INCOME UNDER THE HEAD SALARIES

Particular	Tax Treatment / Explanation
Salary includes all monetary and non-monetary payments from an employer to an employee for services rendered.	
Contract of Service	✓ **Employer–Employee relationship exists** → Taxable under **"Salaries"**
Contract for Service	✗ No Employer–Employee relationship → Taxable under **PGBP** or **Income from Other Sources**
Full-time / Part-time Employment	✓ Taxable under **Salaries**
Foregoing of Salary	✓ Still taxable as **Salaries**
Surrender of Salary to Central Govt. (Voluntary Surrender of Salaries Act, 1961)	☑ **Fully Exempt**
Advance Salary	✓ Taxable in the **year of receipt** ✓ **Relief u/s 89(1)** available
Loan / Advance against Salary	✗ **Not taxable**
Bonus	✓ Taxable in the **year of receipt**
Salary paid tax-free by employer	✓ Tax paid by employer is also treated as **salary (grossed up)**
Profit in Lieu of Salary	✓ Taxable under **Salaries**, includes: • Compensation on termination/modification • Payments from employer/PF (except exempt) • Keyman insurance receipts • Payments before joining or after leaving employment
Chargeability of Salary	✓ Taxable on **Due or Receipt basis, whichever is earlier**
Advance Salary (Sec 15)	✓ Taxed when received → **Not taxed again later**
Arrears of Salary	✓ If already taxed on due basis → **Not taxed again on receipt**
Salary to Partner of Firm	✗ Not treated as salary → Taxable under **PGBP (Sec 28)**
Salary includes	✓ Employer/CG contribution to pension scheme u/s **80CCD** ✓ CG contribution to **Agniveer Corpus Fund u/s 80CCH**

Example

Situation	Employer-Employee Relationship?	Head of Income
Actress Sujata gets monthly remuneration from Chopra Films	☑ Yes	Salary
Sujata gets acting fees directly from film producers	✗ No	PGBP
Director's commission, when Director is an employee	☑ Yes	Salary
Director's commission, when Director is not an employee	✗ No	Business Income / Income from Other Sources
Salary / bonus / commission to partner from firm	✗ No	PGBP
Remuneration to MP / MLA	✗ No	IFOS

DEDUCTIONS FROM GROSS SALARY

Standard Deduction [Sec 16(ia)]	**Entertainment Allowance [Sec 16(ii)][NS only]**	**Professional Tax [Sec 16(iii)] [NS only]**
Least of: • **₹50,000 (NS)/₹75,000 (Default Scheme)** • **Actual salary income**	Allowed **only to Government employees**	**Actual professional tax paid** by employee during PY
	Least of: • ₹5,000 • 20% of Basic Salary • Actual allowance received	If paid by employer → taxable perquisite fir all employees [NS/DS, then deducted ONLY NS
	Included in salary first, then deduction	
NS/DS	NS	NS

ALLOWANCES – TAX TREATMENT

Exempt to the Extent Spent	Exempt – Specified Amount	Fully Taxable Allowances
Conveyance / Travelling / Daily allowance (NS / DS)	Children Education Allowance – ₹100 p.m. per child (max 2)	Medical allowance
Uniform allowance	Hostel Expenditure Allowance – ₹300 p.m. per child (max 2)	Marriage allowance
Research allowance	Underground Allowance – ₹800 p.m.	Telephone allowance
Helper allowance	Tribal Area Allowance – ₹200 p.m.	Any other allowance
	Transport allowance (Blind / Deaf / Dumb) – ₹3,200 p.m. **(NS / DS)**	
	Running Allowance – Lower of ₹10,000 p.m. or 70%	—
	House Rent Allowance (HRA) exempt u/s 10(13A) **= Least of:** **① Actual HRA received for relevant persiod** **② Rent paid – 10% of salary** **③ 40% (non-metro) / 50% (metro) of salary** Salary = BS+ DA[RB]+ Com on turnover achieved	

Other Exempt Allowances: [NS]

Allowance to Supreme Court/High Court Judges/Allowance from the United Nations Organisation (UNO)/Sumptuary allowance to supreme court and high court judges.

