary income and is charged to tax on receipt basis, *i.e.*, it is charged to tax in the year of receipt.

Thus, Rs. 84,000 will be taxed as salary income and will not be charged to tax as income from other sources.

Illustration on tax treatment of gifts received from employer

Mr. Kapoor is working in SM Ltd. During the year 2012-13 his employer gifted him clothes valuing Rs. 2,520. He is of the opinion that gift received by an employee from his employer is not charged to tax. Advise him in this regard.

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Any voluntarily gift received by the employee from his employer is charged to tax as salary income (perquisite). Value of any gift, gift vouchers, etc., received from

the employer by the employee or member of his household, shall be equal to the amount of such gift. Nothing shall be charged to tax, if aggregate value of such gift, vouchers, etc., during the previous year does not exceed Rs. 5,000. In the present case the value of the gift is less than Rs. 5,000 and, hence, nothing will be charged to tax in the hands of Mr. Kapoor.

Illustration on tax treatment of gifts received from employer

Mr. Krunal is working in SM Ltd. During the year 2012-13 his employer gifted him Rs. 2,520, *i.e.*, cash gift. He is of the opinion that gift received by an employee from his employer is not charged to tax. Advise him in this regard.

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Any voluntarily gift received by the employee from his employer is charged to tax as salary income (taxed as perquisite). Value of any gift, gift vouchers, etc., received from the employer by the employee or member of his household, shall be equal to the amount of such gift. Nothing shall be charged to tax, if aggregate value of such gift, vouchers, etc., during the previous year does not exceed Rs. 5,000. However, the exemption of Rs. 5,000 is applicable only in respect of non-monetary gift. Thus, entire amount of cash gift of Rs. 2,520 will be charged to tax since the exemption of Rs. 5,000 is not available in case of monetary gifts.

Illustration on compensation received from the employer

Mr. Sohil is working in Essem Ltd. at a monthly salary of Rs. 84,000. As per the terms of his employment, if there is any change in the terms and conditions of his service, then the employer will pay him compensation on the basis of change of the terms of service. In April, 2013 the terms of service of Mr. Sohil were changed and for this change the employer gave him a compensation of Rs. 2,52,000. Mr. Sohil is of the opinion that such compensation being capital in nature will not be charged to tax and will be exempt from tax. Advise him in this regard.

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Compensation received from the employer in connection with modification of terms of employment will be charged to tax as salary income, *i.e.*, profits in lieu of salary.

Considering above, Rs. 2,52,000 received on change in terms of service will be charged to tax and will be charged to tax under the head “Salaries”.

Illustration on pay for extra work

Mr. Kapoor is working in Essem Ltd. His office hours are from 10:00 an from to 5.00 pm. During the month of March, due to work pressure he had to perform additional duties and for the same he was paid additional salary of Rs. 8,400. He is of the opinion that this additional amount is not paid to him on routine basis and, hence, will not be charged to tax as salary income. Advise him in this regard.

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If an employee receives any payment in respect of extra work done by him then the same is charged to tax under the head “Salaries”. In other words, remuneration received for extra work will be charged to tax as salary income.

Considering above, remuneration for extra work amounting to Rs. 8,400 received by Mr. Kapoor for additional work carried on by him in the month of March will be charged to tax under the head “Salaries”.

Illustration on tax treatment of allowances, perquisites and retirement benefits

Illustrations on tax treatment of various allowances have already been discussed in the advance learning material on allowances, perquisites and retirement benefits. However, considering the importance of allowance, perquisites and retirement benefits in the field of TRPs and for a quick revision and to continue the flow of learning, illustrations on major allowances, perquisites and retirement benefits are provided over here.

Illustration on house rent allowance

Mr. Raja is residing in Mumbai. His salary structure for the previous year 2012-13 was as follows:

<i>Particulars</i>	<i>(Rs.)</i>
Basic salary	5,84,000
Dearness allowance forming part of salary while computing all retirement benefits	4,16,000
City compensation allowance	20,000
House rent allowance	1,20,000
Other allowances (fully taxed)	1,00,000
Commission @ 8.4% of the turnover achieved by him	1,00,000
Fixed monthly commission (@ Rs. 5,000 per month)	<u>60,000</u>
Total	14,00,000

Monthly rent paid by him for residential accommodation : Rs. 20,000.

He wants to know the amount of exemption in respect of HRA.

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Exemption in respect of HRA will be lower of the following amounts:

- (1) 50% of salary, when residential house is situated at Mumbai, Kolkata, Delhi or Chennai and 40% of salary where residential house is situated at any other place.
- (2) HRA actually received by the employee in respect of the period during which rental accommodation is occupied by the employee during the previous year.
- (3) Rent paid in excess of 10% of salary.

In this case, he resides in a metro city, hence, the exemption will be lower of the following amounts :

- (1) 50% of salary of Rs. 11,00,000 (Note 1) : Rs. 5,50,000.
- (2) Actual amount of HRA : Rs. 1,20,000
- (3) Rent paid in excess of 10% of salary : Rs. 1,30,000 (Note 2)

Exemption in respect of HRA will be Rs. 1,20,000. Taxable HRA will be computed as follows :

<i>Particulars</i>	<i>(Rs.)</i>
Total HRA received during the year	1,20,000
(–) HRA exempt under section 10(13A) (as computed above)	<u>1,20,000</u>
Taxable HRA	<i>Nil</i>

Note 1: Salary for the purpose of computing exemption in respect of HRA will include basic salary, dearness allowance forming part of salary while computing all retirement benefits and commission based on fixed percentage of turnover achieved by the employee. Apart from this, salary for this purpose does not include any other allowances/perquisites. Considering above provisions, salary will be computed as follows :

<i>Particulars</i>	<i>(Rs.)</i>
Basic salary	5,84,000
Dearness allowance forming part of salary while computing all retirement benefits	4,16,000
Commission @ 8.4% of the turnover achieved by him	<u>1,00,000</u>
Total	11,00,000

Note 2: 10% of salary (as computed in Note 1) will come to Rs. 1,10,000. Rent paid by him for the year is Rs. 2,40,000 (i.e., Rs. 20,000 per month). Rent in excess of Rs. 1,10,000 will come to Rs. 1,30,000.

Illustration on transport allowance

Mr. Krunal is working in a transport organisation. His employer pays him Rs. 8,400 per month on account of allowance to meet his personal expenditure during his duty performed in the course of running of such transport from one place to another place. Mr. Krunal is not in receipt of daily allowance. Mr. Krunal wants to know the taxability of this allowance.

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As per rule 2BB(2), exemption in above case will be 70% of the amount of allowance or Rs. 10,000 per month, whichever is lower. In this case 70% of allowance will come to Rs. 5,880, which is lower than Rs. 10,000. Hence, out of Rs. 8,400, Rs. 5,880 will be exempt from tax.

Illustration on children's education allowance

Mr. Suraj receives children's education allowance of Rs. 300 per month per child for his 3 children. His friend who is an accountant told him that he can claim exemption upto Rs. 100 per month per child upto two children. However, Mr. Suraj is of the view that exemption can be claimed for all the 3 children and would not be limited to 2 children. Advise him in this regard.

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As per rule 2BB(2), an employee can claim exemption in respect of children's education allowance of lower of the amount of allowance or Rs. 100 per month per child. This allowance is limited to 2 children of the employee. In this case, the exemption will be as follows :

<i>Particulars</i>	<i>(Rs.)</i>
Total children's education allowance per month (Rs. 300 per child or Rs. 900 for 3 children)	900
(-) Exemption as per rule 2BB(2) per month (Note 1)	<u>200</u>
Taxable value of allowance per month	700

Note 1: Exemption will be lower of the amount of allowance or Rs. 100 per month per child (upto 2 children). In this case, employee is receiving Rs. 300 per month per child. Exemption will be Rs. 100 per month per child and it will be limited upto 2 children. Hence, exemption will be Rs. 200 per month.

Illustration on hostel allowance

Mr. Sudhir receives hostel allowance of Rs. 500 per month per child for meeting the hostel expenditure of his 3 children. His friend who is an accountant told him that he can claim exemption upto Rs. 100 per month per child upto two children. However, Mr. Sudhir is of the view that exemption can be claimed for all the 3 children and would not be limited to 2 children. Advise him in this regard.

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As per rule 2BB(2), an employee can claim exemption in respect of allowance granted for meeting the hostel expenditure of his child. Exemption will be lower of the amount of allowance or Rs. 300 per month per child. This allowance is limited to 2 children of the employee. In this case, the exemption will be as follows :

<i>Particulars</i>	<i>(Rs.)</i>
Total hostel allowance per month (Rs. 500 per child or Rs. 1,500 for 3 children)	1,500
(-) Exemption as per rule 2BB(2) per month (Note 1)	<u>600</u>
Taxable value of allowance per month	900

Note 1: Exemption will be lower of the amount of allowance or Rs. 300 per month per child (upto 2 children). In this case, employee is receiving Rs. 500 per month per child. Exemption will be Rs. 300 per month per child and it will be limited upto 2 children. Hence, exemption will be Rs. 600 per month.

Illustration on transport allowance

Mr. Ramesh is receiving transport allowance of Rs. 1,000 per month from his employer. He is confused whether this allowance will be taxed or will be exempt. Advise him in this matter.

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As per rule 2BB(2), exemption in respect of transport allowance will be lower of the amount of allowance or Rs. 800 per month. In this case, Mr. Ramesh is receiving

transport allowance of Rs. 1,000 per month. Hence, exemption will be limited to Rs. 800 per month and taxable amount will be Rs. 200 per month.

Illustration on transport allowance

Mr. Soham is blind. He is working in A Ltd. and is receiving transport allowance of Rs. 2,000 per month from his employer. He is confused whether this allowance will be taxed or will be exempt. Advise him in this matter.

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As per rule 2BB(2), exemption in respect of transport allowance will be lower of the amount of allowance or Rs. 800 per month. However, in case of an employee who is orthopaedically handicapped or blind, the exemption will be increased to Rs. 1,600 per month. In this case, Mr. Soham is blind, hence, exemption will be Rs. 1,600 per month. He is receiving transport allowance of Rs. 2,000 per month, hence, exemption will be limited to Rs. 1,600 per month and taxable amount will be Rs. 400 per month.

Illustration on transport allowance

Mr. Kapil is working in A Ltd. and is receiving the following allowances :

Tiffin allowance : Rs. 840 per month

Medical allowance : Rs. 2,520 per month

Servant allowance : Rs. 200 per month

Electricity allowance : Rs. 1,840 per month.

He is confused whether these allowances will be taxed or will be exempt. Advise him in this matter.

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An employee can claim exemption in respect of allowances mentioned in rule 2BB(1) and rule 2BB(2). The above mentioned allowances received by Mr. Kapil are not covered under rule 2BB, hence, the above mentioned allowances will be fully taxed in the hands of Mr. Kapil.

Illustration on perquisite in respect of concessional accommodation

Mr. Rupesh is working with A Ltd. During the year 2012-13, his employer has provided him with a furnished accommodation in Mumbai. Other details are as follows:

- Basic salary for the year 2012-13 : Rs. 3,84,000.
- Dearness allowance forming part of salary for computing all retirement benefits: Rs. 3,13,000.
- Employer's contribution to Provident Fund : Rs. 84,000.
- Transport allowance received during the year : Rs. 12,600.
- Value of other perquisites : Rs. 2,84,000.
- The accommodation is owned by the employer.
- Cost of various furnitures provided by the employer : Rs. 1,50,000.
- Employer has also provided him with an air-conditioner. The air-conditioner is hired by the employer for which he pays a rent of Rs. 10,000 per annum.
- His employer has recovered Rs. 4,800 from him towards rent of the accommodation.

From the above information assist Mr. Rupesh in computing the value of concessional accommodation.

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In this case, the employer has provided a concessional furnished accommodation, hence, the value will be computed as follows :

Compute the value of accommodation considering accommodation as rent free furnished accommodation	XXXXXX
<i>Less:</i> The amount recovered from the employee	<u>XXXXXX</u>
Value of furnished accommodation (if positive)	XXXXXX

Value of rent free furnished accommodation will be computed as follows :

<i>Particulars</i>	<i>(Rs.)</i>
Compute the value of accommodation considering accommodation as unfurnished accommodation	XXXXXX
<i>Add :</i> 10% per annum of the original cost of furniture to the employer or actual hire charges (paid or payable) by the employer (if the furniture is hired by the employer)	XXXXXX
Value of furnished accommodation	XXXXXX

Value of rent free unfurnished accommodation will be computed as follows :

In this case, the accommodation is owned by the employer. Hence, the value will be computed as follows :

<i>Population of the city (based on 2001 Census) where the property is located</i>	<i>Value of perquisite</i>
Not exceeding 10 lakhs	7.5% of the salary
Exceeding 10 lakhs but not exceeding 25 lakhs	10% of the salary
Exceeding 25 lakhs	15% of the salary

Accommodation is located at Mumbai (*i.e.*, population of more than 25 lakhs). Hence, the value of the accommodation will be 15% of the salary. Salary will be computed as follows :

<i>Particulars</i>	<i>(Rs.)</i>
Basic salary	3,84,000
(+) Dearness allowance forming part of salary while computing all retirement benefits	3,13,000
(+) Transport allowance Rs. 12,600 – Rs. 9,600 (exempt @ Rs. 800 per month)	<u>3,000</u>
Salary for the purpose of computing value of accommodation	7,00,000

Value of unfurnished accommodation will come to Rs. 1,05,000 (15% of Rs. 7,00,000).

Value of furnished accommodation will be computed as follows :

<i>Particulars</i>	<i>(Rs.)</i>
Value of unfurnished accommodation	1,05,000
(+) Value of furniture	
(a) 10% of cost of furniture of Rs. 1,50,000	15,000
(b) Rent of air-conditioner	<u>10,000</u>
Value of furnished accommodation	1,30,000
(-) Amount recovered from the employee in respect of the accommodation	<u>4,800</u>
Value of concessional accommodation	1,25,200

Illustration on perquisite in respect of reimbursement of school fees

Mr. Sandip is a salaried employee. He annually pays Rs. 84,000 on account of school fees of his children. However, later on his employer reimburses the school fees to him. Mr. Sandip wants to know the tax treatment of perquisite arising from reimbursement of school fees of his children by his employer. Advise him in this regard.

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Reimbursement of expenditure incurred for the education of the children\members of the household of the employee is taxable as a perquisite in all cases (*i.e.*, specified employee as well as non-specified employee). Thus, in above case the value of perquisite in the hands of Mr. Sandip will be the amount of school fees reimbursed by the employer, *i.e.*, Rs. 84,000 will be charged to tax as perquisite in respect of reimbursement of school fees of the children of the employee.

Illustration on perquisite in respect of provision of movable asset

Mr. Rupal is a salaried employee. His employer has provided him throughout the previous year following movable assets for his personal use :

- (1) A washing machine (purchased by the employer on 1-4-2009 for Rs. 18,400).
- (2) An air-conditioner (hired by the employer, annual rent being Rs. 2,520).
- (3) A laptop (purchased by the employer for Rs. 84,000 on 1-4-2011).

Assist Mr. Rupal in computing the value of perquisite arising on account of above movable assets provided by the employer. His employer recovers Rs. 108 for the use of above assets.

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The perquisite will be valued as follows :

<i>Particulars</i>	<i>(Rs.)</i>
Value of perquisite on account of washing machine (value of perquisite will be @ 10% of the cost of machine to the employer)	1,840
(+) Value of perquisite on account of air-conditioner (value of perquisite will be actual rent paid/payable by the employer)	2,520
(+) Value of perquisite on account of laptop (nothing shall be charged in respect of use of laptop)	<u>Nil</u>
Gross value of perquisite	4,360

(-) Amount recovered from the employee	108
Value of perquisite charged to tax in respect of use of movable asset	4,252

Illustration on perquisite in respect of transfer of movable asset by the employer

On 25-1-2013, Mr. Rupesh purchased certain furniture from his employer for Rs. 25,200. The furniture was purchased by his employer on 25-2-2010 for Rs. 84,000. What will be the value of perquisite in this situation?

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In this situation, taxable value of perquisite will be computed as follows:

<i>Particulars</i>	<i>(Rs.)</i>
Original cost of furniture to the employer	84,000
(-) Depreciation @ 10% of cost, for 2 years (See note 1)	16,800
Gross value of furniture	67,200
(-) Amount paid to employer to acquire the furniture	<u>25,200</u>
Taxable value of perquisite	42,000

Note 1: WDV of such an asset will be computed after deducting depreciation @ 10% for 2 years, *i.e.*, completed year of ownership by the employer. Depreciation will be computed by considering the cost of such asset to the employer. The furniture was purchased by the employer on 25-2-2010 and was transferred on 25-1-2013, hence, the employer owned it for 2 years and 11 months (or two completed years). Based on this, depreciation for 2 years @ 10% on original cost of Rs. 84,000 will come to Rs. 16,800.

