

CHAPTER 05

INCOME UNDER THE HEAD SALARY

- Q1) For the purposes of computing exemption under section 10(10), in case of Mr. Anand, an employee of ABC Ltd., who is covered by the Payment of Gratuity Act, 1972, "salary" includes -
- (a) only basic pay
 - (b) basic pay and dearness allowance, if provided in the terms of employment
 - (c) basic pay and dearness allowance
 - (d) basic pay, dearness allowance and commission as a fixed percentage of turnover
- Q2) Mr. Jagat is an employee in accounts department of Bharat Ltd., a cellular company operating in the regions of eastern India. It is engaged in manufacturing of cellular devices. During F.Y. 2023-24, following transactions were undertaken by Mr. Jagat:
- (i) He attended a seminar on "Perquisite Valuation". Seminar fees of ₹ 12,500 was paid by Bharat Ltd.
 - (ii) Tuition fees of Mr. Himanshu (son of Mr. Jagat) paid to private coaching classes (not having any tie-up with Bharat Ltd.) was reimbursed by Bharat Ltd. Amount of fees was ₹ 25,000..
 - (iii) Ms. Sapna (daughter of Mr. Jagat) studies in DPS Public School (owned and maintained by Bharat Ltd.). Tuition fees paid for Ms. Sapna was ₹ 750 per month by Mr. Jagat. Cost of education in similar institution is ₹ 5,250 per month
- Compute the amount which is chargeable to tax under the head "Salaries" in hands of Mr. Jagat for A.Y. 2024-25.
- (a) ₹ 25,000
 - (b) ₹ 37,500
 - (c) ₹ 66,500
 - (d) ₹ 79,000
- Q3) Shera is an employee of Salman Ltd who receives ₹1,25,000 as gratuity (he is covered under the Payment of Gratuity Act, 1972). He retires on 31.01.2024 after service of 29 years and 8 months. At the time of retirement, Shera drew monthly salary of ₹5,200 and monthly bonus of ₹2,000. Compute the amount of gratuity exempt from tax in the instant case u/s 10(10) of the Income-tax Act, 1961.

(MTP March 2019)

- a) ₹90,000
- b) ₹1,25,000
- c) ₹78,000
- d) ₹87,000

Q4) Which of the following incomes are exempt incomes as per the provisions of Income-tax Act, 1961?

- (i) Allowance paid by Government to a citizen of India for rendering services outside India
- (ii) Death-cum-retirement gratuity received by a government employee
- (iii) Any sum received under a life insurance policy taken on 01.05.2016, if the premium payable for any of the years exceeds 10% of the actual capital sum assured.
- (iv) Any payment from National Pension System Trust to an employee on account of closure of his NPS account.

(MTP Oct 2019)

- (a) (i), (ii), (iii), (iv)
- (b) (i) & (ii)
- (c) (i), (ii) & (iv)
- (d) (ii) & (iv)

Q5) Anirudh stays in New Delhi. His basic salary is ₹ 10,000 p.m., D.A. (60% of which forms part of pay) is ₹ 6,000 p.m., HRA is ₹ 5,000 p.m. and he is entitled to a commission of 1% on the turnover achieved by him. Anirudh pays a rent of ₹ 5,500 p.m. The turnover achieved by him during the current year is ₹ 12 lakhs. The amount of HRA exempt under section 10(13A) is -

- (a) ₹ 48,480
- (b) ₹ 45,600
- (c) ₹ 49,680
- (d) ₹ 46,800

Q6) Mr. SRK received voluntary retirement compensation of ₹ 7,00,000 after 30 years 4 months of service. He still has 6 years of service left. At the time of voluntary retirement, he was drawing basic salary ₹ 20,000 p.m.; Dearness allowance (which forms part of pay) ₹ 5,000 p.m. Compute his taxable voluntary retirement compensation, assuming that he does not claim any relief under section 89??

- (a) ₹ 7,00,000
- (b) ₹ 5,00,000
- (c) ₹ 2,00,000
- (d) Nil

Q7) Anant Ambani is provided with furniture to the value of ₹ 70,000 along with house from February, 2024. The actual hire charges paid by his employer for hire of furniture is ₹ 5,000 p.a. The value of furniture to be included along with value of unfurnished house for A.Y. 2024-25 is-

- (a) ₹ 5,000
- (b) ₹ 7,000
- (c) ₹ 10,500
- (d) ₹ 14,000

Q8) The basic salary of Mr. Rahul is ₹ 1,15,000 p.m. He is entitled to dearness allowance, which is 30% of basic salary which forms part of pay for retirement benefits. Mr. Rahul and his employer, Congress Ltd., both contribute 20% of basic salary to the pension scheme referred to in section 80CCD. What is the amount of deduction available to Mr. Rahul under section 80CCD for A.Y. 2024-25?