Exempt Under Both Tax Regimes:

Allowances paid outside India by the Government to an Indian citizen for services rendered outside India (Section 10(7)).

P1. Mr. Raj Kumar has the following receipts from his employer:

(1)	Basic pay	₹40,000 p.m.
(2)	Dearness allowance (D.A.)	₹6,000 p.m.
(3)	Commission	₹50,000 p.m.
(4)	Motor car for personal use (expenses met by the Employer)	₹1,500p.m.
(5)	House rent allowance	₹15,000 p.m.

Find out the amount of HRA exempt in the hands of Mr. Raj Kumar assumingthat he paid a rent of ₹ 16,000 p.m. for his accommodation at Kanpur. DA forms part of salary for retirement benefits. Mr. Raj Kumar exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

Solution:

HRA received	₹ 1,80,000
Less: Exempt under section 10(13A) [Note]	₹ 1,36,800
Taxable HRA	₹ 43,200

Note: Exemption shall be least of the following three limits:

(a) the actual amount received (₹ 15,000 × 12) = ₹ 1,80,000

(b) Rent Paid (-) 10% of salary for the relevant period
= (₹ 16,000×12) (-) 10% of [(₹ 40,000+₹ 6,000) × 12]
= ₹ 1,92,000 - ₹ 55,200 = ₹ 1,36,800

(c) 40% salary as his accommodation is situated at Kanpur
= 40% of [(₹ 40,000+ ₹ 6,000) × 12] = ₹ 2,20,800

Note: Salary = BS +DA[terms of employment]

P2. Mr. Rohit is employed with XY Ltd. on a basic salary of ₹ 10,000 p.m. He is also entitled to dearness allowance @ 100% of basic salary, 50% of which is included in salary. The company gives him house rent allowance of ₹ 6,000 p.m. which was increased to ₹7,000 p.m. with effect from 1.01.2026. He also got an increment of ₹ 1,000 p.m. in his basic salary with effect from 1.02.2026. Rent paid by him during the previous year 2025-26 is as under:

April and May, 2025	- Nil, as he stayed with his parents
June to October, 2025	- ₹ 6,000 p.m. for an accommodation in Ghaziabad
Nov,2025 to March, 2026	-₹ 8,000 p.m. for an accommodation in Delhi.

Compute his gross salary for AY 2026-27.

Solution:

Computation of gross salary of Mr. Rohit for A.Y. 2026-27

Particulars	₹
Basic salary [(₹ 10,000 × 10) + (₹ 11,000 × 2)]	1,22,000
Dearness Allowance (100% of basic salary)	1,22,000
House Rent Allowance (See Note below)	21,300
Gross Salary	**2,65,300**

Note: Computation of Taxable House Rent Allowance (HRA)

Particulars	April-May (₹)	June-Oct (₹)	Nov-Dec (₹)	Jan (₹)	Feb-March (₹)
Basic salary per month	10,000	10,000	10,000	10,000	11,000
Dearness allowance (included in salary as per terms of employment) (50% of basic salary)	5,000	5,000	5,000	5,000	5,500
Salary per month	15,000	15,000	15,000	15,000	16,500

