

3. INCOME FROM SALARIES**SOLUTIONS TO ASSIGNMENT PROBLEMS****Problem No. 1**

Computation of taxable salary of Mr. Anand for A.Y. 2015-16

Particulars	₹
Basic pay [(₹ 25,000×11) + (₹ 27,500×1)] = ₹ 2,75,000 + ₹ 27,500	3,02,500
Dearness allowance [15% of basic pay]	45,375
Bonus [₹ 27,500 × 1.5]	41,250
Employer's contribution to Recognized Provident Fund in excess of 12% (18% - 12% = 6% of ₹ 3,47,875)	20,873
Medical insurance premium	Exempted
Taxable allowances: Telephone allowance	12,000
Taxable perquisites:	
Rent-free accommodation [See Note 1 below]	60,169
Medical reimbursement ₹ 40,000 Less: exempted ₹15,000	25,000
Reimbursement of salary of housekeeper [₹ 2,000 × 12]	24,000
Gift voucher ₹4,700 Less: exempted ₹4,700	-
Motor car owned and driven by employee, running and maintenance charges borne by the employer [₹ 36,600 - ₹ 21,600 (i.e., ₹ 1,800 × 12)]	15,000
Value of free lunch facility less than ₹50 per meal	-
Salary income chargeable to tax	5,46,167

Notes:

- Where the accommodation is taken on lease or rent by the employer, the value of rent-free accommodation provided to employee would be actual amount of lease rental paid or payable by the employer or 15% of salary, whichever is lower.

For the purposes of valuation of rent free house, salary includes:

S.NO	Particulars	₹
1.	Basic salary	3,02,500
2.	Dearness allowance	45,375
3.	Bonus	41,250
4.	Telephone allowance	12,000
	Total	4,01,125

15% of salary = ₹ 4,01,125 × 15/100 = ₹ 60,169

Value of rent-free house will be

- Actual amount of lease rental paid by employer (i.e. ₹ 1,80,000) or
- 15% of salary (i.e., ₹ 60,169),

whichever is lower.

Therefore, the perquisite value is ₹ 60,169.

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To **MASTER MINDS**, Guntur

Problem No. 2**1. Accommodation is owned by the company****Computation of taxable value of RFA:**

Taxable value = 15% of salary i.e. ₹22,860 (₹1,52,400 × 15%)

Computation of salary:

Particulars	Amount(₹)
Salary(10,000×12)	1,20,000
Bonus	19,200
Conveyance Allowance (70% spent on official duties) ₹24,000	
Less: exempted (24,000×70%) <u>₹16,800</u>	7,200
Medical Allowance(500×12)	<u>6,000</u>
	1,52,400

2. Accommodation has been taken on rent by the company**Computation of taxable value of RFA:**

Taxable value = 15% of salary as per above calculation i.e. ₹22,860 (₹1,52,400 × 15%)

(or)

Actual rent paid by the employer (₹7000×12) ₹84,000

Whichever is lower.

Therefore taxable value = ₹22,860.

Problem No. 3**1. Calculate the value of perquisite of rent free accommodation:**

Particulars	₹
RFA 15%(15000+2500)×12	31,500
Add: furniture 27,000×10%	2,700
Taxable value	34,200

2. If, instead of providing the accommodation free of rent, the employer charges Rs.2,000 p.m. as rent from Mr. X, what will be the value of taxable perquisite

Particulars	₹
RFA 15%(15000+2500)×12	31,500
Add: furniture 27,000×10%	2,700
Less: amount recovered (2000×12)	(24,000)
Taxable value	10,200

3. If rent payable by X to his employer is Rs.4,000 p.m.

Particulars	₹
RFA 15%(15000+2500)×12	31,500
Add: furniture 27,000×10%	2,700
Less: amount recovered (4000×12)	(48,000)
Taxable value	Nil

Problem No. 4**1. For 10 days when he was transferred from Delhi to Mumbai**

Since the accommodation is provided in hotel for a period less than 15 days. Then taxable value is exempted.

