

CHAPTER 4: SALARIES

Illustration 1

X retired from A Ltd on 30/09/21 and joined B Ltd. On 1/10/21. Salary received from A Ltd being 30,000 p m and from B Ltd 40,000 p m.

Due date of salary in A Ltd is 7th of next month and in B Ltd is last date of the month. Find his taxable salary

Solution

Computation of taxable salary of Mr X:

Particulars	Details	Amount
Salary from A Ltd	(30,000 * 7)	2,10,000
Salary from B Ltd	(40,000 * 6)	2,40,000
Gross total salary		4,50,000

Note: salary for the month of march 21 shall be due in the PY 21 - 22

Illustration 2

Mr. R joined R Ltd on 1/7/21 on a salary of 10,000 p m his due date of salary in R Ltd was 7th of next month compute his taxable salary for the previous year 21 - 22

Solution

Particulars	Details	Amount
Salary for the month of July 21 to Feb 22 shall be taxable in the year 21 - 22	(10,000 * 8)	80,000
Gross total salary		80,000

Note: salary for the month of march 21 shall fall due in 7/4/21 therefore not taxable in the p y 21 - 22

Illustration 3

X covered by the payment of gratuity Act, retired after 27 yrs and 9 months of service and received gratuity of Rs 1420000. At the time of retirement i.e on 8/8/21 his basic salary has Rs 45000. Per month dearness allowance Rs 20000 p m and commission Rs 12000 p m. Find his taxable gratuity.

Solution

Computation of taxable gratuity of Mr X

Particulars	Details	Amount
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Gratuity received		14,20,000
Less: minimum of the following is exempted u/s 10(10)(ii)		
a) Actual gratuity received	14,20,000	
b) Statutory amount	20,00,000	
c) $15/26 * \text{completed year of service} * \text{salary p m} [15/26 * 28 * 65000]$	10,50,000	10,50,000
Taxable gratuity		3,70,000

Data evaluation:

Items	Details	Data
Salary p. m	Basic + D. A i.e (45,000 + 20,000) [commission has not considered as salary here means basic + D.A last draw]	Rs 65,000
Completed year of service	Completed year of service includes any fraction of year in excess of 6 months. Hence, 27 years 9 months shall taken as 28 years	28 years

Illustration 4

Mrs X retired from H.L. Ltd on 1.7.21 and was granted a pension of Rs 6,000 p.m out of her monthly pension, she commuted 70% with effect from 1.12.21 and received Rs 1,40,000 being the commuted value. She also received gratuity of Rs 1,50,000 from H.L. Ltd compute the taxable pension of Mrs X.

Solution

Computation of taxable pension:

Particulars	Details	Amount
Uncommuted pension		37,200
Commuted pension	1,40,000	
Less: Exempted u/s 10(10A)(ii)- (1/3 rd of Rs 2,00,000 as she receives gratuity)	66,667	73,333
Taxable gratuity		1,10,533

Data evaluation

Items	Details		Data
Uncommuted pension	July to Nov 100% pension is uncommuted	Rs 6,000 * 5 months	Rs 30,000
	Dec to march only 30% pension is uncommuted	6,000 * 30% = Rs 1,800 * 4 months	Rs 7,200

	Total	Rs 37,200
Total pension	Commuted pension received / % of pension commuted	
		2,00,000

Illustration 5

Mr. R & Mrs. R have 3 children. Mr. R is employed in A Ltd., whereas Mrs. R is employed in B Ltd. Both of them receive children education allowance of Rs. 1000 p.m. and hostel allowance of Rs. 1500 p.m.

Compute taxable children education allowance and hostel allowance in the hands of Mr. & Mrs. R:

Solution

Computation of taxable allowance of Mr. & Mrs. R:

Particulars	Mr. R		Mrs. R	
	Details	Amount	Details	Amount
Children Education Allowance (Rs. 1000* 12)	1200 2400	9600	12000 2400	9600
Less: Exemption u/s 10(14)(ii) (Rs. 100*12*2)				
Children Hostel Allowance (Rs. 1500*12)	18000	10800	18000	10800
Less: Exemption u/s 10(14) (ii) (Rs. 300*12*2)	7200		7200	
Taxable Allowance		20400		20400

Note: Both the assesses can claim exemption in respect of Children Education and Children Hostel Allowance received separately.