for the purpose of computation of house rent allowance					
Relevant period (in months)	**2**	**5**	**2**	**1**	**2**
Salary for the relevant period (Salary per month × relevant period)	30,000	75,000	30,000	15,000	33,000
Rent paid for the Relevant Period	Nil	30,000	16,000	8,000	16,000
		(₹6,000×5)	(₹8,000×2)	(₹8,000×1)	(₹ 8,000×2)
House rent allowance (HRA) received during the relevant period (A)	12,000 (₹6,000×2)	30,000 (₹6,000×5)	12,000 (₹6,000×2)	7,000 (₹7,000×1)	14,000 (₹7,000×2)
Least of the following is exempt [u/s 10(13A)]	N.A				
1. Actual HRA received	-	30,000	12,000	7,000	14,000
2. Rent paid – 10% of salary	-.	22,500	13,000	6,500	12,700
3. 40% of salary (Residence at Ghaziabad–June to Oct, 2024)	-	30,000 (40% × ₹ 75,000)	15,000 (50% × ₹30,000)	7,500 (50% × ₹15,000)	16,500 (50% × ₹33,000)
50% of salary (Residence at Delhi– Nov'24- March'25)					
Exempt HRA (B)	**Nil**	**22,500**	**12,000**	**6,500**	**12,700**
Taxable HRA (Actual HRA – Exempt HRA) (A-B)	12,000	7,500	Nil	500	1,300

Taxable HRA (total) = ₹ 12,000 + ₹ 7,500 + ₹ 500 + ₹ 1,300 = ₹ 21,300

P3. Determine taxable value of Allowances in the following individual cases:

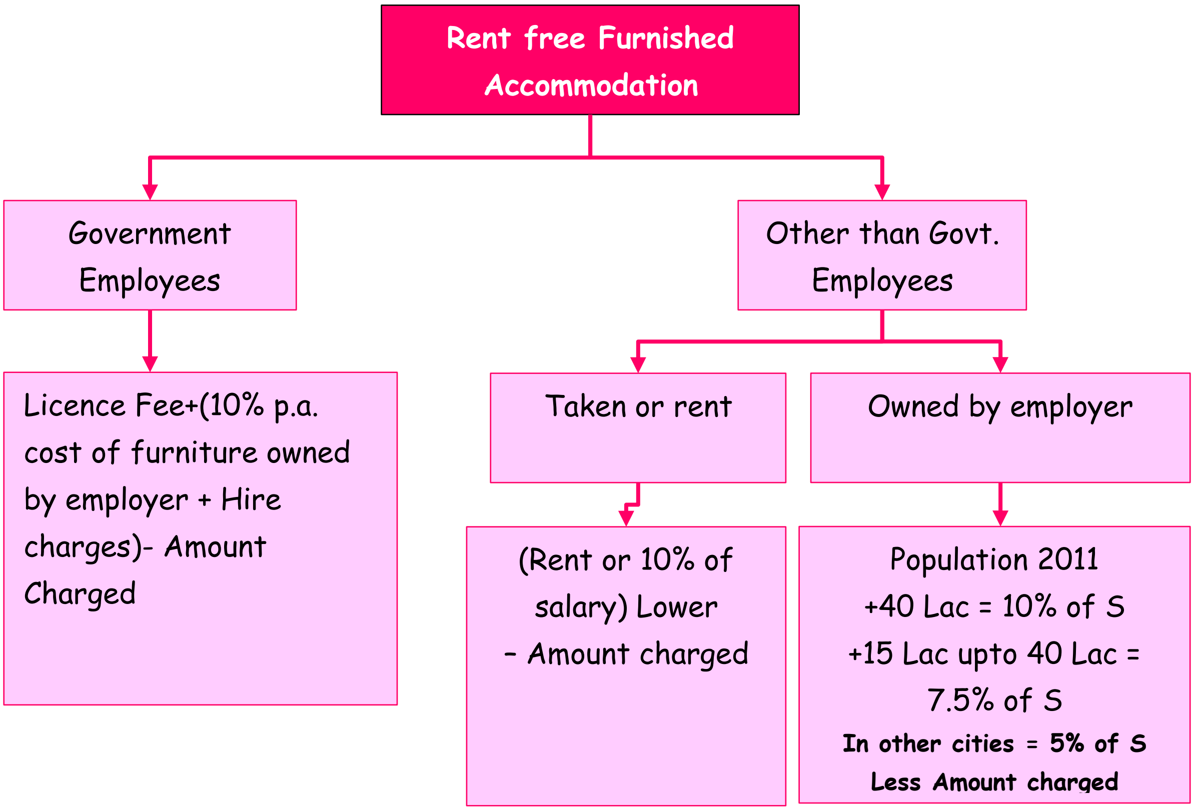
S. No	Details / Facts	
(a)	Children Education Allowance ₹150 p.m. for **one child**	600[150X12-100X12]
(b)	Children Education Allowance ₹90 p.m.	0
(c)	CEA ₹200 p.m. per child for **3 children**	4800[7200-2400]
(d)	CEA received for **one child** ₹1,000	0
(e)	CEA received for **three children ₹3,000**	1000[3000-2000]
(f)	Running allowance (Transport sector) ₹15,000 p.m.	60000[180000-120000]
(g)	Running allowance ₹8,000 p.m.	28800[96000-67200]
(h)	Uniform Allowance ₹12,000	0
(i)	Transport Allowance ₹1,500 p.m., spent ₹1,000 p.m.	18000
(j)	Medical Allowance ₹500 p.m., spent ₹5,000	6000
(k)	Underground Allowance ₹900 p.m.	1200[10800-9600]
(l)	Lunch Allowance ₹2,000 p.m., spent ₹1,500 p.m.	24000
(m)	Tribal Area Allowance ₹500 p.m.	3600[6000-2400]