(MTP March 2022)

- (a) ₹ 4,08,800
- (b) ₹ 5,05,400
- (c) ₹ 3,79,400
- (d) ₹ 3,58,800

Q9) Mr. Amit Shah received basic salary of ₹ 20,000 p.m. from his employer BJP LTD. He also received children education allowance of ₹ 3,000 for three children and transport allowance of ₹ 1,800 p.m. Assume he is not opting to pay tax under section 115BAC. The amount of salary chargeable to tax for P.Y. 2023-24 is -

- (a) ₹ 2,62,600
- (b) ₹ 2,12,600
- (c) ₹ 2,11,600
- (d) ₹ 2,12,200

Q10) Mr. Modi, an employee of BJP Ltd. has contributed ₹ 1,61,280 towards NPS and similar amount is contributed by his employer. His basic salary is ₹ 80,000 p.m. and dearness allowance is 40% of basic salary which forms part of retirement benefits. He also paid ₹ 55,000 towards LIC premium for himself and his wife and medical insurance premium of ₹ 35,000 by crossed cheque for his mother, being a senior citizen during the previous year 2023-24. How much deduction is available under Chapter VI-A while computing total income of Mr. Modi for the A.Y. 2024-25?

(RTP Dec 2021)

- (a) ₹ 3,46,280
- (b) ₹ 3,69,400
- (c) ₹ 3,19,400
- (d) ₹ 3,96,280

Answers to chapter 5

Answer1) Option (c) is correct

Answer2) Option (d) is correct

a) Seminar on Perquisite valuation	Nil
b) Reimbursement of Tuition fees of Son (Fully taxable)	25,000
c) Perquisite Valuation for education of daughter** 63,000 Less:- Fees recovered (9,000)	54,000
Taxable Salary	79,000

** Alternative viewpoint is that only the amount in excess of ₹ 1,000 p.m. shall be considered for perquisite valuation. Valuation in such case shall be $(5,250 - 1,000 - 750) \times 12 \text{ months} = ₹ 42,000$

Answer3) Option (a) is correct

Gratuity exempt shall be least of 3:-	
a) Amt. actually received	1,25,000
b) Max amt. of exemption	20,00,000
c) $5,200 \times 30 \times 15/26$	90,000
Gratuity exempt (least of 3)	90,000

Answer4) Option (b) is correct

In respect of point (iii), since the premium exceeds 10% of sum assured, exemption u/s 10(10D) shall not be applicable. Further, in respect of NPS, only 60% of the amount received is exempt

Answer5) Option (a) is correct

HRA exempt shall be least of 3:-	
a) HRA actually received	60,000
b) 50% of $(1,20,000 + 43,200 + 12,000)$	87,600
c) Rent paid (66,000) - 10% of Salary (17,520)	48,480

Answer6) Option (C) is correct

Amount exempt u/s 10(10C) shall be least of 4:-	
a) Amt. actually received	7,00,000
b) Maximum amt Specified	5,00,000
c) $3m \times (20,000 + 5,000) \times 30$ years	22,50,000
d) $(20,000 + 5000) \times 6 \times 12$ m	18,00,000

Taxable Compensation = 7,00,000 - 5,00,000 = ₹ 2,00,000

Answer7) Option (A) is correct

Perquisite value of furniture = Hire charges paid or payable by the employer = ₹ 5,000

Answer8) Option (c) is correct

Deduction allowed u/s 80CCD(2) in respect of employer's contribution [10% of (13,80,000 + 4,14,000)]	1,79,400
Deduction u/s 80CCD(1) in respect of employee's contribution (restricted to maximum of ₹1,50,000 assuming there is no deduction u/s 80C & 80CCC)	1,50,000
Balance Deduction in respect of employee's contribution allowed u/s 80CCD(1B)	50,000
Total Deduction u/s 80CCD	3,79,400

Answer9) Option (A) is correct

Basic Salary	2,40,000
Children Education allowance 3,000	1,000
Less:- Exempt 2,000	
Transport allowance (1800 x12)	21,600
Gross Salary	2,62,600

Answer10) Option (B) is correct

Deduction allowed u/s 80C in respect	55,000
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of life insurance premium of self & spouse	
Deduction allowed u/s 80D in respect of medical insurance premium for mother (max limit will be ₹ 50,000 since she is senior citizen)	35,000
Deduction u/s 80CCD(2) in respect of Employer's contribution to NPS (Max being 10% of ₹ 13,44,000)	1,34,400
Deduction u/s 80CCD(1) in respect of own contribution (Aggregate deduction u/s 80C, 80CCC & 80CCD(1) cannot be > ₹ 1.5L)	95,000
Deduction u/s 80CCD(1B) in respect of own contribution to NPS	50,000