Illustration 6

From the following particulars regarding Mr. X, salaried employee in Y Ltd. You are required to compute his gross taxable salary.

Particulars	Amount
Basic salary	5,000 p.m.
Dearness allowance (60% forms a part of retirement benefit)	3,000 p.m.
Children education allowance (he has one adopted child)	500 p.m.
City compensatory allowance	1,000 p.m.
Bonus (30% voluntary)	20,000
Commission on profit	50,000

His employer allotted him a Rent Free Accommodation in a city having population 14,00,000. However employer pays Rs. 3,000 p.m. for such house.

Solution

Computation of Gross Taxable Salary of Mr. X

Particulars	Details	Amount	Amount
Basic [5,000*12]			60,000
Bonus (contractual) [20,000*70%]			14,000
Commission on profit			50,000
Allowances			
Dearness allowance [3,000*12]		36,000	
Children Education Allowance received	6,000		
Less: Exempted u/s 10(14)(ii) & Rule 2BB(2) [100*12*1]	1,200	4,800	
City Compensatory Allowance [1,000*12]		12,000	52,800
Perquisites u/s 17(2)			
Rent - free accommodation (minimum of the following) [15% of Salary ¹ i.e. Rs. 24,360 or rent paid Rs. 36,000]		24,360	
Bonus (voluntary) (20,000*30%)		6,000	30,360
Gross Taxable Salary			2,07,160

Working

1. Calculation of Salary for Rent Free Accommodation:

Particulars	Amount
Basic [5,000*12]	60,000
Dearness allowance [3,000*12] *60%	2,160
Bonus [Contractual]	14,000
Commission on profit	50,000
Children education Allowance [500-(100*1)]*12	4,800
City compensatory allowance	12,000
Salary for Rent Free Accommodation	1,62,400

Note: Population of the city is irrelevant because the house is hired by employer

Illustration 7

Mr. X has been given employer's laptop for Rs. 8,000 on 19.1.22. His employer has originally purchased the same on 1.3.19 for Rs. 1,00,000. Compute taxable value of perquisites in the hands of Mr. X.

Solution

Calculation of taxable perquisites in the hands of Mr. X

Particulars	Rs.
Original cost as on date of purchase i.e. as on 1/3/19	1,00,000
Less: Depreciation @ 50% from 1/3/19 to 28/2/20	50,000
Written down value as on 1/3/20	50,000
Less: Depreciation @ 50% from 1/3/20 to 28/2/21	25,000
Written down value as on 1/3/21	25,000
Less: Depreciation @ 50% from 1/3/21 to 18/1/22 (not being a complete year)	Nil
Written down value as on date of sale i.e. 19/1/22	25,000
Less: Amount paid by employee	8,000
Taxable value of perquisites	17,000

Illustration 8

Mrs. Rashika has been granted foreign medical treatment facility for her son. Her Basic Salary is 1,10,000. Further details of foreign travel and expenditure are as follows:

Particulars	Amount paid by employer	Amount permitted by RBI
Expenditure on stay abroad of patient and three caretaker	90,000	1,00,000
Medical treatment expenditure of the child	2,20,000	2,10,000
Travel Cost of patient and three caretaker	1,40,000	--

Compute taxable perquisite assuming her:

- Other income ` 5,000
- Other income ` 50,000

Solution

Taxable value of perquisite in the hands of Mrs. Rashika is as follows:

Particulars	Case a	Case b	Workings
Expenditure on stay abroad	45000	45000	$[(90000/4)2^*]$, exempted only for patient and one caretaker.

Medical treatment expenditure of the child.	10000	10000	(220000 - 210000) Exempted upto the RBI ceiling
Travel Cost	7000	140000	Exempted only for the patient and one caretaker.

Note: Travel expenditure of the patient and one caretaker shall be exempted only if the Gross total income of the assessee does not exceed ` 2,00,000, which can be evaluated as follows:

Particulars	Case a	Case b
Salary		
Basic	1,10,000	1,10,000
Add: Medical Facility		
Stay expenditure perquisite	45,000	45,000
Medical expenditure perquisite	10,000	10,000
Total	1,65,000	1,65,000
Add: Other Income	5,000	50,000
Gross Total Income	1,70,000	2,15,000

Hence, in case (a) Travel Expenses is exempted for a patient and a caretaker however, in case (b) Travel Expenses shall be fully taxable.