Suppose in above example the furniture is transferred on 28-2-2013, then instead of 2 years depreciation will be for 3 years.

Illustration on tax treatment of leave encashment

Mr. Raja retired from A Ltd. (a private sector company) on 23rd February, 2013, after serving for a period of 24 years and 8 months. As per service rules, he is entitled to leave of 28 days for each completed year of service. Following are other details:

Leave availed during service period	84 days
Leave encashed during earlier years	252 days
Leave encashed during the year 2012-13	6 days
Basic salary per month during 10 months preceding retirement	Rs. 30,000

Dearness allowance (per month) during 10 months preceding retirement:

(a) Forming part of salary for computing retirement benefits	Rs. 24,000
(b) Not forming part of salary for computing retirement benefits	Rs. 30,000
Leave salary received at the time of retirement	Rs. 9,24,000

From the above information, assist Mr. Raja in computing the amount of leave salary chargeable to tax for assessment year 2013-14.

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As per section 10(10AA), leave encashment by a non-Government employee at the time of retirement (whether on superannuation or otherwise) is exempt. The exemption in respect of leave encashment in case of a non-Government employee at the time of retirement will be lower of the following amount :

- Period of earned leave standing to the credit of the employee's account at the time of retirement \times Average monthly salary.
- Average monthly salary \times 10 (*i.e.*, 10 months' average salary).
- Maximum amount as specified by the Government, *i.e.*, Rs. 3,00,000.
- Leave encashment actually received at the time of retirement.

Computation in this regard would be follows :

Total leave salary taxable for the assessment year 2013-14 will be computed as follows:

<i>Particulars</i>	<i>(Rs.)</i>
Total leave salary received at the time of retirement	9,24,000
<i>Less:</i> Leave salary exempt under section 10(10AA)(ii) (Note 1)	3,00,000
Taxable leave salary	6,24,000

Note 1: As per section 10(10AA)(ii), exemption in respect of leave salary received by a non-Government employee is least of the following:

<i>Particulars</i>	<i>(Rs.)</i>
1. Cash equivalent to earned leave (Note 2)	5,94,000
2. 10 months' average salary (Note 3)	5,40,000
3. Maximum specified amount	3,00,000
4. Actual amount received	9,24,000

Amount of exemption under section 10(10AA)(ii) will be Rs. 3,00,000, being least of above.

Note 2: Computation of cash equivalent to earned leave:

Step 1: Computation of leave earned standing to credit at the time of retirement:

In this case, Mr. Raja is entitled to 28 days' leave for each completed year of service, hence, while computing leave credit, we will consider 28 days only (since it is less than 30 days).

Detailed computation will be as follows:

<i>Particulars</i>	<i>Days</i>
Total leave available during the tenure of service (28 days \times 24 years) [period of 8 months (<i>i.e.</i> , fraction of year) is to be ignored]	672 days
<i>Less:</i> (a) Leave availed during service	84 days
(b) Leave encashed during earlier years	252 days
(c) Leave encashed in previous year 2012-13	6 days
Leave standing to credit at the time of retirement	330 days
(\div) Days in month	30 days

Leave credit at the time of retirement

11 months

Step 2: Computation of average monthly salary:

As per section 10(10AA)(ii), salary for the purpose of computation of exemption is:

- 10 months' average salary immediately preceding the retirement (i.e., day of retirement and not the month of retirement).
- Salary will include basic salary, dearness allowance forming part of salary while computing retirement benefits and commission based on fixed percentage of turnover.

Based on above, salary will be computed as follows:

<i>Particulars</i>	<i>(Rs.)</i>
Basic salary per month, for 10 months immediately preceding the retirement	30,000
Dearness allowance per month (forming part of salary while computing retirement benefits), for 10 months immediately preceding the retirement	<u>24,000</u>
Total monthly salary for the purpose of computing exemption	54,000

There is no need to convert aforesaid monthly salary of Rs. 54,000 into average monthly salary, since there is no change in salary during past 10 months.

Step 3: Computation of cash equivalent to earned leave:

$$\begin{aligned} &= \text{Leave standing to credit at the time of retirement} \times \text{Average monthly salary} \\ &= 11 \text{ months} \times \text{Rs. } 54,000 \\ &= \text{Rs. } 5,94,000 \end{aligned}$$

Note 3: Computation of 10 months' average salary:

10 months' average salary will be computed as follows:

$$\begin{aligned} &= \text{Average monthly salary} \times 10 \text{ months} \\ &= \text{Rs. } 54,000 \times 10 \text{ months} = \text{Rs. } 5,40,000 \end{aligned}$$

Illustration on tax treatment of gratuity

Mr. Raja retired from A Ltd. on 23rd February, 2013, after serving for a period of 24 years and 8 months. Following are other details:

- Basic salary per month during 10 months preceding the month of retirement (i.e., monthly salary from 1-4-12 to 31-1-13) : Rs. 30,000.
- Dearness allowance per month during 10 months preceding the month of retirement (i.e., monthly DA from 1-4-12 to 31-1-13)
 - (a) Forming part of salary for computing retirement benefits : Rs. 24,000
 - (b) Not forming part of salary for computing retirement benefits : Rs. 30,000
- Gratuity received at the time of retirement Rs. 15,00,000. Compute the amount of exemption in respect of gratuity under section 10(10)(ii)/(iii) considering :
 - (i) Mr. Raja is covered by the Payment of Gratuity Act, 1972
 - (ii) Mr. Raja is not covered by the Payment of Gratuity Act, 1972.

(i) When Mr. Raja is covered by Payment of Gratuity Act, 1972

As per section 10(10)(ii), exemption in respect of gratuity received by a non-Government employee (covered by the Payment of Gratuity Act, 1972) is least of the following:

<i>Particulars</i>	<i>(Rs.)</i>
--------------------	--------------

1. 15 days' salary for each completed year of service or part in excess of 6 months (Note 1)	12,11,550
2. Maximum specified amount	10,00,000
3. Actual amount received	15,00,000

Amount of exemption under section 10(10)(ii) will be Rs. 10,00,000, being least of above. Thus, taxable amount of gratuity will be Rs. 5,00,000 (i.e., Rs. 15,00,000 - Rs. 10,00,000)

Note 1: Computation of 15 days' salary for each completed year of service or part in excess of 6 months:

For the computation following points should be considered:

- Part of year in excess of six months will be considered as a full year.
- Salary for the aforesaid purpose will be last drawn salary.
- Salary for the aforesaid purpose will include basic salary and any dearness allowance (i.e., whether or not forming part of salary, while computing retirement benefits).
- While computing 15 days' salary, we will divide monthly salary by 26 days.

Based on above, computation will be as follows:

- Salary will be Rs. 84,000 (i.e., Rs. 30,000 + Rs. 24,000 + Rs. 30,000).
- 15 days' salary will be Rs. 48,462 (i.e., Rs. 84,000/26 × 15).
- Duration of service is 24 years and 8 months, i.e., it will be taken as 25 years (for computation of exemption).

Thus, total amount of salary will be Rs. 12,11,550 (i.e., Rs. 48,462 × 25 years).

(ii) When Mr. Raja is not covered by Payment of Gratuity Act, 1972

As per section 10(10)(iii), exemption in respect of gratuity received by non-Government employee (not covered by the Payment of Gratuity Act, 1972) is least of the following:

<i>Particulars</i>	<i>(Rs.)</i>
1. Half month's average salary for each completed year of service (Note 2)	6,48,000
2. Maximum specified amount	10,00,000
3. Actual amount received	15,00,000

Amount of exemption under section 10(10)(iii) will be Rs. 6,48,000, being least of above. Thus, taxable amount of gratuity will be Rs. 8,52,000 (i.e., Rs. 15,00,000 - Rs. 6,48,000).

Note 2: Computation of half month's average salary for each completed year of service :

Following points should be considered in this regard:

- While computing duration of service, any part of year will be ignored.
- Salary for the aforesaid purpose will be average salary for 10 months preceding the month (not the day) of retirement.
- Salary for this purpose will include basic salary, dearness allowance forming part of salary while computing retirement benefits and commission based on fixed percentage of turnover.
- Half month's average salary will be computed by dividing average salary by 2.

Based on above, salary will be computed as follows:

<i>Particulars</i>	<i>(Rs.)</i>
Basic salary per month, for 10 months immediately preceding the month of retirement	30,000
(+) Dearness allowance per month (forming part of salary while computing retirement benefits), for 10 months immediately preceding the month of retirement	24,000
Total monthly salary for the purpose of computing exemption	<u>54,000</u>

There is no need to convert aforesaid monthly salary of Rs. 54,000 into average monthly salary, since there is no change in salary during past 10 months.

Based on above, computation will be as follows:

- Half month's average salary will be Rs. 27,000 (i.e., Rs. 54,000/2).
- Duration of service will be 24 years (part of year will be ignored).

Thus, total amount of salary will be Rs. 6,48,000 (i.e., Rs. 27,000 × 24 years).

Illustration on tax treatment of commuted pension

Mr. Rajan is working as a chief accountant in A. Ltd. On 31-3-2012 he retired from his service. From April, 2012 and he is receiving a monthly pension of Rs. 18,400. On 31-12-2012, he commuted his 30% of pension for Rs. 2,52,000 and continued to receive balance of 70% of pension of Rs. 12,880. At the time of retirement he also received Gratuity. One of his friends who is an accountant told him that a non-Government employee cannot claim exemption in respect of pension, if he is receiving Gratuity. Advise Mr. Rajan in this regard.

**

Un-commuted pension is fully taxable. Hence, uncommuted pension of Rs. 18,400 per month and Rs. 12,880 per month will be fully taxed.

As per section 10(10A)(ii)(a)/(b), exemption in respect of commuted pension in case of a non-Government employee will be as follows :

- If the employee receives gratuity, one third of full value of commuted pension will be exempt from tax under section 10(10A) (ii)(a).
- If the employee does not receive gratuity, one half of full value of commuted pension will be exempt from tax under section 10(10A) (ii)(b).

In the above case, Mr. Rajan has received gratuity, hence, exemption will be one third of full value of commuted pension. Rs. 2,52,000 is 30% of full value of computed pension, hence, full value of commuted pension will come to Rs. 8,40,000. Maximum exemption will be Rs. 2,80,000 (being one third of full value of commuted pension). In this case, Mr. Rajan has received Rs. 2,52,000, hence, entire amount will be exempt from tax.

Suppose in above case, Mr. Rajan has not received gratuity, then maximum exemption will come to Rs. 4,20,000 being one half of full value of commuted pension.

Illustration on tax treatment of salary received by a partner

Mr. Mitesh is a partner in MN Ltd. During the year he received salary of Rs. 25,200 from the firm. Apart from salary, he received following payments from the firm :

- Interest on capital : Rs. 84,000.
- Share of profit Rs. 1,84,000.

He is of the opinion that, since he is receiving salary from the firm, so entire amount received from the firm on account of salary, interest and share of profit will be charged to tax under the head "Salaries". Advise him in this regard.

**

For taxing any income under the head "Salaries", the relation of the payer and payee should be that of the employer and the employee. In case of a partnership firm, the partners are not the employees of the firm and, hence, salary received by the partners from the firm is not charged to tax under the head "Salaries". Salary received by partner from the firm is charged to tax under the head "Profits and gains of business or profession".

Considering above discussion, amount received by Mr. Mitesh from the firm will not be charged to tax under the head "Salaries". The tax treatment of various amounts will be as follows :

- Salary and interest on capital will be charged to tax under the head "Profits & Gains of Business/Profession".
- Share of profit will be exempt from tax.

Illustration on tax treatment of salary received by an Indian citizen deputed outside India

Mr. Soham (an Indian citizen) is working in Essem Ltd., a private sector company. The company deputed him to its USA office. For the year 2012-13, he was deputed throughout the year in the USA and, hence, he was non-resident in India. The pay structure for the year 2012-13 was as follows :

- Basic salary 84,000\$
- Value of various allowances 16,000\$.

He is confused regarding the tax treatment of the above amount in his hands. He is of the opinion that in case of an Indian citizen deputed outside India, salary is charged to tax in India even if the assessee is non-resident. Advise him in this regard.

**

Salary received by an Indian citizen deputed outside India by the Government is treated as income deemed to have accrued or arisen in India and will be taxed in India. However, in such a case allowance and perquisites will be exempt from tax.

The above discussed provisions are applicable only in case of an Indian citizen deputed outside India by Government of India. In the present case Mr. Soham is not deputed by Government of India and he is non-resident and, hence, nothing will be charged to tax in India in respect of salary received by him in the USA.

Illustration on tax treatment of salary received by an Indian citizen deputed outside India

Mr. Rohan (an Indian citizen) is a Government employee. Since 2010, he has been deputed by Government of India to the USA. For the year 2012-13 he was deputed throughout the year to USA. The pay structure for the year 2012-13 was as follows:

- Basic salary 1,84,000\$
- Value of various allowances 25,000\$.

He is confused regarding the tax treatment of the above amount in his hands. He is of the opinion that in case of an Indian citizen deputed outside India, salary is charged to tax in India even if the assessee is non-resident. Advise him in this regard.

**

Salary received by an Indian citizen deputed outside India by the Government is treated as income deemed to have accrued or arisen in India and will be taxed in India. However, in such a case allowance and perquisites will be exempt from tax.

In the above case, Mr. Rohan is an Indian citizen and he is deputed by Government of India and, hence, he will be covered by above provisions and, thus, salary of 1,84,000\$ will be charged to tax in his hands, however, allowances will be exempt.

Illustration on tax treatment of surrender of salary to the Central Government

Mr. Sunil is working in Essem Ltd. In the month of January, 2013 he won a game show and earned Rs. 5 crores. Considering such a huge gain he decided to surrender his salary or to forego his salary. Advise him in this regard how to surrender/forego salary to minimise his tax liability.

**

Salary foregone after its accrual is charged to tax, even though it is not received by the employee. However, if salary is surrendered to the Central Government under section 2 of the Voluntary Surrender of Salaries (Exemption from Taxation) Act, 1961, then such surrendered salary is not charged to tax.

Thus, if he foregoes his salary then it will be charged to tax, however, if he surrenders his salary to the Central Government under section 2 of the Voluntary Surrender of Salaries (Exemption from Taxation) Act, 1961, then the salary surrendered by him will not be charged to tax in his hands.

Illustration on computation of relief in respect of arrears of salary

During the previous year 2012-13, Mr. Lalit (age 29 years and resident and ordinarily resident in India) received salary of Rs. 4,84,000 and arrears of bonus for the year 2009-10 amounting to Rs. 50,000. The details of taxable income are as follows :

- Taxable income for the year 2012-13, excluding arrears of bonus : Rs. 4,84,000.
- Taxable income for the year 2009-10, excluding arrears of bonus : Rs. 3,84,000.

Compute the amount of relief under section 89 from above details.

**

Under section 89, read with Rule 21A(2), an employee can claim relief in respect of arrears of salary. Relief can be computed in the following manner:

Step 1 : Calculate total tax liability (including surcharge and cess, if any) on the total income, *including* the additional salary of the previous year in which such salary is received.

Step 2 : Calculate total tax liability (including surcharge and cess, if any) on the total income, *excluding* the additional salary of the previous year in which such salary is received.

Step 3 : Find the difference between tax computed at (1) and (2) above.

Step 4 : Calculate total tax liability (including surcharge and cess, if any) on the total income, *including* the additional salary of the previous year(s) to which such salary relates to.

Step 5 : Calculate total tax liability (including surcharge and cess, if any) on the total income, *excluding* the additional salary of the previous year(s) to which such salary relates to.

Step 6 : Find the difference between tax computed at (4) and (5) above.

Relief under section 89 is the excess of tax computed at Step 3 over tax computed at Step 6. No relief is available, if tax computed at Step 3 is less than tax computed at Step 6.