2. Accommodation provided in a hotel through out the year as per contract of employment then taxable value is 24% of salary or actual rent which ever is lower.

Problem No. 5**Computation of salary of Mr. Poyal for the A.Y. 2015-16**

Particulars	₹	₹
Basic Salary		40,000
Dearness Allowance		15,000
Commission		10,000
Entertainment Allowance received		4,000
Employee's contribution to RPF [Note]		-
Medical expenses reimbursed	25,000	
Less: Exempt medical expenses	15,000	10,000
Professional tax paid by the employer		2,000
Gross Salary		81000
Less: Deductions under section 16		
- under section 16(ii) Entertainment allowance being lower of :		
a) Allowance received	4,000	
b) One fifth of basic salary [$1/5 \times 40,000$]	8,000	
c) Statutory amount	5,000	4,000
- under section 16(iii) Professional tax paid		3,000
Income from Salary		74,000

Note: Employee's contribution to RPF is not taxable. It is eligible for deduction under section 80C.

Problem No. 6**Computation of Income from Salary of Mr. X for the A.Y.2015-16**

Particulars	₹	₹
Basic salary [$₹ 25,000 \times 12$]		3,00,000
Commission [$₹ 1,000 \times 12$]		12,000
Entertainment allowance [$₹ 1,000 \times 12$]		12,000
Rent free accommodation [Note 1]	48,600	
Add : Value of furniture [$₹ 2,40,000 \times 10\%$ p.a. for 8 months]	16,000	64,600
Interest on personal loan [Note 2]		22,500
Use of motor cycle [$₹ 60,000 \times 10\%$ p.a. for 4 months]		2,000
Transfer of motor cycle [Note 3]		12,000
Gross Salary		4,25,100
Less : Deduction under section 16(iii)		
Professional tax paid		2,000
Income from Salary		4,23,100

Note 1: Value of rent free unfurnished accommodation
= 15% of salary for the relevant period
= 15% of ($₹ 3,00,000 + ₹ 12,000 + ₹ 12,000$) = ₹ 48,600

Note 2: Value of prerequisite for interest on personal loan
= [$₹ 5,00,000 \times (12.75\% - 6.75\%)$ for 9 months] = ₹ 22,500

Note 3: Depreciated value of the motor cycle
= Original cost – Depreciation @ 10% p.a. for 3 completed years.
= ₹ 60,000 – ($₹ 60,000 \times 10\%$ p.a. \times 3 years) = ₹ 42,000.
Prerequisite = ₹ 42,000 – ₹ 30,000 = ₹ 12,000.

Problem No. 7**Computation of Taxable Salary of Mr. Venki for A.Y. 2015-16**

Particulars	₹
Basic salary [(₹ 50,000 × 7) + (₹ 60,000 × 5)]	6,50,000
Dearness Allowance (40% of basic salary)	2,60,000
Bonus (₹ 50,000 + 40% of ₹ 50,000)	70,000
Employers contribution to recognised provident fund in excess of 12% of salary = 4% of ₹ 6,50,000	26,000
Professional tax paid by employer	2,000
Laptop facility	Exempted
Perquisite of Motor Car exceeding 1.6ltrsCC (₹2400x5)	12,000
Leave travel concession (note-1)	Exempted
Gross Salary	10,20,000
Less: Deduction under section 16	
Professional tax	3,000
Taxable Salary	10,17,000

Notes:

- Mr. Venki can avail exemption under section 10(5) on the entire amount of ₹ 75,000 reimbursed by the employer towards Leave Travel Concession since the same was availed for himself, his wife and three children and the journey was undertaken by economy class airfare. The restriction imposed for two children is not applicable in case of multiple births which take place after the first child.

It is assumed that the Leave Travel Concession was availed for journey within India.

