

# Practice Session 2

## Topic : Income u/h Salaries

### Illustration 01 [PYQ Nov 2013]

From the following details, find out the salary chargeable to tax of Mr. Anand for the assessment year 2025-26:

Mr. Anand is a regular employee of Malpani Ltd. in Mumbai. He was appointed on 01-03-2024 in the scale of 25,000-2,500-35,000. He is paid dearness allowance (which forms part of salary for retirement benefits) @ 15% of basic pay and bonus equivalent to one and a half month's basic pay as at the end of the year. He contributes 18% of his salary (basic pay plus dearness allowance) towards recognized provident fund and the Company contributes the same amount.

He is provided free housing facility which has been taken on rent by the Company at ₹ 15,000 per month. He is also provided with following facilities:

- (i) The Company reimbursed the medical treatment bill of ₹ 25,000 of his daughter, who is dependent on him.
- (ii) The monthly salary of ₹ 2,000 of a house keeper is reimbursed by the Company.
- (iii) He is getting telephone allowance @ ₹ 1,000 per month.
- (iv) A gift voucher of ₹ 4,700 was given on the occasion of his marriage anniversary.
- (v) The Company pays medical insurance premium to effect an insurance on the health of Mr. Anand ₹ 12,000.
- (vi) Motor car running and maintenance charges fully paid by employer of ₹ 36,600. (The motor car is owned and driven by Mr. Anand. The engine cubic capacity is below 1.60 litres. The motor car is used for both official and personal purpose by the employee)
- (vii) Value of free lunch provided during office hours is ₹ 2,200.

### Solution

#### Computation of Income under the Head Salaries (old regime)

Particulars	₹
Basic Salary ( $₹ 25,000 \times 11$ ) + ( $₹ 27,500 \times 1$ )	3,02,500
Dearness Allowance ( $₹ 3,02,500 \times 15\%$ )	45,375
Bonus ( $₹ 27,500 \times 1.5$ )	41,250
Employer's Contribution to Provident Fund in excess of 12% [( $₹ 3,02,500 + ₹ 45,375$ ) $\times$ (18% - 12%)]	20,873
Rent Free Unfurnished Accommodation [See Note below]	40,112.5
Medical Treatment of Daughter dependent on the Assessee	25,000
Medical Insurance Premium on self (Not Taxable being paid by Employer)	Nil
House Keeper's Salary reimbursed ( $₹ 2,000 \times 12$ )	24,000
Gift Voucher (Below ₹ 5,000. Hence not Taxable)	Nil
Telephone Allowance = ( $₹ 1,000 \times 12$ )	12,000
Motor Car = Amount incurred by Employer less 1,800 pm [ $36,600 - (1,800 \times 12)$ ]	15,000

Value of Free Lunch Provided - Fully Exempt (Assumed not exceeding ₹ 50 per meal)	Nil
Gross Salary	5,26,110.5
Less: Deduction u/s 16(ia)	50,000
Income under the head "Salaries"	4,76,110

**Note:**

**Valuation of Rent Free Unfurnished Accommodation**

Particulars	₹
<b>I. Computation of Salary for Valuation of Accommodation Facilities</b>	
Basic + DA + Bonus + Telephone Allowance (₹ 3,02,500 + ₹ 45,375 + ₹ 41,250 + ₹ 12,000)	4,01,125
<b>II. Computation of Taxable Value of Unfurnished Accommodation</b>	
Rent paid by Employer or 10% of Salary, whichever is lower = 1,80,000 or 10% of 4,01,125	40,112.5
Less: Rent recovered from employee	Nil
<b>Taxable Value of Unfurnished Accommodation</b>	<b>40,112.5</b>

**Illustration 02 [PYQ May 2014]**

Ms. Rakhi is an employee in a private company. She receives the following medical benefits from the company during the previous year 2024-25:

Particulars	₹
<b>1. Reimbursement of following Medical Expenses incurred by Ms. Rakhi.</b>	
(A) On treatment of her self employed daughter in a private clinic	4,000
(B) On treatment of herself by Family doctor	8,000
(C) On treatment of her Mother-in-law dependent on her, in a Nursing Home	5,000
<b>2. Payment of premium on Mediclaim Policy taken on her health.</b>	<b>7,500</b>
<b>3. Medical Allowance (per month)</b>	<b>2,000</b>
<b>4. Medical Expenses Reimbursed on her Son's treatment in a Government Hospital.</b>	<b>5,000</b>
<b>5. Expenses incurred by company on the treatment of her minor son abroad.</b>	<b>1,05,000</b>
<b>6. Expenses in relation to Foreign Travel and stay of Rakhi and her son abroad for Medical Treatment. (Limit prescribed by RBI for this is ₹ 2,00,000)</b>	<b>1,20,000</b>

Discuss about the taxability of above benefits and allowances in the hands of Rakhi.

**Solution**

**Tax treatment of medical benefits, allowances and mediclaim premium in the hands of Ms. Rakhi:**

	Particulars
1.	Reimbursement of medical expenses incurred by Ms. Rakhi fully taxable from A.Y. 2024-25. Hence (4,000 + 8,000 + 5,000) i.e. 17,000 taxable.

2.	Medical insurance premium of ₹ 7,500 paid by the employer for insuring health of Ms. Rakhi is an exempt perquisite as per Clause (iii) of the first proviso to Section 17(2).
3.	Medical allowance of ₹ 2,000 per month i.e., ₹ 24,000 p.a. is a fully taxable allowance.
4.	As per Clause (ii)(a) of the first proviso to Section 17(2), reimbursement of medical expenses of ₹ 5,000 on her son's treatment in a hospital maintained by the Government is an exempt perquisite.
5.	As per Clause (vi) of the first proviso to Section 17(2), the following expenditure, incurred by the employer would be excluded from perquisite subject to certain conditions: (i) Expenditure on medical treatment of the employee or any member of the family of such employee, outside India [₹ 1,05,000, in this case];
	(ii) Expenditure on travel and stay abroad of the employee or any member of the family of such employee for medical treatment and one attendant who accompanies the patient in connection with such treatment [₹ 1,20,000, in this case].
6.	The conditions subject to which the above expenditure would be exempt are as follows: (i) The expenditure on medical treatment and stay abroad would be excluded from perquisite to the extent permitted by Reserve Bank of India;
	(ii) The expenditure on travel would be excluded from perquisite only in the case of an employee whose gross total income, as computed before including the said expenditure, does not exceed ₹ 2 lakh.
	Assuming that the limit of ₹ 2 lakh prescribed by RBI pertains to both expenditure on medical treatment of minor son as well as expenditure on stay abroad of Ms. Rakhi and her minor son, such expenditure would be excluded. from perquisite subject to a maximum of ₹ 2 lakh. If such expenditure is less than ₹ 2 lakh, it would be fully excluded. The foreign travel expenditure of Ms. Rakhi and her minor son borne by the employer would be excluded from perquisite only if the gross total income of Ms. Rakhi, as computed before including the said expenditure, does not exceed ₹ 2 lakh.