Considering above, relief will be computed as follows :

Tax on income of the year 2012-13, including arrears of salary : (income will be Rs. 5,34,000).	Rs. 37,904
Tax on income of the year 2012-13, excluding arrears of salary : (income will be Rs. 4,84,000).	<u>Rs. 29,252</u>
<i>Difference (A)</i>	: Rs. 8,652
Tax on income of the year 2009-10, including arrears of salary : (income will be Rs. 4,34,000).	Rs. 42,024
Tax on income of the year 2009-10, excluding arrears of salary : (income will be Rs. 3,84,000).	<u>Rs. 31,724</u>
<i>Difference (B)</i>	: Rs. 10,300
Difference of difference (A) – (B)	: Rs. (1,648)
Relief under section 89(1) will amount to <i>Nil</i> , since (B) exceeds (A)	

FAQs

Q1. What is the tax treatment of advance salary? Explain with the help of an illustration?

Following illustrations will explain the tax treatment of advance salary :

Illustration

On 31st January, 2013, Mr. Shailesh received advance salary of Rs. 1,84,000 pertaining to the months of February, March, April and May, 2013. As per the accountant of his company, advance salary will be charged to tax in the year to which salary pertains to and, hence, advance salary for the month of April, 2013 and May, 2013 will not be charged to tax in the year 2012-13. However, Mr. Shailesh is confused regarding the tax treatment of advance salary. He wants to know the exact legal provisions relating to the tax treatment of advance salary. Advise him in this regard and determine the year of taxability of advance salary.

**

Salary is charged to tax on due or receipt basis, whichever is earlier. Hence, advance salary received by an employee will be charged to tax in the year of receipt.

Considering the above provision, advance salary pertaining to the months of April and May, 2013 received in January, 2013, *i.e.*, received during the financial year 2012-13, will be charged to tax in the previous year 2012-13, *i.e.*, the year of receipt.

Illustration

Mr. Kapoor is working in Essem Ltd. Due to financial crises he requested his employer to give him advance salary of 3 months. His employer refused to give him advance salary, however, to enable him to overcome financial crises he agreed to provide him loan of Rs. 2,52,000 which will be deducted from his salary in 10 equal installments. The accountant of the company informed Mr. Kapoor that loan of Rs. 2,52,000 will be treated as advance salary, since it is going to be deducted from his salary. Advise Mr. Kapoor in this regard and assist him in determining the tax treatment of loan received from the employer.

**

Loan received from the employer cannot be treated as advance salary, even though it is going to be deducted from the salary of the employee. Salary and loan are different items. Salary is the reward of the work done by the employee and loan is an obligation on the employee which is to be repaid to the employer. Thus, if loan is not to be directly repaid but is to be repaid in the form of deduction from salary it will not entitle the loan to be taxed as salary. However, in case of interest free loan or concessional loan, taxable value of perquisite in respect of interest element will arise in the hands of the employee. The tax treatment of perquisite arising from concessional or interest free loan is already discussed in advance learning on perquisite.

Q2. What is the tax treatment of arrears of salary? Explain with the help of an illustration?

Following illustration will explain the tax treatment of arrears of salary :

On 1st January, 2013, Mr. Rajesh received arrears of salary of Rs. 2,52,000 pertaining to the years 2008-09 to 2011-12. As per the chief accountant of the company, arrears will be charged to tax in the year of receipt since they were not taxed in the year to which they pertain to. However, Mr. Rajesh is of the opinion that arrears pertain to different years and, hence, cannot be charged to tax in one year. As per his view, arrears are to be charged to tax in different years. Advise him in this regard and determine the year of taxability of arrears of salary.

**

Arrears of salary received by an employee are taxed in the year of receipt if the same were not taxed earlier on due basis. The rule will remain same even if the arrears pertain to different years. Hence, in this case arrears of salary of Rs. 2,52,000 will be charged to tax in the year of receipt of arrears (since they were not taxed earlier). However, in this case Mr. Rajesh can claim relief under section 89 in respect of arrears of salary.

Q3. What is the tax treatment of bonus and commission? Explain with the help of an illustration?

Following illustrations will explain the tax treatment of bonus and commission :

Illustration on nature of bonus

Mr. Sudhir received bonus from his employer. The details of bonus received by him are as follows :

- Contractual bonus Rs. 84,000.
- Gratuitous bonus Rs. 25,200.

What will be the tax treatment of above items?

**

Contractual bonus is charged to tax as salary and gratuitous bonus is charged to tax as perquisite. In this case Mr. Sudhir has received contractual as well as gratuitous bonus, hence, contractual bonus of Rs. 84,000 will be charged to tax as salary and gratuitous bonus of Rs. 25,200 will be charged to tax as perquisite.

Illustration on tax treatment of arrears of bonus

During the previous year 2012-13, Mr. Kapoor received arrears of bonus of earlier years amounting to Rs. 84,000. This amount was not charged to tax earlier. The accountant of the company deducted tax on the amount of bonus and intimated Mr. Kapoor that entire bonus will be charged to tax and he cannot claim relief under section 89 in respect of arrears of bonus. Advise Mr. Kapoor in this regard.

**

Bonus is charged to tax on receipt basis if the same was not taxed earlier on due basis. In the current case, arrears of bonus of Rs. 84,000 were not charged to tax in earlier year and, hence, these will be charged to tax in the year of receipt, *i.e.*, previous year 2012-13. However, in respect of arrears of bonus of Rs. 84,000, Mr. Kapoor can claim relief under section 89.

Illustration on tax treatment of commission

Apart from other pay, Mr. Kumar received commission of Rs. 25,200 from his employer. The commission was paid in addition to salary. Mr. Kumar is of the view that commission of Rs. 25,200 will be charged to tax as income from other sources and not as salary income since it is paid in addition to salary. Advise him in this regard.

**

Commission received from employer will be charged to tax as salary income, irrespective of the fact whether it is paid in addition to salary or in lieu of salary. Thus, in the present case, commission of Rs. 25,200 will be charged to tax as salary income and not as income from other sources.

Illustration on tax treatment of commission

Mr. Kumar is receiving monthly commission of Rs. 8,400 from his employer. The accountant of the company informed Mr. Kumar that the company will be treating the commission of Rs. 8,400 as salary income and deduct tax accordingly. Is the view of accountant correct?

**

Fees or commission received by the employee from the employer are charged to tax as salary income. Commission will be taxed as salary income, irrespective of the fact whether it is received as fixed monthly amount or is received as a percentage of any particular items like turnover achieved by the employee.

Thus, in the present case, commission of Rs. 8,400 will be charged to tax as salary income and the view of the accountant is correct.

Q4. What is the tax treatment of salary in lieu of notice period? Explain with the help of an illustration?

Following illustration will explain the tax treatment of salary in lieu of notice period :

Mr. Soham was working in Essem Ltd. The company removed him from the job without giving him any notice. As per the terms of his employment, the employer had to give one month notice or pay salary equivalent to one month's salary. The employer paid him salary of one month amounting to Rs. 84,000 and terminated his job without giving him any notice. In this case, Mr. Soham feels that salary in lieu of notice will be charged to tax as income from other sources. Advise him in this regard.

**

Any payment received by an employee from his present employer or former employer or prospective employer will be charged to tax under the head "Salaries" (as profits in lieu of salary). Hence, salary in lieu of notice period is charged to tax as salary income and is charged to tax on receipt basis, *i.e.*, it is charged to tax in the year of receipt.

Thus, Rs. 84,000 will be taxed as salary income and will not be charged to tax as income from other sources.

Q5. What is the tax treatment of gift from employer? Explain with the help of an illustration?

Following illustrations will explain the tax treatment of gift from employer :

Illustration on tax treatment of gifts received from employer

Mr. Kapoor is working in SM Ltd. During the year 2012-13 his employer gifted him clothes valuing Rs. 2,520. He is of the opinion that gift received by an employee from his employer is not charged to tax. Advise him in this regard.

**

Any voluntarily gift received by the employee from his employer is charged to tax as salary income (perquisite). Value of any gift, gift vouchers, etc., received from the employer by the employee or member of his household, shall be equal to the amount of such gift. Nothing shall be charged to tax, if aggregate value of such gift, vouchers, etc., during the previous year does not exceed Rs. 5,000. In the present case the value of the gift is less than Rs. 5,000 and, hence, nothing will be charged to tax in the hands of Mr. Kapoor.

Illustration on tax treatment of gifts received from employer

Mr. Krunal is working in SM Ltd. During the year 2012-13 his employer gifted him Rs. 2,520, *i.e.*, cash gift. He is of the opinion that gift received by an employee from his employer is not charged to tax. Advise him in this regard.

**

Any voluntarily gift received by the employee from his employer is charged to tax as salary income (taxed as perquisite). Value of any gift, gift vouchers, etc., received from the employer by the employee or member of his household, shall be equal to the amount of such gift. Nothing shall be charged to tax, if aggregate value of such gift, vouchers, etc., during the previous year does not exceed Rs. 5,000. However, the exemption of Rs. 5,000 is applicable only in respect of non-monetary gift. Thus, entire amount of cash gift of Rs. 2,520 will be charged to tax since the exemption of Rs. 5,000 is not available in case of monetary gifts.

Q6. What is the tax treatment of compensation received from the employer? Explain with the help of an illustration?

Following illustration will explain the tax treatment of compensation received from the employer:

Mr. Sohil is working in Essem Ltd. at a monthly salary of Rs. 84,000. As per the terms of his employment, if there is any change in the terms and conditions of his service, then the employer will pay him compensation on the basis of change of the terms of service. In April, 2013 the terms of service of Mr. Sohil were changed and for this change the employer gave him a compensation of Rs. 2,52,000. Mr. Sohil is of the opinion that such compensation being capital in nature will not be charged to tax and will be exempt from tax. Advise him in this regard.

**

Compensation received from the employer in connection with modification of terms of employment will be charged to tax as salary income, *i.e.*, profits in lieu of salary.

Considering above, Rs. 2,52,000 received on change in terms of service will be charged to tax and will be charged to tax under the head "Salaries".

Q7. What is the tax treatment of pay for extra work? Explain with the help of an illustration?

Following illustration will explain the tax treatment of pay for extra work:

Mr. Kapoor is working in Essem Ltd. His office hours are from 10:00 an from to 5.00 pm. During the month of March, due to work pressure he had to perform additional duties and for the same he was paid additional salary of Rs. 8,400. He is of the opinion that this additional amount is not paid to him on routine basis and, hence, will not be charged to tax as salary income. Advise him in this regard.

**

If an employee receives any payment in respect of extra work done by him then the same is charged to tax under the head “Salaries”. In other words, remuneration received for extra work will be charged to tax as salary income.

Considering above, remuneration for extra work amounting to Rs. 8,400 received by Mr. Kapoor for additional work carried on by him in the month of March will be charged to tax under the head “Salaries”.

Q8. What is the tax treatment of various allowances, perquisites and retirement benefits ? Explain with the help of an illustration?

Illustrations on tax treatment of various allowances have already been discussed in the advance learning material on allowances, perquisites and retirement benefits. However, considering the importance of allowance, perquisites and retirement benefits in the field of TRPs and for a quick revision and to continue the flow of learning, illustrations on major allowances, perquisites and retirement benefits are provided over here.

Illustration on house rent allowance

Mr. Raja is residing in Mumbai. His salary structure for the previous year 2012-13 was as follows:

<i>Particulars</i>	<i>(Rs.)</i>
Basic salary	5,84,000
Dearness allowance forming part of salary while computing all retirement benefits	4,16,000
City compensation allowance	20,000
House rent allowance	1,20,000
Other allowances (fully taxed)	1,00,000
Commission @ 8.4% of the turnover achieved by him	1,00,000
Fixed monthly commission (@ Rs. 5,000 per month)	<u>60,000</u>
Total	14,00,000

Monthly rent paid by him for residential accommodation : Rs. 20,000.

He wants to know the amount of exemption in respect of HRA.

**

Exemption in respect of HRA will be lower of the following amounts:

- (1) 50% of salary, when residential house is situated at Mumbai, Kolkata, Delhi or Chennai and 40% of salary where residential house is situated at any other place.
- (2) HRA actually received by the employee in respect of the period during which rental accommodation is occupied by the employee during the previous year.

(3) Rent paid in excess of 10% of salary.

In this case, he resides in a metro city, hence, the exemption will be lower of the following amounts :

(1) 50% of salary of Rs. 11,00,000 (Note 1) : Rs. 5,50,000.

(2) Actual amount of HRA : Rs. 1,20,000

(3) Rent paid in excess of 10% of salary : Rs. 1,30,000 (Note 2)

Exemption in respect of HRA will be Rs. 1,20,000. Taxable HRA will be computed as follows :

<i>Particulars</i>	<i>(Rs.)</i>
Total HRA received during the year	1,20,000
(-) HRA exempt under section 10(13A) (as computed above)	<u>1,20,000</u>
Taxable HRA	<i>Nil</i>

Note 1: Salary for the purpose of computing exemption in respect of HRA will include basic salary, dearness allowance forming part of salary while computing all retirement benefits and commission based on fixed percentage of turnover achieved by the employee. Apart from this, salary for this purpose does not include any other allowances/perquisites. Considering above provisions, salary will be computed as follows :

<i>Particulars</i>	<i>(Rs.)</i>
Basic salary	5,84,000
Dearness allowance forming part of salary while computing all retirement benefits	4,16,000
Commission @ 8.4% of the turnover achieved by him	<u>1,00,000</u>
Total	11,00,000

Note 2: 10% of salary (as computed in Note 1) will come to Rs. 1,10,000. Rent paid by him for the year is Rs. 2,40,000 (i.e., Rs. 20,000 per month). Rent in excess of Rs. 1,10,000 will come to Rs. 1,30,000.

Illustration on transport allowance

Mr. Krunal is working in a transport organisation. His employer pays him Rs. 8,400 per month on account of allowance to meet his personal expenditure during his duty performed in the course of running of such transport from one place to another place. Mr. Krunal is not in receipt of daily allowance. Mr. Krunal wants to know the taxability of this allowance.

**

As per rule 2BB(2), exemption in above case will be 70% of the amount of allowance or Rs. 10,000 per month, whichever is lower. In this case 70% of allowance will come to Rs. 5,880, which is lower than Rs. 10,000. Hence, out of Rs. 8,400, Rs. 5,880 will be exempt from tax.

Illustration on children's education allowance

Mr. Suraj receives children's education allowance of Rs. 300 per month per child for his 3 children. His friend who is an accountant told him that he can claim exemption upto Rs. 100 per month per child upto two children. However, Mr. Suraj is of the view that exemption can be claimed for all the 3 children and would not be limited to 2 children. Advise him in this regard.

**

As per rule 2BB(2), an employee can claim exemption in respect of children's education allowance of lower of the amount of allowance or Rs. 100 per month per child. This allowance is limited to 2 children of the employee. In this case, the exemption will be as follows :

<i>Particulars</i>	<i>(Rs.)</i>
Total children's education allowance per month (Rs. 300 per child or Rs. 900 for 3 children)	900
(-) Exemption as per rule 2BB(2) per month (Note 1)	<u>200</u>
Taxable value of allowance per month	700

Note 1: Exemption will be lower of the amount of allowance or Rs. 100 per month per child (upto 2 children). In this case, employee is receiving Rs. 300 per month per child. Exemption will be Rs. 100 per month per child and it will be limited upto 2 children. Hence, exemption will be Rs. 200 per month.

Illustration on hostel allowance

Mr. Sudhir receives hostel allowance of Rs. 500 per month per child for meeting the hostel expenditure of his 3 children. His friend who is an accountant told him that he can claim exemption upto Rs. 100 per month per child upto two children. However, Mr. Sudhir is of the view that exemption can be claimed for all the 3 children and would not be limited to 2 children. Advise him in this regard.

**

As per rule 2BB(2), an employee can claim exemption in respect of allowance granted for meeting the hostel expenditure of his child. Exemption will be lower of the amount of allowance or Rs. 300 per month per child. This allowance is limited to 2 children of the employee. In this case, the exemption will be as follows :

<i>Particulars</i>	<i>(Rs.)</i>
Total hostel allowance per month (Rs. 500 per child or Rs. 1,500 for 3 children)	1,500
(-) Exemption as per rule 2BB(2) per month (Note 1)	<u>600</u>
Taxable value of allowance per month	900

Note 1: Exemption will be lower of the amount of allowance or Rs. 300 per month per child (upto 2 children). In this case, employee is receiving Rs. 500 per month per child.

Exemption will be Rs. 300 per month per child and it will be limited upto 2 children. Hence, exemption will be Rs. 600 per month.

Illustration on transport allowance

Mr. Ramesh is receiving transport allowance of Rs. 1,000 per month from his employer. He is confused whether this allowance will be taxed or will be exempt. Advise him in this matter.

**

As per rule 2BB(2), exemption in respect of transport allowance will be lower of the amount of allowance or Rs. 800 per month. In this case, Mr. Ramesh is receiving transport allowance of Rs. 1,000 per month. Hence, exemption will be limited to Rs. 800 per month and taxable amount will be Rs. 200 per month.