Problem No. 8**Perquisite value for housing loan**

The perquisite value for computation is 10% - 6% = 4%

Month	Maximum outstanding balance as on last date of month (₹)	Perquisite value at 4% for the month (₹)
April,2014	5,88,000	1,960
May,2014	5,76,000	1,920
June,2014	5,64,000	1,880
July,2014	5,52,000	1,840
August,2014	5,40,000	1,800
September,2014	5,28,000	1,760
October,2014	5,16,000	1,720
November,2014	5,04,000	1,680
December,2014	4,92,000	1,640
January,2015	4,80,000	1,600
February,2015	4,68,000	1,560
March,2015	4,56,000	1,520
Total value of this perquisite		20,880

Perquisite Value of Air Conditioners

Particulars	₹
Original cost	2,00,000
Depreciation on SLM basis for 4 years @10% i.e. ₹ 2,00,000 x10% x 4	80,000
Written down value	1,20,000
Amount recovered from the employee	90,000
Perquisite value	30,000

Chargeable perquisite in the hands of Mr. Badri for the assessment year 2015-16

Particulars	₹
Housing loan	20,880
Air Conditioner	30,000
Total	50,880

Problem No. 9

Taxability of perquisites provided by ABC Co. Ltd. to Shri Bala

Particulars	₹
Medical facility	Exempted
Domestic servant(₹1500x12)	18,000
Education facility provided to his children arthy not exceeding ₹1,000 p.m	Exempted
Education facility provided to his children ashok exceeding ₹1,000 p.m (200x12)	2,400
Taxable value of television, refrigerator and air conditioner (1,10,000x10%)	11,000
Gift	₹10,000
Less: exempted	<u>₹5,000</u>
Telephone facility	Exempted
Total taxable value of perquisites	36,400

Problem No. 10

Tax treatment of medical benefits, allowances and mediclaim premium in the hands of Ms. Rakhi for A.Y. 2015-16

Particulars	Amount(₹)
Reimbursement of following medical expenses incurred by Ms. Rakhi	
a) On treatment of her self employed daughter in a private clinic	₹4,000
b) On treatment of herself by family doctor	<u>₹8,000</u>
	<u>₹12,000</u>
Since the amount doesn't exceeded 15,000 it is totally exempted	Exempted
c) On treatment of her mother-in-law dependent on her, in a nursing home	5,000
Payment of premium on Medi claim Policy taken on her health	Exempted
Medical Allowance(₹2,000x12)	24,000
Medical expenses reimbursed on her son's treatment in a government hospital	Exempted
Expenses incurred by company on the treatment of her minor son abroad(Note-1)	Exempted
Expenses in relation to foreign travel and stay of Rakhi and her son abroad for medical treatment(Note-1)	Exempted
Taxable value	29,000

Note-1: Assuming that medical treatment for her minor son below the prescribed limit specified by the RBI and ms. Rakhi gross total income is also less than ₹2,00,000. So that entire value is exempted.

Problem-11

- As per section 10(10), gratuity received by a Government employee on retirement is fully exempt from tax. Since Mr. Alok is a government employee, gratuity amounting to ₹ 7,00,000 received would be fully exempt. The taxable portion of gratuity shall be Nil.
- If Mr. Alok is not a Government employee but covered by the Payment of Gratuity Act, 1972, then, gratuity received by him would be exempt upto least of the following :

Particulars	Amount(₹)
i) Statutory limit	10,00,000
ii) Actual gratuity received	7,00,000
iii) $15/26 \times$ last drawn salary \times years of service (including part of the year in excess of 6 months) $15/26 \times ₹ 24,000 \times 26$ years	3,60,000

Therefore, ₹ 3,60,000 is exempt under section 10(10).

Therefore, taxable portion of gratuity = ₹ 7,00,000 – ₹ 3,60,000 = ₹ 3,40,000

Note: Salary, for the purpose of computation of exempt gratuity, means basic salary plus dearness allowance i.e. ₹ 24,000 (₹ 16,000 + ₹ 8,000).