Perquisites under Section 17(2):

Perquisites are extra benefits from an employer, taxable as income.

Taxable for ALL (SE & NSE)	Taxable ONLY for Specified Employee (SE)	Exempt / Not Taxable
1.Gifts / Vouchers / Tokens	Car facilities	Telephone /mobile bill
2.Expenses on credit card (personal)	Free journey / concessional travel	
3.Club expenses	Education facility	
4.Use of movable assets (MA)	Domestic servant (free)	
5.Transfer of movable assets (MV)	Free gas, water & electricity	
6.Sweat equity shares	—	
7.Interest-free / concessional loan	—	
8.Rent-free accommodation (RFA)	—	
9.Employer's contribution to RPF / NPS / Superannuation (taxable portion) and Intrest	—	
10.Employee's obligation paid by employer	—	
11.Life insurance premium paid by employer	—	
12.Medical facility		
13.Leave travel concession.		

Rent-Free Accommodation (RFA) rules:



Perquisite / Item	Taxable Value / Valuation Rule	Exemptions / Special Conditions
Meaning of Salary (for perquisites)	BS + DA (forming part of RB) + Taxable Allowances + Bonus + All commissions + Other monetary payments Salary of relevant period is considered from all employers	Excludes employer's contribution to PF/Perquisites
Hotel Accommodation	Lower of: 24% of salary OR actual hotel charges	Fully exempt if ≤ 15 days and provided due to transfer
Multiple Houses on Transfer	Lower-value house taxable for first 90 days	After 90 days → both houses taxable
Valuation in Subsequent Years (RFA)	Lower of: (i) Normal RFA value for that year OR (ii) CII-adjusted value	CII Formula: Value in 1st PY × (CII of subsequent PY ÷ CII of 1st PY) First PY P.Y. 2023-24 OR year accommodation first provide (whichever is later)
Remote / Site	Nil	Temporary ≤ 1000 sq ft AND 8 km

Accommodation		from municipality OR remote area (30 km from town ≤ 1 lakh population)
Judges	Nil	Rent-free official residence for HC/SC judges fully exempt[NS]

P4. Calculate the value of perquisite, if any chargeable to tax in respect of free accomodation provided by the employer in a hotel to an employee, the previous year being 2025-26:
(i) For 10 days when he was transferred from Delhi to Mumbai.
(ii) Throughout the year as per contract of employment.