Illustration on transport allowance

Mr. Soham is blind. He is working in A Ltd. and is receiving transport allowance of Rs. 2,000 per month from his employer. He is confused whether this allowance will be taxed or will be exempt. Advise him in this matter.

**

As per rule 2BB(2), exemption in respect of transport allowance will be lower of the amount of allowance or Rs. 800 per month. However, in case of an employee who is orthopaedically handicapped or blind, the exemption will be increased to Rs. 1,600 per month. In this case, Mr. Soham is blind, hence, exemption will be Rs. 1,600 per month. He is receiving transport allowance of Rs. 2,000 per month, hence, exemption will be limited to Rs. 1,600 per month and taxable amount will be Rs. 400 per month.

Illustration on transport allowance

Mr. Kapil is working in A Ltd. and is receiving the following allowances :

Tiffin allowance : Rs. 840 per month

Medical allowance : Rs. 2,520 per month

Servant allowance : Rs. 200 per month

Electricity allowance : Rs. 1,840 per month.

He is confused whether these allowances will be taxed or will be exempt. Advise him in this matter.

**

An employee can claim exemption in respect of allowances mentioned in rule 2BB(1) and rule 2BB(2). The above mentioned allowances received by Mr. Kapil are not covered under rule 2BB, hence, the above mentioned allowances will be fully taxed in the hands of Mr. Kapil.

Illustration on perquisite in respect of concessional accommodation

Mr. Rupesh is working with A Ltd. During the year 2012-13, his employer has provided him with a furnished accommodation in Mumbai. Other details are as follows:

- Basic salary for the year 2012-13 : Rs. 3,84,000.
- Dearness allowance forming part of salary for computing all retirement benefits: Rs. 3,13,000.

- Employer's contribution to Provident Fund : Rs. 84,000.
- Transport allowance received during the year : Rs. 12,600.
- Value of other perquisites : Rs. 2,84,000.
- The accommodation is owned by the employer.
- Cost of various furnitures provided by the employer : Rs. 1,50,000.
- Employer has also provided him with an air-conditioner. The air-conditioner is hired by the employer for which he pays a rent of Rs. 10,000 per annum.
- His employer has recovered Rs. 4,800 from him towards rent of the accommodation.

From the above information assist Mr. Rupesh in computing the value of concessional accommodation.

**

In this case, the employer has provided a concessional furnished accommodation, hence, the value will be computed as follows :

Compute the value of accommodation considering accommodation as rent free furnished accommodation	XXXXXX
<i>Less:</i> The amount recovered from the employee	<u>XXXXXX</u>
Value of furnished accommodation (if positive)	XXXXXX

Value of rent free furnished accommodation will be computed as follows :

<i>Particulars</i>	<i>(Rs.)</i>
Compute the value of accommodation considering accommodation as unfurnished accommodation	XXXXXX
<i>Add :</i> 10% per annum of the original cost of furniture to the employer or actual hire charges (paid or payable) by the employer (if the furniture is hired by the employer)	XXXXXX
Value of furnished accommodation	XXXXXX

Value of rent free unfurnished accommodation will be computed as follows :

In this case, the accommodation is owned by the employer. Hence, the value will be computed as follows :

<i>Population of the city (based on 2001 Census) where the property is located</i>	<i>Value of perquisite</i>
Not exceeding 10 lakhs	7.5% of the salary
Exceeding 10 lakhs but not exceeding 25 lakhs	10% of the salary
Exceeding 25 lakhs	15% of the salary

Accommodation is located at Mumbai (*i.e.*, population of more than 25 lakhs). Hence, the value of the accommodation will be 15% of the salary. Salary will be computed as follows :

<i>Particulars</i>	<i>(Rs.)</i>
Basic salary	3,84,000
(+) Dearness allowance forming part of salary while computing all retirement benefits	3,13,000
(+) Transport allowance Rs. 12,600 – Rs. 9,600 (exempt @ Rs. 800 per month)	<u>3,000</u>
Salary for the purpose of computing value of accommodation	7,00,000

Value of unfurnished accommodation will come to Rs. 1,05,000 (15% of Rs. 7,00,000).

Value of furnished accommodation will be computed as follows :

<i>Particulars</i>	<i>(Rs.)</i>
Value of unfurnished accommodation	1,05,000
(+) Value of furniture	
(a) 10% of cost of furniture of Rs. 1,50,000	15,000
(b) Rent of air-conditioner	<u>10,000</u>
Value of furnished accommodation	1,30,000
(–) Amount recovered from the employee in respect of the accommodation	<u>4,800</u>
Value of concessional accommodation	1,25,200

Illustration on perquisite in respect of reimbursement of school fees

Mr. Sandip is a salaried employee. He annually pays Rs. 84,000 on account of school fees of his children. However, later on his employer reimburses the school fees to him. Mr. Sandip wants to know the tax treatment of perquisite arising from reimbursement of school fees of his children by his employer. Advise him in this regard.

**

Reimbursement of expenditure incurred for the education of the children\members of the household of the employee is taxable as a perquisite in all cases (*i.e.*, specified employee as well as non-specified employee). Thus, in above case the value of perquisite in the hands of Mr. Sandip will be the amount of school fees reimbursed by the employer, *i.e.*, Rs. 84,000 will be charged to tax as perquisite in respect of reimbursement of school fees of the children of the employee.

Illustration on perquisite in respect of provision of movable asset

Mr. Rupal is a salaried employee. His employer has provided him throughout the previous year following movable assets for his personal use :

- (1) A washing machine (purchased by the employer on 1-4-2009 for Rs. 18,400).

- (2) An air-conditioner (hired by the employer, annual rent being Rs. 2,520).
 (3) A laptop (purchased by the employer for Rs. 84,000 on 1-4-2011).

Assist Mr. Rupal in computing the value of perquisite arising on account of above movable assets provided by the employer. His employer recovers Rs. 108 for the use of above assets.

**

The perquisite will be valued as follows :

<i>Particulars</i>	<i>(Rs.)</i>
Value of perquisite on account of washing machine (value of perquisite will be @ 10% of the cost of machine to the employer)	1,840
(+) Value of perquisite on account of air-conditioner (value of perquisite will be actual rent paid/payable by the employer)	2,520
(+) Value of perquisite on account of laptop (nothing shall be charged in respect of use of laptop)	<u>Nil</u>
Gross value of perquisite	4,360
(-) Amount recovered from the employee	<u>108</u>
Value of perquisite charged to tax in respect of use of movable asset	4,252

Illustration on perquisite in respect of transfer of movable asset by the employer

On 25-1-2013, Mr. Rupesh purchased certain furniture from his employer for Rs. 25,200. The furniture was purchased by his employer on 25-2-2010 for Rs. 84,000. What will be the value of perquisite in this situation?

**

In this situation, taxable value of perquisite will be computed as follows:

<i>Particulars</i>	<i>(Rs.)</i>
Original cost of furniture to the employer	84,000
(-) Depreciation @ 10% of cost, for 2 years (See note 1)	16,800
Gross value of furniture	67,200
(-) Amount paid to employer to acquire the furniture	<u>25,200</u>
Taxable value of perquisite	42,000

Note 1: WDV of such an asset will be computed after deducting depreciation @ 10% for 2 years, *i.e.*, completed year of ownership by the employer. Depreciation will be computed by considering the cost of such asset to the employer. The furniture was purchased by the employer on 25-2-2010 and was transferred on 25-1-2013, hence, the employer owned it for 2 years and 11 months (or two completed years). Based on this,

depreciation for 2 years @ 10% on original cost of Rs. 84,000 will come to Rs. 16,800.

Suppose in above example the furniture is transferred on 28-2-2013, then instead of 2 years depreciation will be for 3 years.

Illustration on tax treatment of leave encashment

Mr. Raja retired from A Ltd. (a private sector company) on 23rd February, 2013, after serving for a period of 24 years and 8 months. As per service rules, he is entitled to leave of 28 days for each completed year of service. Following are other details:

Leave availed during service period	84 days
Leave encashed during earlier years	252 days
Leave encashed during the year 2012-13	6 days
Basic salary per month during 10 months preceding retirement	Rs. 30,000

Dearness allowance (per month) during 10 months preceding retirement:

(a) Forming part of salary for computing retirement benefits	Rs. 24,000
(b) Not forming part of salary for computing retirement benefits	Rs. 30,000
Leave salary received at the time of retirement	Rs. 9,24,000

From the above information, assist Mr. Raja in computing the amount of leave salary chargeable to tax for assessment year 2013-14.

**

As per section 10(10AA), leave encashment by a non-Government employee at the time of retirement (whether on superannuation or otherwise) is exempt. The exemption in respect of leave encashment in case of a non-Government employee at the time of retirement will be lower of the following amount :

- Period of earned leave standing to the credit of the employee's account at the time of retirement \times Average monthly salary.
- Average monthly salary \times 10 (*i.e.*, 10 months' average salary).
- Maximum amount as specified by the Government, *i.e.*, Rs. 3,00,000.
- Leave encashment actually received at the time of retirement.

Computation in this regard would be follows :

Total leave salary taxable for the assessment year 2013-14 will be computed as follows:

<i>Particulars</i>	<i>(Rs.)</i>
Total leave salary received at the time of retirement	9,24,000
Less: Leave salary exempt under section 10(10AA)(ii) (Note 1)	3,00,000
Taxable leave salary	6,24,000

Note 1: As per section 10(10AA)(ii), exemption in respect of leave salary received by a non-Government employee is least of the following:

<i>Particulars</i>	<i>(Rs.)</i>
1. Cash equivalent to earned leave (Note 2)	5,94,000
2. 10 months' average salary (Note 3)	5,40,000
3. Maximum specified amount	3,00,000
4. Actual amount received	9,24,000

Amount of exemption under section 10(10AA)(ii) will be Rs. 3,00,000, being least of above.

Note 2: Computation of cash equivalent to earned leave:

Step 1: Computation of leave earned standing to credit at the time of retirement:

In this case, Mr. Raja is entitled to 28 days' leave for each completed year of service, hence, while computing leave credit, we will consider 28 days only (since it is less than 30 days).

Detailed computation will be as follows:

<i>Particulars</i>	<i>Days</i>
Total leave available during the tenure of service (28 days × 24 years) [period of 8 months (<i>i.e.</i> , fraction of year) is to be ignored]	672 days
<i>Less:</i> (a) Leave availed during service	84 days
(b) Leave encashed during earlier years	252 days
(c) Leave encashed in previous year 2012-13	6 days
Leave standing to credit at the time of retirement	330 days
(÷) Days in month	30 days
Leave credit at the time of retirement	11 months

Step 2: Computation of average monthly salary:

As per section 10(10AA)(ii), salary for the purpose of computation of exemption is:

- 10 months' average salary immediately preceding the retirement (*i.e.*, day of retirement and not the month of retirement).
- Salary will include basic salary, dearness allowance forming part of salary while computing retirement benefits and commission based on fixed percentage of turnover.

Based on above, salary will be computed as follows:

<i>Particulars</i>	<i>(Rs.)</i>
Basic salary per month, for 10 months immediately preceding the retirement	30,000
Dearness allowance per month (forming part of salary while computing retirement benefits), for 10 months immediately preceding the retirement	24,000
Total monthly salary for the purpose of computing exemption	54,000

There is no need to convert aforesaid monthly salary of Rs. 54,000 into average monthly salary, since there is no change in salary during past 10 months.

Step 3: Computation of cash equivalent to earned leave:

= Leave standing to credit at the time of retirement × Average monthly salary

= 11 months × Rs. 54,000

= Rs. 5,94,000

Note 3: Computation of 10 months' average salary:

10 months' average salary will be computed as follows:

= Average monthly salary × 10 months

= Rs. 54,000 × 10 months = Rs. 5,40,000

Illustration on tax treatment of gratuity

Mr. Raja retired from A Ltd. on 23rd February, 2013, after serving for a period of 24 years and 8 months. Following are other details:

- Basic salary per month during 10 months preceding the month of retirement (*i.e.*, monthly salary from 1-4-12 to 31-1-13) : Rs. 30,000.
- Dearness allowance per month during 10 months preceding the month of retirement (*i.e.*, monthly DA from 1-4-12 to 31-1-13)
 - (a) Forming part of salary for computing retirement benefits : Rs. 24,000
 - (b) Not forming part of salary for computing retirement benefits : Rs. 30,000
- Gratuity received at the time of retirement Rs. 15,00,000. Compute the amount of exemption in respect of gratuity under section 10(10)(ii)/(iii) considering :
 - (i) Mr. Raja is covered by the Payment of Gratuity Act, 1972
 - (ii) Mr. Raja is not covered by the Payment of Gratuity Act, 1972.

(i) When Mr. Raja is covered by Payment of Gratuity Act, 1972

As per section 10(10)(ii), exemption in respect of gratuity received by a non-Government employee (covered by the Payment of Gratuity Act, 1972) is least of the following:

<i>Particulars</i>	<i>(Rs.)</i>
1. 15 days' salary for each completed year of service or part in excess of 6 months (Note 1)	12,11,550
2. Maximum specified amount	10,00,000
3. Actual amount received	15,00,000

Amount of exemption under section 10(10)(ii) will be Rs. 10,00,000, being least of above. Thus, taxable amount of gratuity will be Rs. 5,00,000 (*i.e.*, Rs. 15,00,000 - Rs. 10,00,000)

Note 1: Computation of 15 days' salary for each completed year of service or part in excess of 6 months:

For the computation following points should be considered:

- Part of year in excess of six months will be considered as a full year.
- Salary for the aforesaid purpose will be last drawn salary.
- Salary for the aforesaid purpose will include basic salary and any dearness allowance (*i.e.*, whether or not forming part of salary, while computing retirement benefits).
- While computing 15 days' salary, we will divide monthly salary by 26 days.

Based on above, computation will be as follows:

- Salary will be Rs. 84,000 (i.e., Rs. 30,000 + Rs. 24,000 + Rs. 30,000).
- 15 days' salary will be Rs. 48,462 (i.e., Rs. 84,000/26 × 15).
- Duration of service is 24 years and 8 months, i.e., it will be taken as 25 years (for computation of exemption).

Thus, total amount of salary will be Rs. 12,11,550 (i.e., Rs. 48,462 × 25 years).

(ii) When Mr. Raja is not covered by Payment of Gratuity Act, 1972

As per section 10(10)(iii), exemption in respect of gratuity received by non-Government employee (not covered by the Payment of Gratuity Act, 1972) is least of the following:

<i>Particulars</i>	<i>(Rs.)</i>
1. Half month's average salary for each completed year of service (Note 2)	6,48,000
2. Maximum specified amount	10,00,000
3. Actual amount received	15,00,000

Amount of exemption under section 10(10)(iii) will be Rs. 6,48,000, being least of above. Thus, taxable amount of gratuity will be Rs. 8,52,000 (i.e., Rs. 15,00,000 - Rs. 6,48,000).

Note 2: Computation of half month's average salary for each completed year of service :

Following points should be considered in this regard:

- While computing duration of service, any part of year will be ignored.
- Salary for the aforesaid purpose will be average salary for 10 months preceding the month (not the day) of retirement.
- Salary for this purpose will include basic salary, dearness allowance forming part of salary while computing retirement benefits and commission based on fixed percentage of turnover.
- Half month's average salary will be computed by dividing average salary by 2.

Based on above, salary will be computed as follows:

<i>Particulars</i>	<i>(Rs.)</i>
Basic salary per month, for 10 months immediately preceding the month of retirement	30,000
(+) Dearness allowance per month (forming part of salary while computing retirement benefits), for 10 months immediately preceding the month of retirement	24,000
Total monthly salary for the purpose of computing exemption	54,000

There is no need to convert aforesaid monthly salary of Rs. 54,000 into average monthly salary, since there is no change in salary during past 10 months.

Based on above, computation will be as follows:

- Half month's average salary will be Rs. 27,000 (i.e., Rs. 54,000/2).
- Duration of service will be 24 years (part of year will be ignored).

Thus, total amount of salary will be Rs. 6,48,000 (i.e., Rs. 27,000 × 24 years).

Illustration on tax treatment of commuted pension

Mr. Rajan is working as a chief accountant in A. Ltd. On 31-3-2012 he retired from his service. From April, 2012 and he is receiving a monthly pension of Rs. 18,400. On 31-12-2012, he commuted his 30% of pension for Rs. 2,52,000 and continued to receive balance of 70% of pension of Rs. 12,880. At the time of retirement he also received Gratuity. One of his friends who is an accountant told him that a non-Government employee cannot claim exemption in respect of pension, if he is receiving Gratuity. Advise Mr. Rajan in this regard.