### Illustration 03 [PYQ Nov 2014]

Mr. Anand an employee of XYZ Co. Ltd. at Mumbai and not covered by Payment of Gratuity Act, retires at the age of 64 years on 31-12-2024 after completing 33 years and 7 months of service. At the time of retirement, his employer pays ₹ 20,51,640 as Gratuity and ₹ 6,00,000 as accumulated balance of Recognised Provident fund. He is also entitled for monthly pension of ₹ 8,000. He gets 75% of pension Commuted for ₹ 4,50,000 on 1<sup>st</sup> February, 2025.

Determine the salary chargeable to tax for Mr. Anand for the Assessment Year 2025-26 with the help of following information:

Particulars	₹
Basic Salary (₹ 80,000 x 9)	7,20,000
Bonus	36,000
House Rent Allowance (₹ 15,000 x 9)	1,35,000
Rent paid by Mr. Anand (₹ 10,000 x 12)	1,20,000

Employer contribution towards Recognized Provident Fund	1,10,000
Professional Tax paid by Mr. Anand	2,000

Note : Salary and Pension falls due on the last day of each month.

### Solution

#### Computation of taxable salary of Mr. Anand for the Assessment Year 2025-26 (Old regime)

Particulars	₹
Basic Salary (₹ 80,000 x 9)	7,20,000
Bonus	36,000
House Rent Allowance (Working Note 1)	1,17,000
Employer's contribution towards recognized provident fund in excess of 12% of salary [i.e., ₹ 1,10,000 - ₹ 86,400 (12% of ₹ 7,20,000)]	23,600
Gratuity (Working Note 2)	7,31,640
Uncommuted Pension [(₹ 8,000 x 1) + (₹ 2,000 x 2)]	12,000
Commuted Pension (Working Note 3)	2,50,000
Gross Salary	18,90,240
Less: Standard Deduction u/s 16(ia)	50,000
Less: Professional tax paid by Mr. Anand	2,000
Taxable salary	18,38,240

### Working Notes:

Particulars	₹	₹
(1) Taxable House Rent Allowance		
Actual HRA Received		1,35,000
As per Section 10(13A), least of the following is exempt: [shift figures down]		
(i) Actual HRA received	1,35,000	
(ii) Excess of rent paid over 10% of salary (basic pay, in this case)		
- Rent paid (₹ 10,000 x 9)	₹ 90,000	
- Less: 10% of salary (i.e., 10% of ₹ 7,20,000)	18,000	
₹ 72,000		
(iii) 50% of salary (i.e., 50% of ₹ 7,20,000)	3,60,000	
Least of the above		18,000
Taxable HRA		1,17,000
(2) Taxable Gratuity		
Actual Gratuity received		20,51,640
As per Section 10(10), least of the following is exempt:		
(i) Statutory limit	20,00,000	
(ii) Actual gratuity received	20,51,640	
(iii) 1/2 average salary completed year's of service i.e., 1/2 x 80,000 x 33	13,20,000	
Least of the above		13,20,000
Taxable Gratuity		7,31,640

(3)	Commuted Pension		
	Since Mr. Anand is a non-government employee in receipt of gratuity, exemption under section 10(10A), would be available to the extent of $\frac{1}{3}$ <sup>rd</sup> of the amount of the pension which he would have received had he commuted the whole of the pension.		
	Amount received (Commutated value of 75% of pension)		4,50,000
	Amount exempt from tax = $(₹ 4,50,000 \times 100/75) \times \frac{1}{3}$		2,00,000
	Taxable amount		2,50,000
(4)	Accumulated balance of Recognized Provident Fund (RPF) ₹ 6 lakh, representing the accumulated balance of RPF, received on retirement is exempt since Mr. Anand has rendered a continuous service for a period of 5 years or more (33 years and 7 months) in XYZ Ltd.		

**Illustration 04 [PYQ Nov 2016]**

Compute the amount of LTC Exemption in the following cases with reference to the provision under Income Tax Act, 1961:

- Mr. Suresh went on a holiday on 09/09/2024 to Mysore with his wife and 3 children - one daughter born on 02/02/2014 and twin sons born on 05/05/2016. The total cost of travel was ₹ 80,000. The ticket cost for Mr. Suresh and his wife was ₹ 50,000 and for all three children was ₹ 30,000. The employer reimbursed total ticket cost ₹ 80,000.
- In the above case (a), if among his 3 children the twin sons born on 02/02/2014 and the daughter was born on 05/05/2016, what shall be the exemption?

**Solution**

Computation of LTC Exemption: The value of leave travel concession received by an employee from his employer for himself and his family, in connection with his proceeding on leave to any place in India would be exempt under Section 10(5). However, the amount of exemption cannot exceed the amount of expenses actually incurred for the purpose of such travel.

The exemption referred to shall not be available to more than two surviving children of an individual. However, this restriction is not applicable in case of multiple births at the second instance after the first child.

- The total cost of travel of ₹ 80,000, being ₹ 50,000 towards ticket cost of Mr. Suresh and his wife and ₹ 30,000 for all the three children, reimbursed by the employer would be exempt. It is assumed that journey is performed by air (economy class). The restriction of two children is not applicable to multiple births at the second instance after the first child. In this case, since the twin sons were born after first child i.e., one daughter, the restriction of two children is not applicable.
- If the twin sons were born first i.e., on 02/02/2014, then, the exemption in respect of amount of ₹ 30,000 received towards leave travel concession for the children would be restricted to the travel cost of two children i.e. ₹ 20,000. Therefore, ₹ 10,000 being the cost of travel of one child would be taxable and the remaining amount of ₹ 70,000 [₹ 80,000 - ₹ 10,000] would be exempt.

**Illustration 05 [PYQ May 2017]**

Mr. Nambi, a salaried employee, furnishes the following details for the financial year 2025-26:

Particulars	₹
Basic salary	6,00,000
Dearness allowance	3,20,000
Commission	50,000
Entertainment allowance	7,500
Medical expenses reimbursed by the employer	21,000
Profession Tax (of this, 50% paid by employer)	7,000
Health insurance premium paid by employer	9,000
Gift voucher given by employer on his birthday	12,000
Life insurance premium of Nambi paid by employer	34,000
Laptop provided for use at home. Actual cost of Laptop to employer [Children of the assessee are also using the Laptop at home]	30,000
Employer-Company owns a Tata Nano Car, which was provided to the assessee, both for official and personal use. No driver was provided. (Engine cubic capacity less than 1.6 litres)	
Annual credit card fees paid by employer [Credit card is not exclusively used for official purposes; details of usage are not available]	2,000

You are required to compute the income chargeable under the head “Salaries” for the assessment year 2025-26.