P5. Mr.C is a Finance Manager in ABC Ltd. The company has provided him with rent-free unfurnished accommodation in Mumbai. He gives you the following particulars:

Basic salary	₹ 8,500 p.m.
Dearness Allowance	₹ 2,000 p.m. (30% is for retirement benefits)
Bonus	₹ 1,500 p.m.

Even though the company allotted the house to him on 1.4.2025, he occupied the same only from 1.11.2025.

A. Calculate the taxable value of the perquisite for A.Y.2026-27.
B. Compute the value of the perquisite if Mr. C is required to pay a rent of ₹1,000 p.m. to the company, for the use of this accommodation.
C. Compute the value of the perquisite if ABC Ltd. has taken this accommodation on a lease rent of ₹ 1,025 p.m. and Mr. C is required to pay a rent of ₹ 1,000 p.m. to the company, for the use of this accommodation.
D. Compute the value of the perquisite if ABC Ltd. has provided a television (WDV ₹ 20,000; Cost ₹ 25,000) and two air conditioners. The rent paid by the company for the air conditioners is ₹ 400 p.m. each.The television was provided on 1.1.2026. However, Mr.C is required to pay a rent of ₹1,000 p.m. to the company, for the use of this furnished accommodation.
E. Compute the value of the perquisite if Mr. C is a government employee. The licence fees determined by the Government for this accommodation was ₹ 700 p.m.

Solution:

(A)Value of the rent free unfurnished accommodation
= 10% of salary for the relevant period
= 10% of [(₹ 8,500 × 5) + (₹ 2,000 × 30% × 5) + (₹ 1,500 × 5)] **[See Note below]**
= 10% of ₹ 53,000 = ₹ 5,300.

Note: Since Mr. C occupies the house only from 1.11.2025, we have to include the salary due to him only in respect of months during which he has occupied the accommodation. Hence salary for 5 months (i.e. from 1.11.2025 to 31.03.2026) will be considered.

(B)

Value of the accommodation[(i.e. 10% of ₹ 53,000).	= ₹ 5,300
Less: Rent paid by the employee (₹ 1,000 × 5)	= ₹ 5,000
Perquisite value of accommodation given at a concessional rent	= ₹ 300

(C)

Value of the accommodation **[Note]**	= ₹ 5,125
Less: Rent paid by the employee (₹ 1,000 × 5)	= ₹ 5,000
Value of accommodation given at a concessional rent	**= ₹ 125**

Note: Value of the accommodation is lower of
(i) Lease rent paid by the company for relevant period = ₹ 1,025 × 5 = ₹ 5,125
(ii) 10% of salary for the relevant period (computed earlier) = ₹ 5,300

(D)

Value of the accommodation (computed earlier)	= ₹ 5,300
Add: Value of furniture provided by the employer [Note]	= ₹ 4,625
Value of furnished accommodation	= ₹ 9,925
Less: Rent paid by the employee (₹ 1,000 × 5)	= ₹ 5,000
Value of furnished accommodation given at a concessional rent	**= ₹ 4,925**

Note: Value of the furniture provided = (₹ 400 p.m. × 2 × 5 months) + (₹ 25,000 × 10% p.a. for 3 months) = ₹ 4,000 + ₹ 625 = ₹ 4,625

(E)

Value of the accommodation (licence fees ₹ 700 × 5)	= ₹ 3,500
Add: Value of furniture provided by the employer (computed earlier)	= ₹ 4,625
Value of furnished accommodation	**= ₹ 8,125**
Less: Rent paid by the employee (₹ 1,000 × 5)	= ₹ 5,000

Perquisite value of furnished accommodation given at concessional rent = ₹ 3,125

P6. Mr. Kadam is entitled to a salary of ₹ 41,000 per month. He is given an option by his employer either to take house rent allowance or a rent free accommodation which is owned by the company. The HRA amount payable was ₹ 7,000 per month. The rent for the hired accommodation was ₹ 6,000 per month at New Delhi. Advice Mr. Kadam whether it would be beneficial for him to avail HRA or Rent-Free Accommodation. Give your advice on the basis of "Net Take Home Cash benefits". Assume Mr. Kadam exercises the option to shift out of the default tax regime under section 115BAC.