Problem No. 12

1. As per section 10(10)(i), gratuity received by a Government employee on retirement is fully exempt from tax. Since Mr. Arpan is a government employee, gratuity amounting to ₹ 12,00,000 received would be fully exempt.

The taxable portion of gratuity shall be Nil.

2. If Mr. Arpan is not a Government employee but covered by the Payment of Gratuity Act, 1972, then, gratuity received by him would be exempt up to least of the following :

Particulars	Amount(₹)
i) Statutory limit	10,00,000
ii) Actual gratuity received	12,00,000
iii) $15/26 \times$ last drawn salary \times years of service (including part of the year in excess of 6 months) $15/26 \times ₹ 63,000 \times 28$ years	10,17,692

Therefore, ₹ 10,00,000 is exempt under section 10(10)(ii).

Taxable gratuity = ₹ 12,00,000 – ₹ 10,00,000 = ₹ 2,00,000

Salary, for the purpose of computing exempt gratuity in this case, means basic salary plus dearness allowance i.e. ₹ 63,000 (₹ 38,000 + ₹ 25,000).

3. If Mr. Arpan is not a Government employee and not covered under the Payment of Gratuity Act, 1972 then, gratuity received by him would be exempt upto the least of the following:

Particulars	Amount(₹)
i) Statutory limit	10,00,000
ii) Actual gratuity received	12,00,000
iii) $1/2 \times$ Average salary of 10 months immediately preceding the month of retirement \times years of service (shall not include part of the year in excess of 6 months) $1/2 \times ₹ 38,000 \times 27$ years	5,13,000

Therefore, ₹ 5,13,000 is exempt under section 10(10)(iii) The taxable gratuity is ₹ 6,87,000 (₹ 12,00,000 – ₹ 5,13,000)

Salary, for the purpose of computation of exempt gratuity, means basic salary of ₹ 38,000 p.m [Average salary for 10 months = (₹ 38,000 \times 10)/10]

Note: It is assumed that dearness allowance does not form part of salary for retirement benefits.

Problem No. 13

Computation of total income of Mr. Madhav for the A.Y. 2015-16

Particulars	₹	₹
Basic salary (₹ 22,500 \times 12)		2,70,000
Dearness allowance (1/4th of basic salary)		67,500
Transport allowance (₹ 2,000 \times 12)	24,000	
Less: Exemption (₹ 800 p.m. \times 12)	<u>9,600</u>	14,400
Facility for use of laptop		Nil
Conveyance Allowance received	12,000	
Less: Expenditure incurred for official purpose	<u>10,000</u>	2,000
Expenditure on accommodation while on official duty not a perquisite and hence, not chargeable to tax		Nil
Value of lunch provided during working hours not exceeding ₹50 per meal.		Nil
Value of concessional accommodation [See Note 1]		38,000

Gross Total Income		3,91,900
Less : Deduction under Chapter VI-A		
Under section 80C Contribution to PPF	1,00,000	
Under section 80D Medical insurance premium paid by cheque Premium paid in cash not eligible for deduction	4,500 Nil	1,04,500
Total income		2,87,400

Notes:**1. Perquisite Value of Furnished Accommodation provided at concessional rent:**

Particulars	₹	₹
Basic Salary		2,70,000
Transport Allowance (the portion which is chargeable to tax)		14,400
Conveyance Allowance		2,000
"Salary" for the purpose of perquisite value of accommodation		2,86,400
15% of salary (A)	42,960	
Rent paid by the company for the accommodation @ ₹ 3,500 p.m. (B)	42,000	
Lower of (A) and (B) would be taken as the perquisite value of accommodation i.e.		42,000
Less: Rent paid by Madhav (₹ 1,000 × 12)		12,000
		30,000
Add: Value of furniture provided by employer:		
Rent for furniture (₹ 500 × 12)	6,000	
Television (₹ 20,000 × 10% p.a.)	2,000	8,000
Value of furnished accommodation given at concessional rent		38,000

Note - It is assumed that dearness allowance does not form part of retirement benefits and therefore, the same has not been considered for computation of value of furnished accommodation.