### Solution

#### Computation of income under head Salary (Old regime)

Particulars	₹	
Basic Salary	6,00,000	
Dearness Allowance	3,20,000	
Commission	50,000	
Entertainment Allowance	7,500	
Medical Reimbursement	21,000	(fully taxable)
Profession tax (Paid by Employer),	3,500	
Health Insurance Premium	Exempt	
Gift Voucher (12,000 - 5,000)	7,000	
LIP Paid by Employer	34,000	
Use of Laptop Exempt		
Use of Car (1,800 x 12)	21,600	
Credit Card Fee	2,000	
	10,66,600	
- Deduction u/s 16		
(ia) Standard Deduction	50,000	
(iii) Profession Tax	7,000	
	10,09,600	

### Illustration 06 [PYQ Nov 2017]

Ms. Jaya is the marketing manager in XYZ Limited. She gives you the following particulars:

Basic Salary	₹ 65,000 p.m.
Dearness Allowance	₹ 22,000 p.m. (30% is for retirement benefits)



**Bonus****₹ 17,000 p.m.**

Her employer has provided her with an accommodation on 1<sup>st</sup> April, 2024 at a concessional rent. The house was taken on lease by XYZ Ltd. for ₹ 12,000 p.m. Ms. Jaya occupied the house from 1<sup>st</sup> November 2024. ₹ 4,800 p.m. is recovered from the salary of Ms. Jaya.

The employer gave her a gift voucher of ₹ 8,000 on her birthday. She contributes 18% of her salary (Basic Pay + DA) towards recognised provident fund and the company contributes the same amount.

The company pays medical insurance premium to effect insurance on the health of Ms. Jaya ₹ 18,000.

Motor car owned by the employer (cubic capacity of engine exceeds 1.6 litres) provided to Ms. Jaya from 1<sup>st</sup> November 2024 which is used for both official and personal purposes. Repair and running expenses of ₹ 50,000 were fully met by the company. The motor car was self-driven by the employee.

Compute the income chargeable to tax under the head “Salaries” in the hands of Ms. Jaya for the Assessment Year 2025-26.

**Solution**

**Computation of income chargeable to tax under the head “Salaries” in the hands of Ms. Jaya for A.Y. 2024-25 (Old regime)**

Particulars	₹
Basic Salary [₹ 65,000 x 12]	7,80,000
Dearness allowance [₹ 22,000 x 12]	2,64,000
Bonus [₹ 17,000 x 12]	2,04,000
Perquisite value in respect of concessional rent [See Note (1) below]	20,300
Gift voucher given by employer on Ms. Jaya's birthday (entire amount is taxable since the perquisite value exceeds ₹ 5,000) [See Note 2 below]	8,000
Employer's contribution to recognized provident fund in excess of 12% of salary is taxable as per Section 17(1)(vi)	
$18\% \times [(\text{₹ } 65,000 + \text{₹ } 22,000) \times 12] - 12\% \times \{[\text{₹ } 65,000 + \text{₹ } 6,600 \text{ (being 30\% of ₹ 22,000)}] \times 12\} = 1,87,920 - 1,03,104$	
[Salary = Basic Salary + Dearness allowance, to the extent it forms part of pay for retirement benefits]	84,816
Medical insurance premium of ₹18,000 paid by the employer to effect an insurance on the health of an employee is an exempt perquisite as per sub- clause (iii) of proviso to Section 17(2)	-
Provision of motor car (engine cubic capacity more than 1.6 litres) owned by employer to an employee without chauffeur for both official and personal purpose, where the expenses are fully met by the employer - the perquisite value would be ₹ 2,400 p.m. [₹ 2,400 x 5 months] as per Rule 3(2) of the Income-tax Rules, 1962	12,000
Gross Salary	13,73,116
Less: Standard Deduction u/s 16(ia)	50,000
Salary Income chargeable to tax	13,23,116

**Notes:**

1. Where the accommodation is taken on lease or rent by the employer, the actual amount of lease rent paid or payable by the employer or 10% of salary, whichever is lower, in respect of the period during which the house is occupied by the employee, as reduced by the rent recoverable from the employee, is the value of the perquisite.

Actual rent paid by employer from 1.11.2022 to 31.3.2023 = ₹ 60,000 [₹ 12,000 x 5 months]

10% of salary = ₹ 44,300 [10% x (₹ 65,000 + ₹ 6,600 + ₹ 17,000) x 5 months]

Lower of the above is ₹ 44,300 which is to be reduced by the rent recovered from the employee.

Hence, the perquisite value of concessional rent = ₹ 44,300 - ₹ 24,000 [₹ 4,800 x 5 months] = ₹ 20,300

Salary for valuation of perquisite = Basic Salary + Dearness Allowance, to the extent it forms part of pay for retirement benefits + Bonus

2. As per Rule 3(7)(iv), the value of any gift or voucher received by the employee or by member of his household on ceremonial occasions or otherwise from the employer shall be determined as the sum equal to the amount of such gift. However, the value of any gift or voucher received by the employee or by member of his household below ₹ 5,000 in aggregate during the previous year would be exempt as per the proviso to Rule 3(7)(iv). In this case, the gift voucher of ₹ 8,000 was received by Ms. Jaya from her employer on the occasion of her birthday. Since the value of the gift voucher exceeds the limit of ₹ 5,000, the entire amount of ₹ 8,000 is liable to tax as perquisite. The above solution has been worked out accordingly.

**Alternative view:** An alternate view possible is that only the sum in excess of ₹ 5,000 is taxable in view of the language of Circular No.15/2001 dated 12.12.2001, which states that such gifts up to ₹ 5,000 in the aggregate per annum would be exempt, beyond which it would be taxed as a perquisite. As per this view, the value of perquisite would be ₹ 3,000. The salary chargeable to tax, in this case, would be ₹ 13,83,816.

#### Illustration 07 [PYQ May 2018]

Mr. Honey is working with a domestic company having a production unit in the U.S.A. for last 15 years. He has been regularly visiting India for export promotion of company's product. He has been staying in India for at least 184 days every year.

He submits the following information:

Salary received outside India (For 6 months)	₹ 50,000 P. M.
--	----------------

Salary received in India (For 6 months)	₹ 50,000 P. M.
---	----------------

He has been given rent free accommodation in U.S.A. for which company pays ₹15,000 per month as rent, but when he comes to India, he stays in the guest house of the company. During this period he is given free lunch facility. During the previous year company incurred an expenditure of ₹ 48,000 on this facility.

He has been provided a car of 2000 cc capacity in U.S.A. which is used by him for both office- and private purposes. The actual cost of the car is ₹ 8,00,000. But when he is in India, the car is used by him and the members of his family only for personal purpose. The monthly expenditure of car is ₹ 5,000. His elder son is studying in India for which



his employer spends ₹ 12,000 per year where as his younger son is studying in USA. and stays in a hostel for which Mr. Honey gets ₹ 3,000 per month as combined allowance. The company has taken an accident insurance policy and a life insurance policy. During the previous year the company paid premium of ₹ 5,000 and ₹ 10,000 respectively. Compute Mr. Honey's taxable income from salary for the Assessment Year 2025-26.