Solution: **Computation of tax liability of Kadam under both the options**

Particulars	Option I HRA(₹)	Option II – RF (₹)
Basic Salary (₹ 41,000 x 12 Months)	4,92,000	4,92,00
Perquisite value of rent-free accommodation (10% of ₹ 4,92,000)	N.A.	49,20
House rent Allowance (₹ 7,000 x 12 Months) ₹ 84,000		
Less: Exempt u/s 10(13A) – least of the following -		
- 50% of Basic Salary ₹ 2,46,000		
- Actual HRA received ₹ 84,000		
- Rent paid *less* 10% of salary ₹ 22,800₹22,800	61,200	
Gross Salary	5,53,200	5,41,20

Less: Standard deduction u/s 16(ia)	50,000	50,000
Net Salary	5,03,200	4,91,200
Less: Deduction under Chapter VI-A	-	-
Total Income	**5,03,200**	**4,91,200**
Tax on total income	13,140	12,060
Less: Rebate under section 87A - Lower of ₹ 12,500 or income-tax of ₹ 12,060, since total income does not exceed ₹ 5,00,000	Nil	12,060
	13,140	Nil
Add: Health and Education cess@4%	526	Nil
Tax liability	13,666	Nil
Tax liability (Rounded off)	13,670	Nil

Cash Flow Statement

Particulars	Option I – HRA	Option II – RF
Inflow: Salary	5,76,000	4,92,00
Less: Outflow: Rent paid	(72,000)	
Tax on total income	(13,670)	N
Net Inflow	**4,90,330**	**4,92,00**

Since the net cash inflow under option II (RFA) is higher than in Option I (HRA), it is beneficial for Mr. Kadam to avail Option II, i.e., Rent Free Accommodation

PERQUISITES TAXABLE FOR ALL EMPLOYEES

Perquisite / Item	**Taxable Value / Valuation Rule**	**Exemptions / Special Conditions**
Interest-Free / Concessional Loan	SBI lending rate – interest recovered from employee	Exempt if: (i) Loan ≤ ₹20,000 OR (ii) Medical treatment (Rule 3A, if not reimbursed by insurance)
	Interest on maximum outstanding balance at month-end	Member of household = spouse, children, parents, servants, dependents
Travelling / Touring / Accommodation	If facility for select employees → market value	—
	If facility for all employees → actual cost to employer	—
	Household member on official tour → employer's cost	—
	Tour extended as vacation → cost for extended period taxable	—
Free Food & Non-Alcoholic Beverages	Employer's cost	Exempt: tea/snacks during office hours, meals in remote areas, meals ≤ ₹50 per meal

	Paid vouchers	Taxable under DS
Gifts / Vouchers / Tokens	Cash gift → fully taxable	Gift in kind exempt up to ₹5,000 p.a. (aggregate)
Credit Card Expenses	Personal expenses paid by employer	Exempt if purely official + records maintained
Club Membership / Expenses	Employer's expense	Exempt: corporate membership, sports/health facilities for all, official use
Use of Movable Assets	10% p.a. of cost or hire charges	Laptops & computers fully exempt
Transfer of Movable Assets	WDV – amount paid by employee	Assets used >10 years → exempt
Depreciation Rates (Transfer)	Electronics/Computers: 50% WDV p.a. Motor car: 20% WDV p.a Other assets (furniture, motorcycle): 10% SLM p.a	FOR EACH COMPLTED YEAR OF USE Fractions of year ignored
Sweat Equity / Specified Securities	FMV on date of exercise – amount paid	Taxable for **all employees**
	Listed shares	Avg. opening & closing price
	Unlisted / non-equity securities	Value by merchant banker

P7.AB Co. Ltd. allotted 1000 sweat equity shares to Sri Chand in June 2025. The shares were allotted at ₹ 200 per share as against the fair market value of ₹ 300 per share on the date of exercise of option by the allottee viz. Sri Chand. The fair market value was computed in accordance with the method prescribed under the Act.