**

Un-commuted pension is fully taxable. Hence, uncommuted pension of Rs. 18,400 per month and Rs. 12,880 per month will be fully taxed.

As per section 10(10A)(ii)(a)/(b), exemption in respect of commuted pension in case of a non-Government employee will be as follows :

- If the employee receives gratuity, one third of full value of commuted pension will be exempt from tax under section 10(10A) (ii)(a).
- If the employee does not receive gratuity, one half of full value of commuted pension will be exempt from tax under section 10(10A) (ii)(b).

In the above case, Mr. Rajan has received gratuity, hence, exemption will be one third of full value of commuted pension. Rs. 2,52,000 is 30% of full value of computed pension, hence, full value of commuted pension will come to Rs. 8,40,000. Maximum exemption will be Rs. 2,80,000 (being one third of full value of commuted pension). In this case, Mr. Rajan has received Rs. 2,52,000, hence, entire amount will be exempt from tax.

Suppose in above case, Mr. Rajan has not received gratuity, then maximum exemption will come to Rs. 4,20,000 being one half of full value of commuted pension.

Q9. What is the tax treatment of salary received by a partner? Explain with the help of an illustration?

Following illustration will explain the tax treatment of salary received by a partner:

Mr. Mitesh is a partner in MN Ltd. During the year he received salary of Rs. 25,200 from the firm. Apart from salary, he received following payments from the firm :

- Interest on capital : Rs. 84,000.
- Share of profit Rs. 1,84,000.

He is of the opinion that, since he is receiving salary from the firm, so entire amount received from the firm on account of salary, interest and share of profit will be charged to tax under the head "Salaries". Advise him in this regard.

**

For taxing any income under the head "Salaries", the relation of the payer and payee should be that of the employer and the employee. In case of a partnership firm, the partners are not the employees of the firm and, hence, salary received by the partners from the firm is not charged to tax under the head "Salaries". Salary received by partner from the firm is charged to tax under the head "Profits and gains of business or profession".

Considering above discussion, amount received by Mr. Mitesh from the firm will not be charged to tax under the head “Salaries”. The tax treatment of various amounts will be as follows :

- Salary and interest on capital will be charged to tax under the head “Profits & Gains of Business/Profession”.
- Share of profit will be exempt from tax.

10. What is the tax treatment of salary received by an Indian citizen deputed outside India ? Explain with the help of an illustration?

Following illustrations will explain the tax treatment of salary received by an Indian citizen deputed outside India :

Illustration

Mr. Soham (an Indian citizen) is working in Essem Ltd., a private sector company. The company deputed him to its USA office. For the year 2012-13, he was deputed throughout the year in the USA and, hence, he was non-resident in India. The pay structure for the year 2012-13 was as follows :

- Basic salary 84,000\$
- Value of various allowances 16,000\$.

He is confused regarding the tax treatment of the above amount in his hands. He is of the opinion that in case of an Indian citizen deputed outside India, salary is charged to tax in India even if the assessee is non-resident. Advise him in this regard.

**

Salary received by an Indian citizen deputed outside India by the Government is treated as income deemed to have accrued or arisen in India and will be taxed in India. However, in such a case allowance and perquisites will be exempt from tax.

The above discussed provisions are applicable only in case of an Indian citizen deputed outside India by Government of India. In the present case Mr. Soham is not deputed by Government of India and he is non-resident and, hence, nothing will be charged to tax in India in respect of salary received by him in the USA.

Illustration

Mr. Rohan (an Indian citizen) is a Government employee. Since 2010, he has been deputed by Government of India to the USA. For the year 2012-13 he was deputed throughout the year to USA. The pay structure for the year 2012-13 was as follows:

- Basic salary 1,84,000\$
- Value of various allowances 25,000\$.

He is confused regarding the tax treatment of the above amount in his hands. He is of the opinion that in case of an Indian citizen deputed outside India, salary is charged to tax in India even if the assessee is non-resident. Advise him in this regard.

**

Salary received by an Indian citizen deputed outside India by the Government is treated as income deemed to have accrued or arisen in India and will be taxed in India. However, in such a case allowance and perquisites will be exempt from tax.

In the above case, Mr. Rohan is an Indian citizen and he is deputed by Government of India and, hence, he will be covered by above provisions and, thus, salary of 1,84,000\$ will be charged to tax in his hands, however, allowances will be exempt.

Q11. What is the tax treatment of surrender of salary to the Central Government ? Explain with the help of an illustration?

Following illustration will explain the tax treatment of surrender of salary to the Central Government :

Mr. Sunil is working in Essem Ltd. In the month of January, 2013 he won a game show and earned Rs. 5 crores. Considering such a huge gain he decided to surrender his salary or to forego his salary. Advise him in this regard how to surrender/forego salary to minimise his tax liability.

**

Salary foregone after its accrual is charged to tax, even though it is not received by the employee. However, if salary is surrendered to the Central Government under section 2 of the Voluntary Surrender of Salaries (Exemption from Taxation) Act, 1961, then such surrendered salary is not charged to tax.

Thus, if he foregoes his salary then it will be charged to tax, however, if he surrenders his salary to the Central Government under section 2 of the Voluntary Surrender of Salaries (Exemption from Taxation) Act, 1961, then the salary surrendered by him will not be charged to tax in his hands.

Q12. How to compute relief under section 89? Explain with the help of an illustration.

Following illustration will explain the manner of computation of relief under section 89 : During the previous year 2012-13, Mr. Lalit (age 29 years and resident and ordinarily resident in India) received salary of Rs. 4,84,000 and arrears of bonus for the year 2009-10 amounting to Rs. 50,000. The details of taxable income are as follows :

- Taxable income for the year 2012-13, excluding arrears of bonus : Rs. 4,84,000.
- Taxable income for the year 2009-10, excluding arrears of bonus : Rs. 3,84,000.

Compute the amount of relief under section 89 from above details.

**

Under section 89, read with Rule 21A(2), an employee can claim relief in respect of arrears of salary. Relief can be computed in the following manner:

Step 1 : Calculate total tax liability (including surcharge and cess, if any) on the total income, *including* the additional salary of the previous year in which such salary is received.

Step 2 : Calculate total tax liability (including surcharge and cess, if any) on the total income, *excluding* the additional salary of the previous year in which such salary is received.

Step 3 : Find the difference between tax computed at (1) and (2) above.

Step 4 : Calculate total tax liability (including surcharge and cess, if any) on the total income, *including* the additional salary of the previous year(s) to which such salary relates to.

Step 5 : Calculate total tax liability (including surcharge and cess, if any) on the total income, *excluding* the additional salary of the previous year(s) to which such salary relates to.

Step 6 : Find the difference between tax computed at (4) and (5) above.

Relief under section 89 is the excess of tax computed at Step 3 over tax computed at Step 6. No relief is available, if tax computed at Step 3 is less than tax computed at Step 6.

Considering above, relief will be computed as follows :

Tax on income of the year 2012-13, including arrears of salary : Rs. 37,904
(income will be Rs. 5,34,000).

Tax on income of the year 2012-13, excluding arrears of salary :
(income will be Rs. 4,84,000). Rs. 29,252

Difference (A) : Rs. 8,652

Tax on income of the year 2009-10, including arrears of salary :
(income will be Rs. 4,34,000). Rs. 42,024

Tax on income of the year 2009-10, excluding arrears of salary :
(income will be Rs. 3,84,000). Rs. 31,724

Difference (B) : Rs. 10,300

Difference of difference (A) – (B) : Rs. (1,648)

Relief under section 89(1) will amount to *Nil*, since (B) exceeds (A)

MCQ

Q1. Salary of Rs. 84,000 pertaining to the month of April, 2013 received in advance in the month of January, 2013 will be charged to tax in the previous year _____.

- (a) 2012-13 (b) 2013-14
(c) 2011-12 (d) 2014-15

Correct answer (a)

Justification of correct answer

Salary is charged to tax on due or receipt basis, whichever is earlier. Hence, advance salary received by an employee will be charged to tax in the year of receipt. In this case salary of April, 2013 pertains to the previous year 2013-14 but the same is received in the previous year 2012-13 and, hence, will be charged to tax in the year 2012-13. Thus, option (a) is the correct option.

Comment on incorrect answer : Option (a) is the correct option since it gives the correct year of taxability, hence, all the other options, viz., options (b), (c) and (d) giving incorrect years of taxability are not correct.

Q2. Salary of Rs. 1,84,000 pertaining to the month of March, 2013 is received by Mr. Kapoor in the month of April, 2013. Salary becomes due on the last date of the month. In this case Rs. 1,84,000 will be charged to tax in the previous year _____.

- (a) 2012-13 (b) 2013-14
(c) 2011-12 (d) 2014-15

Correct answer (a)

Justification of correct answer

Salary is charged to tax on due or receipt basis, whichever is earlier. In this case salary of March, 2013 is due on the last date of March, however, the same is received in April, thus, it will be taxed on due basis since it is earlier, i.e., it will be charged to tax in the previous year 2012-13. Thus, option (a) is the correct option.

Comment on incorrect answer : Option (a) is the correct option since it gives the correct year of taxability, hence, all the other options, viz., options (b), (c) and (d) giving incorrect years of taxability are not correct.

Q3. Salary of Rs. 2,52,000 pertaining to the month of March, 2013 is received by Mr. Krunal in the month of April, 2013. Salary becomes due on the first date of the next month. In this case Rs. 2,52,000 will be charged to tax in the previous year _____.

- (a) 2012-13 (b) 2013-14
(c) 2011-12 (d) 2014-15

Correct answer (b)

Justification of correct answer

Salary is charged to tax on due or receipt basis, whichever is earlier. In this case salary of March, 2013 is due on the first date of April, 2013 and the same is also received in the

month of April, 2013, thus, it will be taxed in the previous year 2013-14. Thus, option (b) is the correct option.

Comment on incorrect answer : Option (b) is the correct option since it gives the correct year of taxability, hence, all the other options, viz., options (a), (c) and (d) giving incorrect years of taxability are not correct.

Q4. Arrears of salary received after the retirement of the employee is taxed as _____.

- | | |
|-------------------|-------------------------------|
| (a) Salary income | (b) Income from other sources |
| (c) Capital gains | (d) Business income |

Correct answer (a)

Justification of correct answer

Arrears of salary received after the retirement of the employee are taxed as salary income. Thus, option (a) is the correct option.

Comment on incorrect answer : Option (a) is the correct option, since it gives the correct head of taxability of arrears of salary received after retirement, hence, all the other options, viz., options (b), (c) and (d) giving incorrect heads of taxability of arrears of salary received after retirement are not correct.

Q5. Salary of Rs. 1,84,000 pertaining to the month of March, 2013 is received by Mr. Suraj in the month of March, 2013. Salary becomes due on the first date of the next month. In this case Rs. 1,84,000 will be charged to tax in the previous year _____.

- | | |
|-------------|-------------|
| (a) 2012-13 | (b) 2013-14 |
| (c) 2011-12 | (d) 2014-15 |

Correct answer (a)

Justification of correct answer

Salary is charged to tax on due or receipt basis, whichever is earlier. In this case, salary of March, 2013 is due on the first date of April, 2013 but the same is received in March, 2013, thus, it will be taxed in the previous year 2012-13. Thus, option (a) is the correct option.

Comment on incorrect answer : Option (a) is the correct option, since it gives the correct year of taxability, hence, all the other options, viz., options (b), (c) and (d) giving incorrect years of taxability are not correct.

Q6. Mr. Kapoor completed his studies in the month of May, 2012 and joined Essem Ltd. from the month of June, 2012 at a monthly salary of Rs. 25,200. Salary becomes due on the last day of each month. Apart from salary income from Essem Ltd. he is not having any other income. In this case what will be his taxable income for the previous year 2012-13?

- | | |
|------------------|------------------|
| (a) Rs. 3,02,400 | (b) Rs. 2,77,200 |
| (c) Rs. 2,52,000 | (d) Rs. 2,26,800 |

Correct answer (c)

Justification of correct answer

Salary is charged to tax on due or receipt basis, whichever is earlier. In this case salary becomes due on the last day of each month, hence, during the previous year 2012-13 salary will be due for 10 months, *i.e.*, June, 2012 to March, 2013. Thus, total taxable income will be salary for 10 months, *i.e.*, Rs. 2,52,000. Thus, option (c) is the correct option.

Comment on incorrect answer : Option (c) is the correct option since it gives the correct amount of taxable income, hence, all the other options, *viz.*, options (a), (b) and (d) giving incorrect amounts of taxable income are not correct.

Q7. Mr. Raman completed his studies in the month of December, 2012 and joined Shyamal Ltd. from the month of January, 2013 at a monthly salary of Rs. 84,000. Salary becomes due on the first day of the next month. Apart from salary income from Shyamal Ltd. he is not having any other income. In this case, what will be his taxable income for the previous year 2012-13?

- (a) Rs. 1,68,000 (b) Rs. 2,52,000
(c) Rs. 3,36,000 (d) Rs. 10,08,000

Correct answer (a)

Justification of correct answer

Salary is charged to tax on due or receipt basis, whichever is earlier. In this case salary becomes due on the first day of the next month, hence, during the previous year 2012-13 salary will be due for 2 months, *i.e.*, January and February, 2013. Thus, total taxable income will be salary for 2 months, *i.e.*, Rs. 1,68,000. Thus, option (a) is the correct option.

Comment on incorrect answer : Option (a) is the correct option since it gives the correct amount of taxable income, hence, all the other options, *viz.*, options (b), (c) and (d) giving incorrect amounts of taxable income are not correct.

Q8. Mr. Suraj is working in SM Ltd. at a monthly salary of Rs. 1,25,200. During the year 2012-13 he received arrear of salary pertaining to the year 2010-11 amounting to Rs. 3,84,000. These arrears were not charged to tax earlier, thus, it will be charged to tax in the year 2012-13. Can Mr. Suraj claim relief under section 89 in respect of arrears of salary received by him?

- (a) Yes (b) No.

Correct answer (a)

Justification of correct answer

Arrears of salary received by an employee are taxed in the year of receipt, if the same were not taxed earlier on due basis. However, an employee can claim relief under section 89 in respect of arrears of salary.

Thus, option (a) is the correct option.

Comment on incorrect answer : Option (a) is the correct option since it gives the correct provision *i.e.* an employee can claim relief in respect of arrears of salary, hence, option (b) is incorrect.

Q9. Relief in respect of arrears of salary cannot be claimed if the arrears pertain to more than one year.

(a) True

(b) False

Correct answer (b)

Justification of correct answer

An employee can claim relief under section 89 in respect of arrears of salary. There is no such condition which restricts the claiming of relief if the same is received for a period of more than one year. Thus, the statement given in the question is false and, hence, option (b) is the correct option.

Comment on incorrect answer : The statement given in the question is false, hence, option (a) is not correct.

Q10. Mr. Sudhir received advance salary for the month of April, 2013 in the month of March, 2013. Further, in the month of March, 2013 he also received arrears of salary for the year 2009-10. Can he claim relief under section 89 in respect of both the items?

(a) Yes

(b) No.

Correct answer (a)

Justification of correct answer

An employee can claim relief under section 89 in respect of advance salary as well as arrears of salary. Thus, option (a) is the correct option.

Comment on incorrect answer : Option (a) is the correct option since it gives the correct provisions of section 89, hence, option (b) is incorrect.

Q11. Mr. Saurabh received contractual bonus from his employer amounting to Rs. 84,000. In this case, out of Rs. 84,000 what will be the amount of bonus charged to tax under the head “Income from other sources”?

(a) Rs. 84,000

(b) Nil

(c) Rs. 84,000 if the Assessing Officer so desires

(d) Rs. 84,000 if Mr. Saurabh so desires

Correct answer (b)

Justification of correct answer

Contractual bonus is charged to tax as salary income, hence, out of Rs. 84,000 nothing will be charged to tax under the head “Income from other sources” and entire amount of contractual bonus will be charged to tax under the head “Salaries”. Thus, option (b) is the correct option.

Comment on incorrect answer : Option (b) is the correct option since it gives the correct amount to be charged under the given head of taxability for contractual bonus, hence, all the other options, viz., options (a), (c) and (d) giving incorrect amounts are not correct.

Q12. Gratuitous bonus of Rs. 25,200 received by Mr. Sudhir is charged to tax as perquisite.