### Solution

#### Computation of Income from Salary (Old regime)

Particulars	Amount (₹)
Income under the Head Salary	
Basic Salary $[50000 \times 12]$	6,00,000
RFA in USA [W.No.1]	31,800
RFA in India [W. No. 2]	—
Lunch Facility $[(48,000) - (50 \times 184 = 9,200)]$	38,800
Motor Car in USA $(2,400 \times 6)$	14,400
Motor Car in India $[(5,000 \times 6) + (8,00,000 \times 10\% \times 6/12)]$	70,000
Education Allowance:	
Education expenditure of elder son in India met by employer [Fully taxable perquisite]	12,000
Younger Son $[(3,000 \times 12)$ No exemption is available in respect of allowance received for any education or hostel facility of children outside India]	36,000
Accident Insurance	—
Life Insurance	10,000
Gross salaries	8,13,000
Less: Standard Deduction u/s 16(ia)	50,000
Income chargeable to tax under salary	7,63,000

### Note:

1. Taxable RFA during stay in USA = 10% of Salary or Actual rent paid by employer, whichever is lower = 10% of  $\{6,00,000 + 36,000 \text{ (Amount received from employer (₹ } 3,000 \times 12)) \times 6/12\}$ , No exemption is available in respect of allowance received for any education or hostel facility of children outside India] or  $(15,000 \times 6)$  whichever is lower = 31,800 or 90,000 whichever is lower which is 31,800.
2. RFA during stay in India = Not taxable, since it is provided for stay when he visits India wholly for official purposes.

### Illustration 08 [PYQ Nov 2018]

Mr. Janakaraj, employed as General Manager in Rajus Refractories Pvt. Ltd., furnishes you the under-mentioned information for the year ended 31-03-2025:

1. Basic salary up to 30-11-2024 ₹ 70,000 p.m.  
Basic salary from 01-12-2024 ₹ 80,000 p.m.  
Note: Salary is due and paid on the last day of every month.
2. Dearness allowance @ 50% of basic salary (not forming part of salary for retirement benefits).
3. Bonus equal to one month salary. This was paid in November, 2024 on basic salary plus dearness allowance applicable for that month.

4. Contribution of employer to recognized provident fund account of the employee @ 18% of basic salary, employee also contributing an equivalent amount.
5. Profession tax paid ₹ 6,000 of which ₹ 3,000 was paid by the employer.
6. Facility of laptop was provided to Janakaraj for both official and personal use. Cost of laptop ₹ 65,000 and was purchased by the company on 11-10-2024.
7. Leave travel concession given to Janakaraj, his wife and three children (one daughter aged 6 and twin sons aged 4). Cost of air tickets (economy class) reimbursed by the employer ₹ 20,000 for adults and lumpsum of ₹ 25,000 for three children. Janakaraj is eligible for availing exemption this year to the extent it is permissible under the Income-tax Act, 1961.

Compute the taxable salary of Mr. Janakaraj.

### Solution

#### Computation of taxable salary of Mr. Janakaraj for the A.Y. 2024-25 (Old regime)

Particulars	₹	₹
Basic Salary [(₹ 70,000 x 8) + (₹ 80,000 x 4)]		8,80,000
Dearness allowance [50% of basic salary]		4,40,000
Bonus [₹ 70,000 + 50% of ₹ 70,000]		1,05,000
Employer's contribution to recognized provident fund in excess of 12% of salary		52,8000
[(8,80,000 x 18%) - (8,80,000 x 12%)]		
Leave travel concession	45,000	
Less: Exempt	45,000	
[Mr. Janakaraj can avail exemption on the entire amount of ₹ 45,000 reimbursed by the employer towards leave travel concession since the leave travel concession was availed for himself, 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 birth which take place after the first child.]		
Professional tax paid by the employer [Perquisite includes any sum paid by the employer in respect of any obligation which would have been payable by the employee]		3,000
Facility of laptop [Facility of laptop is an exempt perquisite, whether used for official or personal purpose or both]		
Gross Salary		14,80,800
Less: Deduction under section 16 (ia)		(50,000)
Professional tax paid		(6,000)
Taxable Salary		14,24,800

### Illustration 09 [PYQ Nov 2022]

Mr. B is a sales manager in PQR Ltd. During F.Y. 2024-2025 he has received the following towards his salary and allowances/ perquisites;

1. Basic pay ₹ 85,000 per month upto December 2024 and thereafter an increase of ₹ 2,000 per month.
2. Dearness allowance 40% of basic pay forming part of retirement benefits.
3. Bonus 1 month basic pay based on the salary drawn during January month every year.
4. He contributes 14% of his basic pay & DA towards his recognized provident fund and his employer company contributes the same amount.
5. Travelling allowance of ₹ 5,000 per month towards on duty tours.
6. Research and training allowance ₹ 3,000 per month.
7. Children education allowance of ₹ 600 per month, per child for his 2 sons and 1 daughter.
8. Accommodation owned by PQR Ltd. was provided to him in Hyderabad for the whole year and furniture of ₹ 2,00,000 was provided from 1<sup>st</sup> October, 2024
9. Reimbursement of medical expenses on his treatment in private hospital - ₹ 15,000, medical allowance ₹1,500 per month. Company has paid premium on medical policy purchased on his health ₹12,500.

Your are required to :

- a) Compute the income chargeable to tax under the head "Income from Salary", assuming that he does not opt for the provisions-under section 115BAC.
- b) What will be the income under 'Salary', if he opts for the provisions under section 115BAC ?

### Solution

**I. Computation of income chargeable to tax under the head "Salaries" for A.Y.2025-26, if Mr. B does not opt for the provisions of section 115BAC**

Particulars	₹	₹
Basic Pay [ $₹ 85,000 \times 9 + ₹ 87,000 \times 3$ ]		10,26,000
Dearness Allowance [ $₹ 10,26,000 \times 40\%$ ]		4,10,400
Bonus		87,000
Travelling allowance [Exempt, since provided towards duty tours <sup>1</sup> ]		—
Research and training allowance [ $₹ 3,000 \times 12$ ]		36,000
Medical allowance [ $₹ 1500 \times 12$ ]		18,000
Children Education allowance [ $₹ 600 \times 12 \times 3$ ]	21,600	
Less: Exempt [ $₹ 100 \times 12 \times 2$ ]	2,400	19,200
Salary (for the purpose of valuation of Rent-free accommodation)		15,96,600
Value of Rent-free accommodation [10% of ₹ 15,96,600]	1,59,660	
Add: Value of furniture [ $₹ 2,00,000 \times 10\% \text{ p.a. for 6 months}$ ]	10,000	1,69,660
Reimbursement of medical expenses [taxable, since amount is reimbursed for treatment in private hospital]		15,000
Health insurance premium paid by PQR Ltd. [Exempt]		—
Employers' contribution to RPF in excess of 12% of salary = 2% of ₹ 14,36,400 ( $₹ 10,26,000 + ₹ 4,10,400$ )		28,728
Gross Salary	- .	18,09,988
Less: Deductions under section 16		

Standard deduction		50,000
Income chargeable under the head "Salaries"		17,59,988

**II. Computation of income chargeable to tax under the head "Salaries" for A.Y.2025-26, if Mr. B opts for the provisions of section 115BAC**

Income chargeable under the head "Salaries"			17,59,988
Add:	Exemption in respect of children education allowance [Not allowable as per section 115BAC]		2400
			17,62,388
Less:	Extra Standard deduction [75,000 – 50,000]		25,000
Less:	Value of rent-free accommodation (As per regular provisions)		1,69,660
			15,67,728
Add:	Value of Rent-free accommodation [10% of ₹ 15,99,000 (₹15,96,600 (as calculated above) + ₹ 2,400)]	1,59,900	
Add:	Value of furniture [₹ 2,00,000 x 10% p.a. for 6 months]	10,000	1,69,900
Income chargeable under the head "Salaries"			17,37,628

**Illustration 10 [PYQ May 2023]**

Mr. Rohan retired from M/s. QRST Ltd. a private sector company, on 31<sup>st</sup> March, 2025 after completing 28 years and 3 months of service. He received the following sums/gifts on his retirement:

1. Gratuity of ₹ 7,50,000. He was covered under the Payment of Gratuity Act. 1972.
2. Leave encashment of ₹ 3,25,000 for 210 days leave balance in his account. He was credited with 30 days leave for each completed year of service.
3. Crockery set worth ₹ 4,500 from his employer at the farewell party which was organised by the HR department a day before his retirement.