Problem No. 14**Computation of total income of Mr. Rishi for the A.Y. 2015-16**

No.	Particulars	₹
1.	Basic Salary	6,00,000
2.	Dearness allowance (40% of basic salary)	2,40,000
3.	Motor car (engine cubic capacity above 1.6 litres), owned by employer, running expenses met by Mr. Rishi. Perquisite value ₹ 900 per month.	10,800
4.	Cost of laptop ₹ 40,000 Less: amount recovered from Mr. Rishi ₹ 5,000	35,000
5.	Leased accommodation: Actual lease rent ₹ 3 lakhs or 15% of salary i.e. 15% of ₹ 8,40,000 = ₹ 1,26,000; whichever is lower. ₹ 1,26,000, being the lower figure, less amount recovered from employee is the value of perquisite i.e. ₹ 1,26,000 minus 60,000	66,000
6.	Leave travel concession (note-1)	Exempted
7.	Employer contribution to PF (₹6,00,000×15%) ₹90,000 Less: 12% of basic pay and D.A.(₹8,40,000×12%) ₹1,00,800	Nil
8.	Professional tax paid by employer	2,000
	Gross Salary	9,53,800
	Less: Deduction u/s 16(iii) Professional tax	3,000
	Net Salary / Gross Total Income	9,50,800
	Less: Deduction under section 80C PF contribution at 15% of basic pay	90,000
	Total Income	8,60,800

Notes:

1. Mr. Rishi can avail exemption under section 10(5) on the entire amount of ₹ 75,000 reimbursed by the employer towards Leave Travel Concession since the same was availed for himself, his wife and three children and the journey was undertaken by economy class airfare. The restriction imposed for two children is not applicable in case of multiple births which take place after the first child.

Problem No. 15**Computation of the value of perquisites chargeable to tax in the hands of Mr. Y for the A.Y.2015-16**

Particulars	Amount(₹)		
1. Value of concessional accommodation			
Actual amount of lease rental paid by X Ltd.	1,80,000		
15% of salary i.e., 15% of ₹ 10,00,000	1,50,000		
Lower of the above		1,50,000	
Less: Rent paid by Mr.Y (₹ 5,000 × 12)		60,000	
		90,000	
Add: Hire charges paid by X Ltd. for furniture provided for the use of Mr.Y		36,000	1,26,000
2. Perquisite value of santro car owned by X Ltd. and provided to Mr.Y for his personal and official use [(₹ 1,800 + ₹ 900) × 12]			32,400
3. Value of gift voucher			10,000
Value of perquisites chargeable to tax			1,68,400

Problem No. 16**Computation of taxable value of perquisite in the hands of Mr. G**

Particulars	₹	₹
Treatment of Mrs. G in a Government hospital		-
Treatment of Mr. G's father (75 years and dependant) abroad	50,000	
Expenses of staying abroad of the patient and attendant	30,000	
	80,000	
Less : Exempt up to limit specified by RBI	75,000	5,000
Medical premium paid for insuring health of Mr. G		-
Treatment of Mr. G by his family doctor	5,000	
Treatment of Mr. G's mother (dependant) by family doctor	8,000	
Treatment of Mr. G's sister (dependant) in a nursing home	3,000	
	16,000	
Less: Exempt upto ₹ 15,000	15,000	1,000
Add: Treatment of Mr. G's grandfather in a private clinic		12,000
Add: Treatment of Mr. G's brother (independent)		6,000
Taxable value of perquisite		24,000

Note: Grandfather and independent brother are not included within the meaning of family of Mr. G.

THE END