(a) True

(b) False

Correct answer (a)

Justification of correct answer

Contractual bonus is charged to tax as salary and gratuitous bonus is also charged to tax as perquisite. Thus, the statement given in the question is true and, hence, option (a) is the correct option.

Comment on incorrect answer : The statement given in the question is true, hence, option (b) is not correct.

Q13. In the month of March, 2013, Mr. Nimit received arrears of bonus of Rs. 1,84,000 pertaining to the year 2009-10. He feels that the arrears of salary are charged to tax but arrears of bonus are not charged to tax and, hence, it will be exempt from tax. What will be the amount of arrears of bonus exempt from tax?

- (a) Rs. 1,84,000 (b) Rs. 84,000
(c) Nil (d) Amount as determined by the Assessing Officer

Correct answer (c)

Justification of correct answer

Arrears of bonus are charged to tax in the year of receipt if the same were not taxed earlier, hence, in this case Rs. 1,84,000 will be charged to tax in the hands of Mr. Nimit. Hence, no amount of it is exempt from tax. Thus, option (c) is the correct option.

Comment on incorrect answer : Option (c) is the correct option since it gives the correct amount of bonus which will be exempt, hence, all the other options, viz., options (a), (b) and (d) giving incorrect amounts are not correct.

Q14. Bonus of Rs. 1,84,000 pertaining to the month of June, 2013 is received in advance in the month of January, 2013. In this case, bonus will not be charged to tax since it is received in advance during the current year.

- (a) True (b) False

Correct answer (b)

Justification of correct answer

Bonus is charged to tax in the same manner as salary and, hence, advance bonus will be charged to tax in the year of receipt. Thus, the statement given in the question is false and, hence, option (b) is the correct option.

Comment on incorrect answer : The statement given in the question is false, hence, option (a) is not correct.

Q15. Fees or commission received by the employee from the employer are charged to tax as “Income from other sources”.

- (a) True (b) False

Correct answer (b)

Justification of correct answer

Fees or commission received by the employee from the employer are charged to tax as salary income. Thus, the statement given in the question is false and, hence, option (b) is the correct option.

Comment on incorrect answer : The statement given in the question is false, hence, option (a) is not correct.

Q16. Mr. Rupal is employed in Essem Ltd. and is receiving commission at 5% on sales achieved by him. During the year 2012-13 he achieved turnover of Rs. 1,00,000. What will be the amount of commission chargeable to tax under the head “Income from other sources”?

(a) Nil

(b) Rs. 5,000

Correct answer (a)

Justification of correct answer

Fees or commission received by the employee from the employer are charged to tax as salary income and not as income from other sources, hence, in the above case, entire amount of commission will be charged to tax under the head “Salaries” and nothing will be charged to tax under the head “Income from other sources”. Thus, option (a) is the correct option.

Comment on incorrect answer : Option (a) is the correct option since commission will not be charged to tax under the head “Income from other sources”, hence, the other option, viz., (b), giving amount of commission liable to tax under the head “Income from other sources” is not correct.

Q17. Mr. Raja is employed in Essem Ltd. and is receiving commission of Rs. 8,400 per month. What will be the amount of commission chargeable to tax under the head “Income from other sources”?

(a) Nil

(b) Rs. 5,000

Correct answer (a)

Justification of correct answer

Fees or commission received by the employee from the employer are charged to tax as salary income and not as income from other sources, hence, in the above case, entire amount of commission will be charged to tax under the head “Salaries” and nothing will be charged to tax under the head “Income from other sources”. Thus, option (a) is the correct option.

Comment on incorrect answer : Option (a) is the correct option since commission will not be charged to tax under the head “Income from other sources”, hence, the other option, viz., option (b), giving amount of commission liable to tax under the head “Income from other sources” is not correct.

Q18. Commission is charged to tax as salary income irrespective of the fact whether it is received on fixed monthly basis or is received as a percentage of turnover achieved by the employee.

(a) True

(b) False

Correct answer (a)

Justification of correct answer

Fees or commission received by the employee from the employer are charged to tax as salary income. Commission will be taxed as salary income, irrespective of the fact that it

is received as fixed monthly amount or is received as a percentage of any particular items like turnover achieved by the employee.

Thus, the statement given in the question is true and, hence, option (a) is the correct option.

Comment on incorrect answer : The statement given in the question is true, hence, option (b) is not correct.

Q19. Mr. Amit is working in Essem Ltd. The company pays him commission @ 1% of the turnover achieved by him. During the year 2012-13 he achieved a turnover of Rs. 1,84,000 and earned a commission of Rs. 1,840. In this case he wants to claim deduction of Rs. 500 incurred by him to achieve the turnover of Rs. 1,84,000. Can he claim deduction?

(a) Yes

(b) No.

Correct answer (b)

Justification of correct answer

Fees or commission received by the employee from the employer are charged to tax as salary income. Commission will be taxed as salary income, irrespective of the fact that it is received as fixed monthly amount or is received as a percentage of any particular items like turnover achieved by the employee. Thus, commission of Rs. 1,840 will be charged to tax as salary income and expenditure incurred to earn salary income cannot be deducted, thus, no expenditure can be deducted from the commission income of Rs. 1,840. Hence, option (b) is the correct option.

Comment on incorrect answer : Option (b) is the correct option since expenditure incurred to achieve the turnover cannot be claimed as deduction from commission charged to tax as salary income, and, hence, the other option, viz., option (a) is incorrect.

Q20. Commission earned by a partner from his firm is charged to tax as salary income.

(a) True

(b) False

Correct answer (b)

Justification of correct answer

For taxing any income under the head “Salaries”, the relation of the payer and payee should be that of the employer and the employee. In case of a partnership firm, the partners are not the employees of the firm and, hence, payments received by the partners from the firm are not charged to tax under the head “Salaries”. Commission received by partner from the firm is charged to tax under the head “Profits and gains of business or profession”.

Thus, the statement given in the question is false and, hence, option (b) is the correct option.

Comment on incorrect answer : The statement given in the question is false, hence, option (a) is not correct.

Q21. Mr. Ravi is working in Essem Ltd. During the year 2012-13 the employer paid him commission of Rs. 8,400 @ 1% of turnover achieved by him. The turnover was achieved during the year 2012-13, hence, the commission was earned in 2012-13 but

the same was actually paid to him in the month of April, 2013. In this case, the commission will be charged to tax during the previous year 2013-14.

(a) True

(b) False

Correct answer (b)

Justification of correct answer

Salary is charged to tax on due or receipt basis, whichever is earlier. In the question it was mentioned that commission was earned in the year 2012-13, hence, we can conclude that it was due in the year 2012-13 but was paid in the year 2013-14 and, hence, the same will be taxed during the previous year 2012-13 (since it was due in that year).

Thus, the statement given in the question is false and, hence, option (b) is the correct option.

Comment on incorrect answer : The statement given in the question is false, hence, option (a) is not correct.

Q22. Mr. Kamal is working in Essem Ltd. During the year 2012-13 the employer paid him commission of Rs. 18,400 (he is entitled to commission @ 2% of turnover achieved by him). The commission was paid in advance on *ad hoc* basis on 31st March, 2013 but the turnover will be achieved in the next year. In this case, the commission will be charged to tax during the previous year 2013-14.

(a) True

(b) False

Correct answer (b)

Justification of correct answer

Salary is charged to tax on due or receipt basis, whichever is earlier. In the question it was mentioned that commission was paid in the year 2012-13, hence, the same will be taxed during the previous year 2012-13.

Thus, the statement given in the question is false and, hence, option (b) is the correct option.

Comment on incorrect answer : The statement given in the question is false, hence, option (a) is not correct.

Q23. Mr. Raj is working in Essem Ltd. During the year 2012-13 the employer paid him commission of Rs. 18,400 (he is entitled to fixed monthly commission). The employer has assigned him a target to achieve a turnover of Rs. 25,20,000. At the end of the year it was found that he had achieved excess target and actually he had achieved turnover of Rs. 40,00,000. Considering this over target, the employer further paid him commission of Rs. 20,000. In this case the excess commission of Rs. 20,000 will not be charged to tax in his hands as salary income.

(a) True

(b) False

Correct answer (b)

Justification of correct answer

Any amount received from the employer in connection with the employment will be charged to tax under the head “Salaries”. Thus, excess commission will be charged to tax under the head “Salaries” only.

Thus, the statement given in the question is false and, hence, option (b) is the correct option.

Comment on incorrect answer : The statement given in the question is false, hence, option (a) is not correct.

Q24. Mr. Rupesh is working in Essem Ltd. He is sales manager and is paid commission @ 2% of the turnover achieved by him. During the year he achieved a turnover of Rs. 10,00,000 and he was entitled to commission of Rs. 20,000. He has deputed his sub agents who market his produce and help him in achieving his targeted turnover. As a reward to the work of these agents he paid them an *ad hoc* amount of Rs. 5,000. In this case Rs. 5,000 will be deducted from his commission and net taxable commission will be Rs. 15,000. However, his Form No. 16 shows a commission payment of Rs. 20,000.

(a) True

(b) False

Correct answer (b)

Justification of correct answer

Salary is a self contained head of income and deduction of no expenditure incurred to earn salary income is allowed while computing salary income. In the above case, commission will be charged to tax under the head “Salaries” and, hence, Mr. Rupesh cannot claim deduction of Rs. 5,000 from the commission income of Rs. 20,000. Thus, taxable commission in this case will be Rs. 20,000.

Thus, the statement given in the question is false and, hence, option (b) is the correct option.

Comment on incorrect answer : The statement given in the question is false, hence, option (a) is not correct.

Q25. Exemption in respect of house rent allowance in case of metro cities is _____ of the following :

(1) 50% of salary.

(2) HRA actually received by the employee in respect of the period during which rental accommodation is occupied by the employee during the previous year.

(3) Rent paid in excess of 10% of salary.

(a) Lower

(b) Higher

Correct answer (a)

Justification of correct answer

Exemption in respect of house rent allowance in case of metro cities is lower of the amounts given in (1) to (3). Thus, option (a) is the correct option.

Comment on incorrect answer : Option (a) is the correct option since it gives the selection of lower amount, hence, option (b) giving selection of higher amount is not correct.

Q26. Exemption in respect of house rent allowance in case of non-metro cities is higher of the following :

- (1) 40% of salary.
 - (2) HRA actually received by the employee in respect of the period during which rental accommodation is occupied by the employee during the previous year.
 - (3) Rent paid in excess of 10% of salary.
- (a) True (b) False

Correct answer (b)

Justification of correct answer

Exemption in respect of house rent allowance in case of non-metro cities is lower of the amounts given in (1) to (3). Thus, the statement given in the question is false and, hence, option (b) is the correct option.

Comment on incorrect answer : The statement given in the question is false, hence, option (a) is not correct.

Q27. Basic salary Rs. 2,84,000 per annum, dearness allowance forming part of salary while computing retirement benefits Rs. 2,16,000, fixed monthly commission Rs. 5,000 per month and house rent allowance (HRA) Rs. 96,000 per annum. Annual rent paid at Mumbai Rs. 1,20,000. Taxable HRA will be Rs. _____.

- (a) Rs. 2,50,000 (b) Rs. 96,000
(c) Rs. 70,000 (d) Rs. 26,000

Correct answer (d)

Justification of correct answer

Exemption in respect of house rent allowance in case of metro cities is lower of the following :

- (1) 50% of salary.
- (2) HRA actually received by the employee in respect of the period during which rental accommodation is occupied by the employee during the previous year.
- (3) Rent paid in excess of 10% of salary.

Considering above provision, exemption in this case will come to Rs. 70,000 and taxable HRA will come to Rs. 26,000 (i.e., Rs. 96,000 – Rs. 70,000). Thus, option (d) is the correct option.

Comment on incorrect answer : Option (d) is the correct option since it gives the correct quantum of taxable HRA, hence, all the other options viz. options (a), (b) and (c) giving incorrect quantum of taxable HRA are not correct.

Q28. The maximum exemption in respect of HRA is Rs. _____

- (a) Rs. 2,000 per month (b) Rs. 5,000
(c) Rs. 5,00,000 (d) No such limit

Correct answer (d)

Justification of correct answer

There is no ceiling limit in respect of exemption in respect of HRA. The amount of exemption is computed on the basis of method prescribed in this behalf. Thus, option (d) is the correct option.

Comment on incorrect answer : Option (d) is the correct option since it shows no such ceiling limit of exemption in respect of HRA, hence, all the other options, viz., option (a), (b) and (c) giving specific limits are not correct.

Q29. Besides other items, Mr. Ramesh receives children's education allowance of Rs. 100 per month from his employer. He spends Rs. 200 per month on account of education of his daughter. In this case entire amount of allowance will be exempt from tax.

(a) True

(b) False

Correct answer (a)

Justification of correct answer

Exemption in respect of children's education allowance is lower of the amount of allowance or Rs. 100 per month per child. This exemption is limited to 2 children of the employee. This exemption is irrespective of amount actually spent on child's education. In this case, Rs. 100 is received as education allowance per month for his child, hence, Rs. 100, i.e., entire amount of allowance will be exempt. Thus, the statement given in the question is true and, hence, option (a) is the correct option.

Comment on incorrect answer : The statement given in the question is true, hence, option (b) is not correct.

Q30. Besides other items, Mr. Ramesh receives children's hostel allowance of Rs. 250 per month from his employer. He spends Rs. 100 per month on account of hostel expenditure of his son. In this case entire amount of allowance will be exempt from tax.

(a) True

(b) False

Correct answer (a)

Justification of correct answer

Exemption in respect of children's hostel allowance is lower of the amount of allowance or Rs. 300 per month per child. This exemption is limited to 2 children of the employee. This exemption is regardless of the amount actually spent on hostel expenditure. In this case, Rs. 250 per month is received as hostel allowance, hence, exemption can be claimed of amount upto Rs. 300, thus, entire amount of allowance will be exempt. Thus, the statement given in the question is true and, hence, option (a) is the correct option.

Comment on incorrect answer : The statement given in the question is true, hence, option (b) is not correct.

Q31. Mr. Sumit is a Government employee. He is receiving transport allowance of Rs. 600 per month. What will be the tax treatment of transport allowance in the hands of Mr. Sumit?

(a) Rs. 600 per month will be exempt from tax

(b) Rs. 200 per month will be exempt from tax

(c) Rs. 800 per month will be deducted from salary income

(d) Rs. 200 per month will be charged to tax

Correct answer (a)

Justification of correct answer

Exemption in respect of transport allowance will be lower of amount of allowance or Rs. 800 per month. Hence, in this case exemption will come to Rs. 600 per month. . Thus, option (a) is the correct option.

Comment on incorrect answer : Option (a) is the correct option since it gives the correct tax treatment of transport allowance, hence, other options, viz., options (b), (c) and (d) giving incorrect tax treatment of transport allowance are not correct.

Q32. Mr. Kaushal is employed in Essem Pvt. Ltd. He receives transport allowance of Rs. 3,000 per month. However, he spends Rs. 2,500 per month on account of expenditure for journey between office and residence. What will be the tax treatment of transport allowance in the hands of Mr. Kaushal?

- (a) Rs. 3,000 per month will be exempt from tax
- (b) Rs. 2,500 per month will be exempt from tax
- (c) Rs. 800 per month will be exempt from tax
- (d) Rs. 2,200 per month will be exempt from tax

Correct answer (c)

Justification of correct answer

Exemption in respect of transport allowance will be lower of amount of allowance or Rs. 800 per month. Hence, in this case exemption will come to Rs. 800 per month. Thus, option (c) is the correct option.

Comment on incorrect answer : Option (c) is the correct option since it gives the correct tax treatment of transport allowance. Hence, other options, viz., options (a), (b) and (d) giving incorrect tax treatment of transport allowance are not correct.

Q33. Mr. Rahul is blind person and is employed in SM Pvt. Ltd. He is receiving transport allowance of Rs. 1,500 per month. What will be the tax treatment of transport allowance in the hands of Mr. Rahul?

- (a) Rs. 1,500 per month will be exempt from tax
- (b) Rs. 1,600 per month will be exempt from tax
- (c) Rs. 800 per month will be exempt from tax
- (d) Rs. 100 per month will be exempt from tax

Correct answer (a)

Justification of correct answer

Exemption in respect of transport allowance will be lower of amount of allowance or Rs. 800 per month. However, in case of an employee who is orthopaedically handicapped or blind, the exemption of Rs. 800 will be increased to Rs. 1,600 per month. Hence, in this case exemption will come to Rs. 1,500 per month. Thus, option (a) is the correct option.