He drew a basic salary of ₹ 25,000 per month alongwith 50% of basic salary as dearness allowance (not forming part of retirement benefits) for the period from 1<sup>st</sup> April, 2024 to 31<sup>st</sup> March, 2025.

Further, during the year, his employer provided him a motor car of 1800 cc which was used by him and his family solely for personal purposes. The cost of fuel and repairs were met by Mr. Rohan himself. The car was purchased by the employer on 1<sup>st</sup> April, 2023 at a cost of ₹ 8,00,000. Salary of driver amounting to ₹ 10,000 per month was met by the employer only. Upon retirement, he gave the car back to the employer.

You are required to compute the taxable salary of Mr. Rohan for A.Y. 2025-26 assuming that he neither claims any relief under Section 89 nor does he opt to pay tax under Section 115BAC.

**Solution**

**Computation of taxable salary of Mr. Rohan for A.Y. 2025-26**

Particulars		₹
Basic Salary ₹ 25,000 x 12		3,00,000
Dearness Allowance (50% of basic salary)		1,50,000
Gratuity [X 7,50,000 - ₹ 6,05,769]		1,44,231

Less: Exempt under section 10(10) - Least of the following:	₹	
1. Notified limit	20,00,000	
2. Actual gratuity received	7,50,000	
3. $15/26 \times \text{last drawn salary} \times \text{no. of completed years of services or part in excess of 6 months}$ [ $15/26 \times 37,500 \times 28$ ]	6,05,769	
Leave encashment [₹ 3,25,000 - ₹ 1,75,000]		1,50,000
Less: Exempt under section 10(10AA) - Least of the following:		
1. Notified limit	25,00,000	
2. Actual leave salary received	3,25,000	
3. 10 months ₹ ₹ 25,000	2,50,000	
4. Cash equivalent of leave to his credit [₹ 25,000 $\times$ 210/30]	1,75,000	
Crockery set [not a perquisite, since value of gift does not exceed ₹ 5,000]		
Perquisite value of car [Driver's salary met by employer ₹ 1,20,000 (i.e., ₹ 10,000 $\times$ 120) + ₹ 80,000 (10% of ₹ 8,00,000), being normal wear and tear on car]		2,00,000
Gross Salary		9,44,231
Less: Standard deduction u/s 16(ia)		75,000
Taxable Salary		8,69,231

**Illustration 11 [RTP Jan 2025]**

Mr. Rohan, an employee of ABC Ltd. is posted at Mumbai. He was appointed on 1<sup>st</sup> March 2024 on the scale of ₹ 60,000 - ₹ 2,000 - ₹ 80,000. Details of his other income for the previous year 2024-25 are as follows:

- (i) Dearness allowance: 40% of basic salary (60% forms part of pay for retirement benefits)
  - (ii) Telephone allowance @ ₹ 500 per month
  - (iii) Both Mr. Rohan and the company contribute 15% of basic salary to RPF. Interest accrued in this Fund @ 12% p.a. amounted to ₹ 25,800.
  - (iv) The company has provided him with the rent free unfurnished accommodation in Mumbai owned by the company.
  - (v) The salary of ₹ 2,500 p.m. of domestic servant is reimbursed by the company.
  - (vi) Rohan has used his own motor car of 1.8 ltr engine capacity for both official and personal purposes. The running and maintenance costs of ₹ 50,000 are borne by the company.
  - (vii) Professional tax paid ₹ 2,500 of which ₹ 1,500 was paid by the employer.
  - (viii) During the year 2023-24, Mr. Rohan gifted a sum of ₹ 6,00,000 to Mrs. Rohan. She started a business by introducing such amount as her capital. On 1<sup>st</sup> April, 2024, her total investment in business was ₹ 10,00,000. During the previous year 2024-25, she has suffered a loss of ₹ 1,20,000 from such business
- Determine the gross total income of Mr. Rohan for the A.Y. 2025-26 under normal provisions of the Act.

**Solution****Computation of gross total income of Mr. Rohan for the A.Y.2025-26**

Particulars	Amount (₹)	Amount (₹)
<b>I</b>		
Salaries		
Basic Salary (₹ 60,000 x 11 + ₹ 62,000 x 1)		7,22,000
Dearness Allowance (40% of ₹ 7,22,000)		2,88,800
Telephone allowance (₹ 500 x 12)		6,000
Employer's contribution to RPF (15% of ₹ 7,22,000)	1,08,300	
Less: Exempt [12% of salary i.e., 12% x 8,95,280 (7,22,000 + 60% of 2,88,800)]	1,07,434	866
Interest accrued in the RPF@12%	25,800	
Less: Exempt @9.5% p.a.	20,425	5,375
Value of Rent Free accommodation		
From April 2024 to March 2025 [10% of ₹ 9,01,280 i.e., ₹ 7,22,000 (60,000 x 11 + 62,000 x 1) + 1,73,280 (₹ 7,22,000 x 40% x 60%) + ₹ 6,000 (₹ 500 x 12)]		90,128
Reimbursement of salary of domestic servant [₹ 2,500 x 12]		30,000
Perquisite value of motor car		
Running and maintenance costs incurred by employer	50,000	
Less: Specified as per Rule 3 [₹ 2,400 x 12]	28,800	21,200
Professional tax paid by employer		1,500
Gross Salary		11,65,869

	Less: Deduction under section 16		
	Standard deduction	50,000	
	Professional tax paid	2,500	52,500
	Taxable Salary		11,13,369
<b>II</b>	Profit and gains from business or profession		
	Where the amount of Mr. Rohan (₹ 6 lakh, in this case) is invested by Mrs. Rohan in a business as her capital, proportionate share of profit or loss, as the case may be, taking into account the value of the investment as on 1.4.2023 to the total investment in the business (₹ 10 lakhs) would be included in the income of Mr. Rohan [loss of ₹ 1,20,000 x 6/10] [Business loss of ₹ 72,000 cannot be set off against salary income. It has to be carried forward to next year]	(72,000)	-
	Gross Total Income		11,13,369

**Illustration 12 [RTP Sep 2024]**



Mr. Anshul, a salaried employee in a private company, furnishes you the following information for the year ended on 31-03-2025:

- (i) Basic salary ₹ 75,000 p.m.  
From 1st December 2024, basic salary increased to 85,000 p.m.
- (ii) Dearness allowance @50% of basic salary (40% of D.A. forms part of salary for retirement benefits).
- (iii) Entertainment allowance ₹ 10,000
- (iv) Contribution of employer to recognized provident fund account of the employee @18% of basic salary. Employees also contribute an equivalent amount.
- (v) Professional tax paid ₹ 2,200 of which ₹ 1,800 was paid by the employer.
- (vi) House rent allowance of ₹ 16,000 p.m. He paid rent of ₹ 17,000 p.m. for accommodation in Meerut.
- (vii) Conveyance allowance of ₹ 1,500 p.m. by the company towards actual reimbursement of conveyance spent on official duty.
- (viii) Loan of ₹ 2,00,000 was taken from the employer on 1.7.2024 for medical treatment of his brother for tuberculosis treatment. Interest charged on such loan is 5%. The entire loan is outstanding as on 31.3.2025. No medical insurance has been taken for his brother. SBI rate of interest on 1.4.2024 was 11%.
- (ix) Free education was provided to the sister of Mr. Anshul in a school maintained and owned by the company. The cost of such education facility is computed at ₹ 900 p.m. No amount was recovered by the company for such education facility from Anshul.
- (x) Leave travel concession given to Anshul, his wife and three children (one daughter aged 6 and twin sons aged 4). Cost of air tickets (economy class) reimbursed by the employer ₹ 20,000 for adults and lumpsum of ₹ 25,000 for three children. Anshul is eligible for availing exemption this year to the extent it is permissible under the Income- tax Act, 1961.

Compute the taxable salary of Mr. Anshul if he has shifted out of the default tax regime under section 115BAC.

### Solution

#### Computation of taxable salary of Mr. Anshul for the A.Y. 2025-26

Particulars	₹	₹
Basic Salary [(₹ 75,000 x 8) + (₹ 85,000 x 4)]		9,40,000
Dearness allowance [50% of basic salary]		4,70,000
Employer's contribution to recognized provident fund [18% x ₹ 9,40,000]	1,69,200	
Less: Exempt up to 12% of basic salary and D.A. forms part of retirement benefit [12% x ₹ 11,28,000]	1,35,360	33,840
<b>Taxable allowances</b>		
Entertainment allowance		10,000
Conveyance allowance [Exempt, since it is based on actual reimbursement for official purpose]		-
House rent allowance	1,92,000	
Less: Least of the following exempt under section 10(13A)		
1. HRA received	1,92,000	1,00,800

2. Rent paid (-) 10% of salary [₹ 2,04,000 – 10% x ₹ 11,28,000]	91,200		
3. 40% of salary [40% x ₹ 11,28,000]	4,51,200		

<b>Taxable Perquisite</b>		
Professional tax paid by the employer [Perquisite includes any sum paid by the employer in respect of any obligation which would have been payable by the employee]		1,800
Interest on loan [Not a perquisite, since loan is for medical treatment of his brother for tuberculosis treatment]		-
Provision of education facility [₹ 900 x 12]		10,800
Leave travel concession	45,000	
Less: Exempt	45,000	-
[Mr. Anshul can avail exemption on the entire amount of ₹ 45,000 reimbursed by the employer towards leave travel concession since the leave travel concession was availed for himself, 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 birth which take place after the first child.]		
Gross Salary		15,67,240
Less: Deduction under section 16		
Professional tax paid	2,200	
Standard Deduction, lower of salary or ₹ 50,000	50,000	52,200
<b>Taxable Salary</b>		<b>15,15,040</b>

**Illustration 13 [RTP Nov 2020]**

Mr. Neeraj, a salaried employee, furnishes the following details for the financial year 2024-25:

Particulars	₹
Basic salary	5,40,000
Dearness allowance	3,60,000
Commission	50,000
Entertainment allowance	7,500
Medical expenses reimbursed by the employer	21,000
Profession tax (of this, 50% paid by employer)	4,000
Health insurance premium paid by employer	9,000
Gift voucher given by employer on his birthday	12,000
Life insurance premium of Neeraj paid by employer	34,000
Laptop provided for use at home. Actual cost of Laptop to employer Children of the assessee are also using the Laptop at home]	30,000

Employer company owns a Maruti Suzuki Swift car (Engine cubic capacity more than 1.6 litres), which was provided to the assessee, both for official and personal use. No driver was provided. All expenses are met by the employer	
Annual credit card fees paid by employer [Credit card is not exclusively used for official purposes; details of usage are not available]	5,000

You are required to compute the income chargeable under the head Salaries for the assessment year 2025-26.

### Solution

#### Computation of income chargeable under the head “Salaries” of Mr. Neeraj for A.Y.2025-26

Particulars	₹
Basic Salary	5,40,000
Dearness allowance	3,60,000
Commission	50,000
Entertainment allowance	7,500
Medical expenses reimbursed by the employer is fully taxable	21,000
Professional tax paid by the employer is a taxable perquisite as per section 17(2)(iv), since it is an obligation of the employee which is paid by the employer	2,000
Health insurance premium of ₹ 9,000 paid by the employer is an exempt perquisite [Clause (iii) of proviso to section 17(2)]	Nil
Gift voucher given by employer on Mr. Neeraj birthday [entire amount is taxable since the perquisite value exceeds ₹ 5,000, as per Rule 3(7)(iv)]	12,000
Life insurance premium of Mr. Neeraj paid by employer is a taxable perquisite as per section 17(2)(v)	34,000
Laptop provided for use at home is an exempt perquisite as per Rule 3(7)(vii)	Nil
Provision of motor car (engine cubic capacity more than 1.6 litres) owned by employer provided to employee, the perquisite value would be ₹ 28,800 [₹ 2,400 × 12] as per Rule 3(2)	28,800
Annual credit card fees paid by employer is a taxable perquisite as per Rule 3(7)(v) since the credit card is not exclusively used for official purposes and details of usage are not available	5,000
Gross Salary	10,60,300
Less: Deductions under section 16	
- Standard Deduction as per section 16(ia), lower of gross salary and ₹ 50,000	50,000
- Entertainment allowance (deduction not allowable since Mr. Neeraj is not a Government employee)	Nil
- Professional tax paid allowable as deduction as per section 16(iii)	4,000
Income chargeable under the head “Salaries”	10,06,300

#### Illustration 14 [MTP May 2024]

Mr. Sahil, a resident individual, aged 40 years, is an assistant manager of Fox Ltd. He is getting a salary of ₹ 55,000 per month. During the previous year 2024-25, he received the following amounts from his employer.

- (i) Dearness allowance (10% of basic pay which forms part of salary for retirement benefits).
- (ii) Bonus of ₹ 60,000.
- (iii) Fixed Medical allowance of ₹ 50,000 for meeting medical expenditure.
- (iv) He was also reimbursed the medical bill of his mother dependent on him amounting to ₹ 6,500.
- (v) Mr. Sahil was provided;
  1. a laptop both for official and personal use. Laptop was acquired by the company on 1st June, 2022 at ₹ 35,000.
  2. a domestic servant at a monthly salary of ₹ 8,000 which was reimbursed by his employer.
- (vi) Fox Ltd. allotted 700 equity shares in the month of October 2024 @ ₹ 170 per share against the fair market value of ₹ 280 per share on the date of exercise of option by Mr. Sahil. The fair market value was computed in accordance with the method prescribed under the Act.
- (vii) Professional tax ₹ 2,200 (out of which ₹ 1,400 was paid by the employer).