Comment on incorrect answer : Option (a) is the correct option since it gives the correct tax treatment of transport allowance, hence, other options, viz., options (b), (c) and (d) giving incorrect tax treatment of transport allowance are not correct.

Q34. Mr. Soham is a Government employee. The company has provided him with rent free accommodation. The fair rent of the accommodation is Rs. 8,400. The license fee of the accommodation is Rs. 3,000. In this case, what will be the value of perquisite in the hands of Mr. Soham?

- (a) Rs. 8,400 (b) Rs. 3,000
(c) Rs. 11,400 (d) Nil

Correct answer (b)

Justification of correct answer

The value of perquisite in the hands of Government employee in respect of rent free accommodation provided by the employee will be the license fee of such accommodation.

Hence, in this case value of perquisite will come to Rs. 3,000. Thus, option (b) is the correct option.

Comment on incorrect answer : Option (b) is the correct option since it gives the correct value of perquisite. Hence, other options, viz., options (a), (c) and (d) giving incorrect values of perquisite are not correct.

Q35. In case of non-Government employees, the value of perquisite in respect of rent free unfurnished accommodation provided to the employee (the accommodation taken on lease by the employer) will be _____ if the accommodation is located in a city where the population is below 10 lakhs.

- (a) 7.5% of the salary or actual rent, whichever is lower.
(b) 10% of the salary or actual rent, whichever is lower.
(c) 15% of the salary or actual rent, whichever is lower.
(d) None of the above.

Correct answer (c)

Justification of correct answer

In case of an accommodation taken on lease by the employer, the value of perquisite will be 15% of the salary or actual rent, whichever is lower irrespective of the population of the city.

Thus, option (c) is the correct option.

Comment on incorrect answer : Option (c) is the correct option since it gives the correct percentage. Hence, all the other options, viz., options (a), (b) and (d) giving incorrect percentages are not correct.

Q36. In case of non-Government employees, the value of perquisite in respect of rent free furnished accommodation provided to the employee will be value of unfurnished accommodation plus 10% of the _____ of the furniture if the furniture is owned by the employer.

- (a) Cost (b) WDV
(c) Book value (d) None of the above

Correct answer (a)

Justification of correct answer

In case of non-Government employees, the value of perquisite in respect of rent free furnished accommodation provided to the employee will be value of accommodation *plus* 10% of the cost of the furniture, if furniture is owned by the employer or the actual rent of the furniture if the furniture is hired by the employer.

Thus, option (a) is the correct option.

Comment on incorrect answer : Option (a) is the correct option since it gives the correct mode of valuation. Hence, all the other options, *viz.*, options (b), (c) and (d) giving incorrect modes of valuation are not correct.

Q37. What will be the value of perquisite in respect of free education facility provided to the children of the employee if the education facility is provided in the school of the employer?

- (a) Rs. 1,000
- (b) The market value of the fees of similar school
- (c) The market value of the fees of similar school *less* Rs. 1,000
- (d) The market value of the fees of similar school *plus* Rs. 1,000

Correct answer (c)

Justification of correct answer

Where the education facility is provided to the children of the employee in an educational institution which is maintained and owned by the employer or where such free educational facilities are provided in any institution by reason of his being in employment of that employer, then the value of perquisite shall be the cost of such education in a similar institution in or near the locality. However, nothing shall be chargeable to tax if the cost of such education (or the value of such benefit) per child does not exceed Rs. 1,000 per month. If the cost of such education facility exceeds Rs. 1,000 per child, then the same shall be charged to tax.

Thus, option (c) is the correct option.

Comment on incorrect answer : Option (c) is the correct option since it gives the correct valuation of perquisite, hence, all the other options, *viz.*, options (a), (b) and (d) giving incorrect modes of valuation are not correct.

Q38. Nothing shall be charged to tax in respect of free medical facility provided by the employer to employee or his family members if the medical facility is provided in the hospital maintained by the employer.

- (a) True
- (b) False

Correct answer (a)

Justification of correct answer

Nothing will be charged to tax in respect of medical facility provided in a hospital:

- (a) Maintained by the employer ; or
- (b) Maintained by the Government or local authority or other person but approved by Government for treatment of its employees.

- (c) Approved by the Chief Commissioner having regard to the prescribed guidelines. In this case, exemption is available only for treatment of prescribed diseases given in rule 3A. A certificate from the hospital specifying nature of disease as well as amount of expenditure should be obtained.
- (d) In respect of medical facility/expenses in any hospital other than discussed in (a) to (c) above, amount of expenditure incurred or reimbursed by the employer in excess of Rs. 15,000 (in aggregate per year) will be value of the perquisite charged to tax in the hands of employee.

Nothing is charged to tax in respect of group medical insurance premium for employees and their family members paid or reimbursed by the employer.

Fixed medical allowance is always charged to tax.

Considering above provisions, nothing shall be charged to tax in respect of medical facility provided in the company's hospital. Hence, statement given in the question is true and, thus, option (a) is the correct option.

Comment on incorrect answer: The statement given in the question is true, hence, option (b) is not correct.

Q39. The value of perquisite to the employee resulting from the use by the employee of any movable asset (electronics items) belonging to the employer shall be determined at _____ per annum of cost of such an asset to the employer.

- (a) 15% (b) 10%
(c) 50% (d) 7.5%

Correct answer : (b)

Justification of correct answer

The value of perquisite to the employee resulting from the use by the employee of any movable asset belonging to the employer shall be determined at 10% per annum of cost of such an asset to the employer.

Thus, option (b) is the correct option.

Comment on incorrect answer : Option (b) is the correct option since it gives the correct percentage of valuation, *i.e.*, 10%, hence, all the other options, *viz.*, options (a), (c) and (d) giving incorrect percentages are not correct.

Q40. On 1-1-2013, Mr. Rupesh purchased a music system from his employer for Rs. 8,400. The music system was purchased by his employer on 20-5-2012 for Rs. 25,200. What will be the value of perquisite in this situation?

- (a) Rs. 8,400 (b) Rs. 14,280
(c) Rs. 16,800 (d) Nil

Correct answer : (c)

Justification of correct answer

In this case the music system is transferred before 1 year and, hence, no depreciation will be there. The value of the music system will come to Rs. 25,200 and it is transferred for Rs. 8,400, hence, the value of perquisite will come to Rs. 16,800.

Thus, option (c) is the correct option.

Comment on incorrect answer : Option (c) is the correct option since it gives the correct value, *i.e.*, Rs. 16,800, hence, all the other options, *viz.*, options (a), (b) and (d) giving incorrect values are not correct.

Q41. On 1-1-2013, Mr. Soham purchased a computer from his employer for Rs. 18,400. The computer was purchased by his employer on 20-5-2009 for Rs. 25,200. What will be the WDV of the computer for the purpose of computation of value of perquisite?

- (a) Rs. 6,300 (b) Rs. 3,150
(c) Rs. 20,412 (d) Nil

Correct answer : (b)

Justification of correct answer

WDV will be computed as follows :

<i>Particulars</i>	<i>(Rs.)</i>
Purchase price of the laptop	25,200
(-) Depreciation @ 50% for first year	<u>12,600</u>
WDV	12,600
(-) Depreciation @ 50% for second year	<u>6,300</u>
WDV	6,300
(-) Depreciation @ 50% for third year	<u>3,150</u>
WDV	3,150

Thus, option (b) is the correct option.

Comment on incorrect answer : Option (b) is the correct option since it gives the correct WDV, *i.e.*, Rs. 3,150. Hence, all the other options, *viz.*, options (a), (c) and (d) giving incorrect WDV are not correct.

Q42. Maximum amount of exemption in respect of leave encashment at the time of retirement in the hands of a Government employee is _____.

- (a) Rs. 10,00,000 (b) Rs. 5,00,000
(c) Rs. 3,00,000 (d) No such limit

Correct answer (d)

Justification of correct answer

Entire amount of leave encashment received by a Government employee at the time of retirement is fully exempt from tax. Thus, option (d) is the correct option.

Comment on incorrect answer : Option (d) is the correct option since it gives the correct tax treatment of leave encashment received by a Government employee at the time of retirement. Hence, all the other options, *viz.*, options (a), (b) and (c) giving incorrect exemption limits in respect of leave encashment are not correct.

Q43. Leave encashment during continuation of service is exempt in the hands of a Government employee.

- (a) True (b) False

Correct answer (b)

Justification of correct answer :

Leave encashment during continuation of service is fully taxable in the hands of Government employees, thus, the statement given in the question is false and hence, option (b) is the correct option.

Comment on incorrect answer : The statement given in the question is false, hence, option (a) is not correct.

Q44. Exemption in respect of leave encashment at the time of retirement of a non-Government employee will be lower of the following :

- (i) Cash equivalent to earned leave.
 - (ii) 10 months' average salary.
 - (iii) Rs. 10,00,000
 - (iv) Leave encashment actually received at the time of retirement.
- (a) True (b) False

Correct answer (b)

Justification of correct answer :

Exemption in respect of leave encashment at the time of retirement of a non-Government employee will be lower of following :

- (i) Cash equivalent to earned leave.
- (ii) 10 months' average salary.
- (iii) Rs. 3,00,000
- (iv) Leave encashment actually received at the time of retirement.

Thus, the statement given in the question is false and, hence, option (b) is the correct option.

Comment on incorrect answer : The statement given in the question is false, hence, option (a) is not correct.

Q45. Gratuity received by a Government employee at the time of retirement is exempt from tax upto Rs. 10,00,000.

- (a) True (b) False

Correct answer (b)

Justification of correct answer :

Gratuity received by a Government employee at the time of retirement is fully exempt from tax.

Thus, the statement given in the question is false and, hence, option (b) is the correct option.

Comment on incorrect answer : The statement given in the question is false, hence, option (a) is not correct.

Q46. Gratuity received by a non-Government employee covered by the Payment of Gratuity Act, 1972 is exempt from tax without any limit.

- (a) True (b) False

Correct answer (b)

Justification of correct answer :

Exemption in respect of gratuity received by a non-Government employee (covered by the Payment of Gratuity Act, 1972) at the time of retirement will be least of the following:

- 15 days' salary \times years of service.
- Maximum amount specified, *i.e.*, Rs. 10,00,000.
- Gratuity actually received.

Thus, the statement given in the question is false and, hence, option (b) is the correct option.

Comment on incorrect answer : The statement given in the question is false, hence, option (a) is not correct.

Q47. Gratuity received by a non-Government employee not covered by the Payment of Gratuity Act, 1972 is exempt from tax upto Rs. 3,50,000.

(a) True

(b) False

Correct answer (b)

Justification of correct answer :

Exemption in respect of gratuity received by a non-Government employee (not covered by the Payment of Gratuity Act, 1972) at the time of retirement will be least of the following :

- Half month's average salary for each completed year of service
- Rs. 10,00,000
- Gratuity actually received.

Thus, the statement given in the question is false and, hence, option (b) is the correct option.

Comment on incorrect answer : The statement given in the question is false, hence, option (a) is not correct.

Q48. Mr. Amar is a partner in SM Ltd. He is not a working partner but a sleeping partner. However, as per the terms of partnership deed, he is paid a fixed monthly salary of Rs. 8,400. In this case salary of Rs. 8,400 will be charged to tax under the head ____.

(a) Salaries

(b) Profits and gains of business or profession

(c) Other sources

(d) Capital gains

Correct answer (b)

Justification of correct answer

For taxing any income under the head "Salaries", the relation of the payer and payee should be that of the employer and the employee. In case of a partnership firm, the partners are not the employees of the firm and, hence, salary received by the partners from the firm is not charged to tax under the head "Salaries". Salary received by partner

from the firm is charged to tax under the head “Profits and gains of business or profession”.

Hence, in this case Rs. 8,400 per month will be charged to tax under the head “Profits and gains of business or profession”. Thus, option (b) is the correct option.

Comment on incorrect answer : Option (b) is the correct option since it gives the correct head of taxability of the income, hence, other options, viz., options (a), (c) and (d) giving incorrect heads of taxability of the income are not correct.

Q49. Mr. Raju is a partner in Shyamal Ltd. He is a working partner. As per the terms of the partnership deed, he is paid a fixed monthly salary of Rs. 25,200. In this case salary of Rs. 25,200 will be charged to tax under the head ____.

- (a) Salaries
- (b) Profits and gains of business or profession
- (c) Other sources
- (d) Capital gains

Correct answer (b)

Justification of correct answer

For taxing any income under the head “Salaries”, the relation of the payer and payee should be that of the employer and the employee. In case of a partnership firm, the partners are not the employees of the firm and, hence, salary received by the partners from the firm is not charged to tax under the head “Salaries”. Salary received by partner from the firm is charged to tax under the head “Profits and gains of business or profession”. The taxability will remain same irrespective of the fact that the partner is a working partner or a sleeping partner.

Hence, in this case Rs. 25,200 per month will be charged to tax under the head “Profits and gains of business or profession”. Thus, option (b) is the correct option.

Comment on incorrect answer : Option (b) is the correct option since it gives the correct head of taxability of the income, hence, other options, viz., options (a), (c) and (d) giving incorrect heads of taxability of the income are not correct.

Q50. Mr. Raju is a partner in Shyamal Ltd. Apart from partnership in Shyamal Ltd., he is working on part time job basis at a monthly salary of Rs. 10,000 in AB Enterprises, a partnership firm. In this case, salary of Rs. 10,000 received from AB Enterprises will be charged to tax under the head _____.

- (a) Salaries
- (b) Profits and gains of business or profession
- (c) Other sources
- (d) Capital gains

Correct answer (a)

Justification of correct answer

Salary received by partner from the firm is charged to tax under the head “Profits and gains of business or profession”. However, if a partner in a firm works in any other entity in which he is not a partner, then the same will be taxed under the head ”Salaries”.

Hence, in this case Rs. 10,000 per month will be charged to tax under the head ”Salaries”. Thus, option (a) is the correct option.

Comment on incorrect answer : Option (b) is the correct option since it gives the correct head of taxability of the income, hence, other options, viz., options (a), (c) and (d) giving incorrect heads of taxability of the income are not correct.

Q51. Mr. Raja is an Indian citizen deputed by Essem Ltd. in its US office at a monthly salary of 84,000\$. Apart from salary he is also receiving allowances valuing at 16,000\$. For the previous year 2012-13 he was a non-resident in India. In this case, what will be his taxable salary in India?

- (a) Nil (b) 84,000\$
(c) 16,000\$ (d) 1,00,000\$

Correct answer (a)

Justification of correct answer

Salary received by an Indian citizen deputed outside India by the Government is treated as income deemed to have accrued or arisen in India and will be taxed in India. However, in such a case allowance and perquisites will be exempt from tax.

The above discussed provisions are applicable only in case of an Indian citizen deputed outside India by Government of India. In the present case, Mr. Raja is not deputed by Government of India and he is non-resident and, hence, nothing will be charged to tax in India in respect of salary received by him in the USA.

Thus, option (a) is the correct option.

Comment on incorrect answer : Option (a) is the correct option since it gives the correct provisions, hence, other options, viz., options (b), (c) and (d) giving incorrect provisions are not correct.

Q52. Mr. Sujal is an Indian citizen deputed by Government of India in its USA office at a monthly salary of 25,200\$. Apart from salary, he is also receiving allowances valuing at 1,000\$. For the previous year 2012-13 he was a non-resident in India. In this case what will be his taxable salary in India?

- (a) Nil (b) 25,200\$
(c) 1,000\$ (d) 26,200\$

Correct answer (b)

Justification of correct answer

Salary received by an Indian citizen deputed outside India by the Government is treated as an income deemed to have accrued or arisen in India and will be taxed in India. However, in such a case allowance and perquisites will be exempt from tax.

In the present case Mr. Sujal is deputed by the Government of India and, hence, salary will be charged to tax in India, however, allowance will not be charged to tax.

Thus, option (b) is the correct option.

Comment on incorrect answer : Option (b) is the correct option since it gives the correct provisions, hence, other options, viz., options (a), (c) and (d) giving incorrect provisions are not correct.

Q53. Mr. Rajul is an Indian citizen deputed by the Government of India in its US office at a monthly salary of 1,84,000\$. Apart from salary, the employer has

provided him perquisite in respect of various facilities. The value of such perquisite amounted to 5,000\$. For the previous year 2012-13 he was a non-resident in India. In this case what will be his taxable salary in India?

- (a) Nil (b) 84,000\$
(c) 1,84000\$ (d) 1,89,000\$

Correct answer (c)

Justification of correct answer

Salary received by an Indian citizen deputed outside India by the Government is treated as an income deemed to have accrued or arisen in India and will be taxed in India. However, in such a case allowance and perquisites will be exempt from tax.