Compute the Income under the head “Salaries” of Mr. Sahil for the assessment year 2025-26 if he is paying tax under default tax regime under section 115BAC.

### Solution

**Computation of Income under the head “Salaries” in the hands of Mr. Sahil for the A.Y. 2025-26**

Particulars	₹
Basic Salary [₹ 55,000 x 12]	6,60,000
Dearness allowance [10% of basic salary]	66,000
Bonus	60,000
Fixed Medical Allowance [Taxable]	50,000
Reimbursement of Medical expenditure incurred for his father [Fully taxable]	6,500
Facility of laptop [Facility of laptop is an exempt perquisite, whether used for official or personal purpose or both]	Nil
Reimbursement of salary of domestic servant [₹ 8,000 x 12] [Fully taxable, since perquisite includes any sum paid by the employer in respect of any obligation which would have been payable by the employee]	96,000
Value of equity shares allotted [700 equity shares x ₹ 110 (₹ 280, being the fair market value – ₹ 170, being the amount recovered)]	77,000
Professional tax paid by the employer [Perquisite includes any sum paid by the employer in respect of any obligation which would have been payable by the employee]	1,400
Gross Salary	10,16,900
Less: Deduction under section 16	
Professional tax paid [Not allowed]	-
Standard Deduction (Lower of ₹ 75,000 or amount of salary)	75,000

Taxable Salary	9,41,900
----------------	----------

**Illustration 15 [MTP May 2021]**

Mr. Samaksh is a Marketing Manager in Smile Ltd. From the following information, you are required to compute his income chargeable under the head Salary for assessment year 2025-26.

- (i) Basic salary is Rs. 70,000 per month.
- (ii) Dearness allowance @ 40% of basic salary
- (iii) He is provided health insurance scheme approved by IRDA for which Rs. 20,000 incurred by Smile Ltd.
- (iv) Received Rs. 10,000 as gift voucher on the occasion of his marriage anniversary from Smile Ltd.
- (v) Smile Ltd. allotted 800 sweat equity shares in August 2024. The shares were allotted at Rs. 450 per share and the fair market value on the date of exercising the option by Mr. Samaksh was Rs. 700 per share.
- (vi) He was provided with furniture during September 2020. The furniture is used at his residence for personal purpose. The actual cost of the furniture was Rs. 1,10,000. On 31st March, 2025, the company offered the furniture to him at free of cost. No amount was recovered from him towards the furniture till date.
- (vii) Received Rs. 10,000 towards entertainment allowance.
- (viii) Housing Loan@ 4.5% p.a. provided by Smile Ltd., amount outstanding as on 01.04.2024 is Rs. 12 Lakhs. Rs. 50,000 is paid by Mr. Samaksh every quarter towards principal starting from June 2024. The lending rate of SBI for similar loan as on 01.04.2024 was 8%.
- (ix) Facility of laptop costing Rs. 50,000

**Solution****Computation of income under the head "Salaries" of Mr. Samaksh for the A.Y.2025-26**

Particulars	Rs.	Rs.
Basic Salary [Rs.70,000 x 12 months]		8,40,000
Dearness allowance [40% of Rs.8,40,000]		3,36,000
Entertainment allowance		10,000
Interest on housing loan given at concessional rate, would be perquisite, since the amount of loan exceeds Rs. 20,000, For computation, the lending rate of SBI on 1.4.2024 @8% has to be considered. Thus, perquisite value would be determined @ 3.5% (8% - 4.5%) [See Working Note]		49,291
Health insurance premium paid by the employer [tax free perquisite]		Nil
Gift voucher on the occasion of his marriage anniversary [As per Rule 3(7)(iv), the value of any gift or voucher or token in lieu of gift received by the employee or by member of his household exceeding Rs. 5,000 in aggregate during the previous year is fully taxable] (See note below)		10,000
Allotment of sweat equity shares		
Fair market value of 800 sweat equity shares @ Rs. 700 each	5,60,000	

Less: Amount recovered @ Rs. 450 each	3,60,000	2,00,000
Use of furniture by employee 10% p.a. of the actual cost of Rs. 1,10,000		11,000
Use of Laptop		
Facility of use of laptop is not a taxable perquisite		Nil
Transfer of asset to employee Value of furniture transferred to Mr. Samaksh	1,10,000	
Less: Normal wear and tear @10% for each completed year of usage on SLM basis [1,10,000 x 10% x 4 years (from September 2020 to September 2024)]	44,000	66,000
Gross Salary		15,22,291
Less: Standard deduction u/s 16 [Actual salary or Rs. 50,000, whichever is less]		50,000
Net Salary		14,72,291

**Working Note:**

Computation of perquisite value of loan given at concessional rate

For computation, the lending rate of SBI on 1.4.2024 @8% has to be considered. Thus, perquisite value would be determined @ 3.5% (8% - 4.5%)

Month	Maximum outstanding balance as on last date of month (Rs.)	Perquisite value at 3.5% for the month (Rs.)
April, 2024	15,00,000	4,375
May, 2024	15,00,000	4,375
June, 2024	14,50,000	4,229
July, 2024	14,50,000	4,229
August, 2024	14,50,000	4,229
September, 2024	14,00,000	4,083
October, 2024	14,00,000	4,083
November, 2024	14,00,000	4,083
December, 2024	13,50,000	3,937.50
January, 2025	13,50,000	3,937.50
February, 2025	13,50,000	3,937.50
March, 2025	13,00,000	3,792
Total value of this perquisite		49,290.50

Note: An alternate view possible is that only the sum in excess of Rs. 5,000 is taxable. In such a case, the value of perquisite would be Rs. 5,000 and gross salary and net salary would be Rs. 15,17,291 and Rs. 14,67,291, respectively

**Illustration 16 [MTP Nov 2022]**

Ms. Akansha, a salaried employee, furnishes the following details for the financial year 2024-25:

Particulars	₹
Basic salary	6,20,000
Dearness allowance	4,20,000



Commission	75,000
Entertainment allowance	9,000
Medical expenses reimbursed by the employer	18,000
Profession tax (of this, 50% paid by employer)	4,000
Health insurance premium paid by employer	8,000
Gift voucher given by employer on her birthday	10,000
Life insurance premium of Akansha paid by employer	26,000
Laptop provided for use at home. Actual cost of Laptop to employer Children of the assessee are also using the Laptop at home]	45,000
Employer company owns a Maruti Suzuki Swift car, which was provided to the assessee, both for official and personal use. Driver was also provided. (Engine cubic capacity more than 1.6 litres). All expenses are met by the employer	
Annual credit card fees paid by employer [Credit card is not exclusively used for official purposes; details of usage are not available]	7,000

You are required to compute the income chargeable under the head Salaries for the assessment year 2025-26 if she pays tax under default tax regime.