In the present case Mr. Rajul is deputed by Government of India and, hence, salary will be charged to tax in India, however, value of perquisites will not be charged to tax.

Thus, option (c) is the correct option.

Comment on incorrect answer : Option (c) is the correct option since it gives the correct provisions, hence, other options, viz., options (a), (b) and (d) giving incorrect provisions are not correct.

Q54. Mr. Kamal is working in SM Ltd. at a monthly salary of Rs. 84,000. During the year 2012-13 he surrendered salary of one month to his employer. In this case what will be his taxable income?

- (a) Rs. 10,08,000 (b) Rs. 9,24,000
(c) Rs. 8,40,000 (d) Nil

Correct answer (a)

Justification of correct answer

Surrendered salary is not charged to tax if the same is surrendered to the Central Government under section 2 of the Voluntary Surrender of Salaries (Exemption from Taxation) Act, 1961. In the present case the salary is surrendered to the employer and, hence, the above benefit will not be available and salary for the period of 12 months will be charged to tax in the hands of Mr. Kamal.

Thus, option (a) is the correct option.

Comment on incorrect answer : Option (a) is the correct option since it gives the correct amount of taxable salary, hence, other options, viz., options (b), (c) and (d) giving incorrect amounts of taxable salary are not correct.

Q55. Surrender of salary to a trust engaged in charitable activity will be exempt from tax.

- (a) True (b) False

Correct answer (b)

Justification of correct answer

Salary surrendered after its accrual is charged to tax, even though it may have been surrendered to a trust. However, if salary is surrendered to the Central Government under

section 2 of the Voluntary Surrender of Salaries (Exemption from Taxation) Act, 1961, then such surrendered salary is not charged to tax.

Thus, the statement given in the question is false and, hence, option (b) is the correct option.

Comment on incorrect answer : The statement given in the question is false, hence, option (a) is not correct.

Q56. An employee cannot claim relief under section 89 in respect of arrears of salary, if arrears pertain to more than one year.

- (a) Can (b) Cannot

Correct answer (a)

Justification of correct answer :

An employee can claim relief under section 89 in respect of arrears of salary even if arrears pertain to more than one year.

Thus, option (a) is the correct option.

Comment on incorrect answer : Option (a) is the correct option since it gives the correct provision, hence, other option, viz., options (b) giving incorrect provision is not correct.

Q57. An employee cannot claim relief under section 89 in respect of arrears of gratuity, if gratuity is received after rendering service for a period of less than 5 years.

- (a) Can (b) Cannot

Correct answer (b)

Justification of correct answer :

An employee cannot claim relief under section 89 in respect of arrears of gratuity, if gratuity is received after rendering service for a period of less than 5 years.

Thus, option (b) is the correct option.

Comment on incorrect answer : Option (b) is the correct option since it gives the correct provision, hence, other option, viz., options (a) giving incorrect provision is not correct.

Q58. Which of the following is not eligible for relief under section 89?

- (a) Compensation received by the employee at the time of termination of the employment
- (b) Payment in case of commutation of pension
- (c) Arrears of salary
- (d) Salary received by a partner

Correct answer (d)

Justification of correct answer :

All the items given in (a) to (c) are eligible for relief under section 89 except item (d).

Thus, option (d) is the correct option.

Comment on incorrect answer : Option (d) is the correct option since salary received by the partner is not eligible for relief under section 89. 'Salary' received by a partner is not taxable under the head salary but as profit and gains of business or profession. So, no question of relief under section 89. All the other options, viz., options (a), (b) and (c) giving items liable to relief are not correct.

Q59. No relief under section 89 is available in respect of gratuity, if the gratuity paid to employee is in respect of past service of more than 15 years.

- (a) True (b) False

Correct answer (b)

Justification of correct answer :

Relief under section 89 is available in respect of gratuity, if the gratuity paid to employee is in respect of past service of more than 5 years. No relief is available if past service is of less than five years.

Thus, the statement given in the question is false and, hence, option (b) is the correct option.

Comment on incorrect answer :

The statement given in the question is false, hence, option (a) is not correct.

Q60. Relief under section 89 cannot be claimed if the salary of the employee exceeds Rs. 1 crore.

- (a) True (b) False

Correct answer (b)

Justification of correct answer :

Relief under section 89 can be claimed irrespective of the salary of the employee.

Thus, the statement given in the question is false and, hence, option (b) is the correct option.

Comment on incorrect answer :

The statement given in the question is false, hence, option (a) is not correct.

Q61. The amount of relief under section 89 cannot exceed _____.

- (a) Rs. 3,00,000 (b) Rs. 7,00,000
(c) Rs. 10,00,000 (d) There is no ceiling limit specified under section 89.

Correct answer (d)

Justification of correct answer :

There is no ceiling limit on the amount of relief under section 89.

Thus, option (d) is the correct option.

Comment on incorrect answer : Option (d) is the correct option since there is no ceiling limit on the amount of relief under section 89. All the other options, viz., options (a), (b) and (c) giving various limits are not correct.

Q62. Mr. Rajat has received arrears of salary of 2011-12 in the year 2012-13. He provides following details :

- Tax on income of the year 2012-13, including arrears of salary : Rs. 64,000
- Tax on income of the year 2012-13, excluding arrears of salary : Rs. 54,000
- Tax on income of the year 2011-12, including arrears of salary : Rs. 80,000
- Tax on income of the year 2011-12, excluding arrears of salary : Rs. 60,000

What will be the amount of relief which can be claimed by Mr. Rajat in respect of arrears of salary?

- (a) Rs. 20,000 (b) Rs. 54,000
(c) Rs. 10,000 (d) Nil

Correct answer (d)

Justification of correct answer :

Amount of relief will be computed as follows :

Tax on income of the year 2012-13 including arrears of salary	: Rs. 64,000
Tax on income of the year 2012-13 excluding arrears of salary	: <u>Rs. 54,000</u>
<i>Difference</i>	: Rs. 10,000
Tax on income of the year 2011-12 including arrears of salary	: Rs. 80,000
Tax on income of the year 2011-12 excluding arrears of salary	: <u>Rs. 60,000</u>
<i>Difference</i>	: Rs. 20,000
Difference of first difference over second difference	: Nil
Relief under section 89 will amount to	: Nil

Thus, option (d) is the correct option.

Comment on incorrect answer : Option (d) is the correct option since no relief is available. All the other options, viz., options (a), (b) and (c) giving incorrect amounts of relief are not correct.

Q63. Mr. Sulabh is a non-Government employee. The following information is provided by Mr. Sulabh in respect of his allowances :

Food allowance	5,000 per month
Petrol allowance (for personal petrol expenses)	3,000 per month
Entertainment allowance	2,000 per month
Medical allowance	4,000 per month
Domestic servant's allowance	5,000 per month
Electricity allowance	2,000 per month

What will be the amount of allowance charged to tax in his hands for the relevant year?

- (a)Rs. 60,000 (b) Rs. 96,000

(c) Rs. 1,20,000

(d) Rs. 2,52,000

Correct answer (d)

Justification of correct answer

All the allowances given in the question are taxable, hence, total taxable allowance for the month will come to Rs. 21,000 or Rs. 2,52,000 per annum. Thus, option (d) is the correct option.

Comment on incorrect answer : Option (d) is the correct option since it gives the correct amount of taxable allowance, hence, other options, *viz.*, options (a), (b) and (c) giving incorrect taxable amount are not correct.

Q64. Mr. Rupesh is receiving travelling allowance of Rs. 18,400 from his employer. He has spent Rs. 20,000 on account of travelling. What will be the tax treatment of travelling allowance in the hands of Mr. Rupesh?

- (a) Entire amount of allowance will be taxed
- (b) Entire amount of allowance will be exempt from tax
- (c) Rs. 1,600 will be charged to tax
- (d) Rs. 8,400 will be charged to tax

Correct answer (b)

Justification of correct answer

Travelling allowance is exempt to the extent of lower of the amount of allowance or amount spent for the purpose of the allowance. In this case, Rs. 18,400 is received as travelling allowance and Rs. 20,000 is the amount spent for the purpose of the allowance. Hence, Rs. 18,400 will be exempt, *i.e.*, entire amount of allowance will be exempt from tax. Thus, option (b) is the correct option.

Comment on incorrect answer : Option (b) is the correct option since it gives the correct tax treatment of travelling allowance. Hence, other options, *viz.*, options (a), (c) and (d) giving incorrect tax treatment of travelling allowance are not correct.

Q65. Mr. Janak received conveyance allowance of Rs. 18,400 from his employer for meeting the expenditure on client's visits. He has spent Rs. 12,000 on account of conveyance. What will be the tax treatment of conveyance allowance in the hands of Mr. Janak?

- (a) Entire amount of allowance will be taxed.
- (b) Entire amount of allowance will be exempt from tax.
- (c) Rs. 800 per month will be exempt and balance will be taxed.
- (d) Rs. 6,400 will be taxed.

Correct answer (d)

Justification of correct answer

Conveyance allowance is exempt to the extent of lower of the amount of allowance or amount spent for the purpose of the allowance. In this case Rs. 18,400 is received as conveyance allowance and Rs. 12,000 is the amount spent for the purpose of the

allowance. Hence, Rs. 12,000 will be exempt and Rs. 6,400 will be charged to tax. Thus, option (d) is the correct option.

Comment on incorrect answer : Option (d) is the correct option since it gives the correct tax treatment of conveyance allowance. Hence, other options, viz., options (a), (b) and (c) giving incorrect tax treatment of conveyance allowance are not correct.

Q66. Mr. Raja received helper allowance of Rs. 8,400 from his employer. He has deputed a servant at a monthly salary of Rs. 1,000 to help his wife in her domestic work. What will be the tax treatment of helper allowance in the hands of Mr. Raja?

- (a) Entire amount of allowance will be taxed.
- (b) Entire amount of allowance will be exempt from tax.
- (c) Rs. 6,400 will be charged to tax.
- (d) Rs. 4,600 will be charged to tax.

Correct answer (a)

Justification of correct answer

Helper allowance (for deputing helper in official work) is exempt to the extent of lower of the amount of allowance or amount spent for the purpose of the allowance. In this case, helper is deputed for personal purpose and not for official purpose. Hence, entire amount of helper allowance will be charged to tax. Thus, option (a) is the correct option.

Comment on incorrect answer : Option (a) is the correct option since it gives the correct tax treatment of helper allowance. Hence, other options, viz., options (b), (c) and (d) giving incorrect tax treatment of helper allowance are not correct.

Q67. Mr. Sunil received research allowance of Rs. 8,400 from his employer. He had incurred an expenditure of Rs. 5,400 on account of research. What will be the tax treatment of research allowance in the hands of Mr. Sunil?

- (a) Entire amount of allowance will be taxed.
- (b) Entire amount of allowance will be exempt from tax.
- (c) Rs. 5,400 will be exempt and balance will be charged to tax.
- (d) Rs. 5,400 will be charged to tax and balance will be exempt from tax.

Correct answer (c)

Justification of correct answer

Research allowance is exempt to the extent of lower of the amount of allowance or amount spent for the purpose of the allowance. In this case, Rs. 8,400 is received as research allowance and Rs. 5,400 is the amount spent for the purpose of the allowance. Hence, Rs. 5,400 will be exempt and balance will be charged to tax. Thus, option (c) is the correct option.

Comment on incorrect answer : Option (c) is the correct option since it gives the correct tax treatment of research allowance. Hence, other options, viz., options (a), (b) and (d) giving incorrect tax treatment of research allowance are not correct.

Q68. Mr. Raghu received uniform allowance of Rs. 20,000 from his employer. He had incurred expenditure of Rs. 10,000 on account of maintenance of uniform. What will be the tax treatment of uniform allowance in the hands of Mr. Raghu?

- (a) Entire amount of allowance will be taxed.
- (b) Entire amount of allowance will be exempt from tax.
- (c) Rs. 1,200 will be exempt and balance will be charged to tax.
- (d) Rs. 10,000 will be exempt from tax and balance will be charged to tax.

Correct answer (d)

Justification of correct answer

Uniform allowance is exempt to the extent of lower of the amount of allowance or amount spent for the purpose of the allowance. In this case, Rs. 20,000 is received as uniform allowance and Rs. 10,000 is the amount spent for the purpose of the allowance. Hence, Rs. 10,000 will be exempt and balance will be charged to tax. Thus, option (d) is the correct option.

Comment on incorrect answer : Option (d) is the correct option since it gives the correct tax treatment of uniform allowance. Hence, other options, viz., options (a), (b) and (c) giving incorrect tax treatment of uniform allowance are not correct.

Q69. Mr. Raja is working with SM Ltd. During the year 2012-13, his employer has provided him with an accommodation in Mumbai. Other details are as follows:

- Basic salary for the year 2012-13 : Rs. 3,84,000.
- Dearness allowance forming part of salary for computing all retirement benefits: Rs. 3,13,000.
- Employer’s contribution to Provident Fund : Rs. 84,000.
- Transport allowance received during the year : Rs. 12,600.
- Value of other perquisites : Rs. 2,84,000.
- The accommodation is owned by the employer.

What will be the value of accommodation provided by the employer?

- (a) Rs. 1,30,000
- (b) Rs. 1,25,500
- (c) Rs. 1,05,000
- (d) Rs. 1,52,500

Correct answer (c)

Justification of correct answer

Accommodation is located in Mumbai (*i.e.*, population of more than 25 lakhs), hence, the value of the accommodation will be 15% of the salary. Salary will be computed as follows :

<i>Particulars</i>	<i>(Rs.)</i>
Basic salary	3,84,000
(+) Dearness allowance (forming part of salary)	3,13,000
(+) Transport allowance Rs. 12,600 – Rs. 9,600 (exempt @ Rs. 800 per month)	<u>3,000</u>
Salary for the purpose of computing value of accommodation	7,00,000

<i>Particulars</i>	<i>(Rs.)</i>
Value of unfurnished accommodation	1,05,000
(+) Value of furniture 10% of cost of furniture of Rs. 1,50,000	15,000
Value of furnished accommodation	1,20,000
(-) Amount recovered from the employee in respect of the accommodation	<u>5,000</u>
Value of concessional accommodation	1,15,000

Thus, option (b) is the correct option.

Comment on incorrect answer : Option (b) is the correct option since it gives the correct value of perquisite. Hence, all the other options, viz., options (a), (c) and (d) giving incorrect value of perquisite are not correct.

Q71. Mr. Jayesh is a salaried employee. His employer maintains a school. The younger brother of Mr. Jayesh is studying in the school of the employer. The annual school fees charged by the similar school in the locality amounts to Rs. 1,500. What will be the taxable value of perquisite in the hand of Mr. Jayesh?

- (a) Rs. 1,500
(c) Rs. 500
(b) Rs. 1,000
(d) Nil

Correct answer (a)

Justification of correct answer

Where the education facility is provided to the children of the employee in an educational institution which is maintained and owned by the employer or where such free educational facilities are provided in any institution by reason of his being in employment of that employer, then the value of perquisite shall be the cost of such education in a similar institution in or near the locality. However, nothing shall be chargeable to tax if the cost of such education (or the value of such benefit) per child does not exceed Rs. 1,000 per month. If the cost of such education facility exceeds Rs. 1,000 per month per child, then the amount in excess of Rs. 1000 per month per child shall be charged to tax. In this case the education facility is provided to the brother of the employee. Hence, the above benefit will not apply. In this case the value of perquisite will come to Rs. 1,500. Thus, option (a) is the correct option.

Comment on incorrect answer : Option (a) is the correct option since it gives the correct value of perquisite. Hence, other options, viz., options (b), (c) and (d) giving incorrect value of perquisite are not correct.

Q72. Mr. Sudhir is a salaried employee. His employer directly pays the school fees of his children. Annual school fees paid by the employer to the school amounted to Rs. 19,000. The employer recovers Rs. 2,000 per month Sudhir's from salary. What will be the taxable value of perquisite in the hand of Mr. Sudhir?

- (a) Rs. 12,000
(c) 10% of salary
(b) Rs. 17,000
(d) Nil

Correct answer (d)

Justification of correct answer

School fees of the children\family members of the employees paid by the employer directly to the school are taxable as perquisites in the hands of the employee. Amount paid by the employer to the school amounted to Rs. 19,000 per annum. However, amount recovered amounted to Rs. 24,000 per annum (Rs. 2,000 per month) . Thus, option (d) is the correct option.

Comment on incorrect answer : Option (d) is the correct option since it gives the correct value of perquisite. Hence, other options, viz., options (a), (b) and (c) giving incorrect value of perquisite are not correct.