### Solution

#### Computation of income chargeable under the head "Salaries" of Ms. Akansha for A.Y.2025-26

Particulars	₹
Basic Salary	6,20,000
Dearness allowance	4,20,000
Commission	75,000
Entertainment allowance	9,000
Medical expenses reimbursed by the employer is fully taxable	18,000
Professional tax paid by the employer is a taxable perquisite as per section 17(2)(iv), since it is an obligation of the employee which is paid by the employer	2,000
Health insurance premium of ₹ 8,000 paid by the employer is an exempt perquisite [Clause (iii) of proviso to section 17(2)]	Nil
Gift voucher given by employer on Ms. Akansha birthday (entire amount is taxable since the perquisite value exceeds ₹ 5,000) as per Rule 3(7)(iv)	10,000
Life insurance premium of Ms. Akansha paid by employer is a taxable perquisite as per section 17(2)(v)	26,000
Laptop provided for use at home is an exempt perquisite as per Rule 3(7)(vii)	Nil
Provision of motor car with driver (engine cubic capacity more than 1.6 litres) owned by employer to employee, the perquisite value would be ₹ 39,600 [₹ (2,400+ 900) ×12] as per Rule 3(2)	39,600
Annual credit card fees paid by employer is a taxable perquisite as per Rule 3(7)(v) since the credit card is not exclusively used for official purposes and details of usage are not available	7,000
Gross Salary	12,26,600
Less: Deductions under section 16	

- Standard Deduction as per section 16(ia)	75,000
- Entertainment allowance (deduction not allowable since Ms. Akansha is not a Government employee)	Nil
- Professional tax paid allowable as deduction as per section 16(iii)	4,000
Income chargeable under the head "Salaries"	11,47,600

**Note:** As per Rule 3(7)(iv), the value of any gift or voucher received by the employee or by member of his household on ceremonial occasions or otherwise from the employer shall be determined as the sum equal to the amount of such gift. However, the value of any gift or voucher received by the employee or by member of his household below ₹ 5,000 in aggregate during the previous year would be exempt as per the proviso to Rule 3(7)(iv). In this case, the gift voucher of ₹ 10,000 was received by Ms. Akansha from her employer on the occasion of her birthday.

Since the value of the gift voucher exceeds the limit of ₹ 5,000, the entire amount of ₹ 10,000 is liable to tax as perquisite. The above solution has been worked out accordingly.

An alternate view possible is that only the sum in excess of ₹ 5,000 is taxable in view of the language of Circular No.15/2001 dated 12.12.2001, which states that such gifts upto ₹ 5,000 in the aggregate per annum would be exempt, beyond which it would be taxed as a perquisite. As per this view, the value of perquisite would be ₹ 5,000. Accordingly, the gross salary and net salary would be 12,21,600 and 11,67,600, respectively.

#### Illustration 17 [Nov 2023]

Ms. Neelima, a resident of Delhi, was employed by LMN Ltd. upto 15 March, 1994. At the time of leaving LMN Ltd., she was paid ₹ 3,50,000 as leave salary out of which ₹ 59,000 was exempted from tax under section 10(10AA).

Thereafter, she joined CD (P) Ltd. and received ₹ 4,14,000 as leave salary at the time of retirement on December 31, 2024. In addition she received a gratuity of ₹ 12,00,000 from the employer (she is not covered by the Payment of Gratuity Act, 1972). The following information is available: Average salary received during 11 months ending on December 31, 2024

From February 1 to July 31 (p.m.)	₹ 22,600
From August 1 to December 31 (p.m.)	₹ 22,900
Duration of service	14 years 7 months
Leave entitlement for every year of service	45 days
Leave availed while in service	90 days
Leave at her credit at the time of retirement	18 months

She received ₹ 5,20,000 from unrecognized provident fund of which she was a member (This constitutes employee's contribution ₹ 2,00,000; employer's contribution ₹ 2,10,000; interest on employee's contribution ₹ 60,000; interest on employer's contribution ₹ 50,000).

You are required to compute her total income for the assessment year 2024- 25, clearly showing all working. (Ignore sec 115BAC provisions).

**Computation of Total income of Ms. Neelima for A.Y. 2023-24**

Particulars	₹	₹	₹
Income under the head “Salaries”			
Basic Salary [ $₹ 22,600 \times 4 + ₹ 22,900 \times 5$ ]		2,04,900	
Gratuity [ $₹ 12,00,000 - ₹ 1,59,040$ ]		10,40,960	
Less: Exempt under section 10(10) - Least of the following:			
(i) Notified limit	20,00,000		
(ii) Actual gratuity received	12,00,000		
(iii) $\frac{1}{2} \times 22,720 [(22,600 \times 6 + 22,900 \times 4)/102] \times 14$ [No. of completed years of services, ignore fraction]	1,59,040		
Leave encashment [ $₹ 4,14,000 - ₹ 2,27,500$ ]		1,86,500	
Less: Exempt under section 10(10AA) - Least of the following:			
Notified limit [ $₹ 3,00,000 - ₹ 59,000$ , amount exempted earlier]	2,41,000		
(ii) Actual leave salary received	4,14,000		
(iii) $10 \text{ months} \times 22,750 [(₹ 22,600 \times 5 + 22,900 \times 5)/103]$	2,27,500		
Cash equivalent of leave to his credit [ $₹ 22,750 \times 11$ [420 days (30 days $\times$ 14 years of service) less 90 days of leave availed /30]	2,50,250		
Employer's contribution from unrecognized provident fund received on retirement		2,10,000	
Interest on Employer's contribution from unrecognized provident fund received on retirement		50,000	
Gross Salary		16,92,360	
Less: Standard deduction u/s 16(ia)			
Taxable Salary		50,000	16,42,360
Income from Other Sources			
Interest on employee's contribution from unrecognized provident fund		60,000	
Employee's contribution from unrecognized provident fund received on retirement [Not Taxable]		-	60,000
Gross Total Income/Total Income			17,02,360

**Illustration 17 [Sep 2024]**

The particulars given below are of Mr. Radhey's income (age 47 years) posted in a private company in Delhi, for the previous year 2024-25:

- (i)** Basic Pay ` 35,000 per month till January 31, 2024, ` 40,000 p.m. from February 2024.
- (ii)** Dearness allowance 30% of basic salary (54% of DA forms part of retirement benefits)
- (iii)** Leave encashment for P.Y. 2024-25 ` 10,000.
- (iv)** He received salary for the month of April 2025 in advance on 31st March 2025. Also, he received an arrear salary for the month of March 2024 on the same day.
- (v)** His employer gave him a rent-free accommodation (fully furnished) in Delhi from 01.04.2020. This house is owned by his employer. The employer also provided him with the facility of a gardener to maintain this house. The salary of gardener paid by the employer was ` 1,000 p.m. The furniture and appliances provided with the house were bought by the employer at an aggregate cost of ` 1,50,000 on 01.01.2021. Electricity and water bills of ` 4,000 p.m. for the said house were paid by the employer.
- (vi)** The employer also spent ` 50,000 on a refresher course for upgrading Mr. Radhey's skills.
- (vii)** During the previous year his wife had been admitted in a notified hospital for treatment of her kidney disease, the hospital bills amounting to ` 3,50,000 were paid by the employer.

You are required to compute the taxable salary income of Mr. Radhey for the Assessment Year 2024-25 assuming that he has opted out of the default tax regime under section 115BAC. (6 Marks)