(i) What is the perquisite value of sweat equity shares allotted to Sri Chand?

(ii) In the case of subsequent sale of those shares by Sri Chand, what would be the cost of acquisition of those sweat equity shares?

Solution:

(i) As per section 17(2)(vi), the value of sweat equity shares chargeable to tax as perquisite shall be the fair market value of such shares on the date on which the option is exercised by the assessee as reduced by the amount actually paid by, or recovered from, the assessee in respect of such shares.

Particulars	**₹**
Fair market value of 1000 sweat equity shares @ ₹ 300 each	3,00,000
Less: Amount recovered from Sri Chand 1000 shares @ ₹ 200 each	2,00,000
Value of perquisite of sweat equity shares allotted to Sri Chand	1,00,000

(ii) As per section 49(2AA), where capital gain arises from transfer of sweat equity shares, the cost of acquisition of such shares shall be the fair market value which has been taken into account for perquisite valuation under section 17(2)(vi).

Therefore, in case of subsequent sale of sweat equity shares by Sri Chand, the cost of acquisition would be ₹ 3,00,000.

Employer Contribution to RPF / NPS / SAF	Excess over ₹7,50,000 p.a. taxable	—
Accretion on Excess Contribution	Interest/dividend on excess amount taxable	—
Leave Travel Concession (LTC)	Exempt travel cost within India	Not Allowed under under default tax regime (115BAC)
Eligible Persons (LTC)	Employee, spouse, children, dependent parents, siblings	—
Journey Limit (LTC)	2 journeys in 4-year block (2022-25)	1 journey can be carried forward
LTC Fare Limits	Air: economy shortest route	Rail: AC first class
	Other modes	Public transport: first/deluxe; otherwise AC first-class rail
Children Restriction (LTC)	Max 2 surviving children	No limit for children born before 1-10-1998 or multiple births

P8. Compute the amount of LTC Exemption in the following cases with reference to the provision under Income Tax Act, 1961.

(a)Mr. X went on a holiday on 09.09.2025 to Mysore with his wife and 3 children – one daughter born on 02.02.2015 and twin sons born on 05.05.2017. The total cost of travel was ₹80,000. The ticket cost for Mr. X and his wife was ₹50,000 and for all three children was ₹30,000. The Employer reimbursed total ticket cost ₹80,000.

(b)In the above case (a) if among his 3 children the twin sons born on 02.02.2014 and the daughter was born on 05.05.2017, what shall be the exemption? [Nov-2016]

Solution

As per Section 10(5), Leave concession shall be allowed to employee and his family. Exemption shall be allowed for the expenditure incurred during the trip.

Family shall include spouse and children of the employee however exemption shall be allowed for Family shall include spouse maximum of 2 children but in case of multiple birth after the birth of one child, exemption is allowed for all the children.

(i) As per the above provision Exemption shall be allowed for all the children as the case is of multiple birth after the birth of one child. Hence cost of travel of all shall be exempt.

(ii) As per the above provision exemption shall be allowed for only 2 children.

Hence Exemption shall be ₹ 80,000 - ₹ 30,000/3 = ₹ 70,000.

Taxable Amount shall be ₹ 80,000 - ₹ 70,000 = ₹ 10,000.

Non-Taxable Medical Facilities:

Medical Facility

- **In India**
  - **Not Taxable**
    - For medical treatment in any hospital maintained by employer/govt./LA /approved by govt./approved → for specified diseases/COVID-19
  - **Taxable**
    - Reimbursed by Employer in clinic / hospital
- **Outside India**
  - **Medical Treatment/Stay Aboard**
    - Exempt to the permitted by RBI
  - **Travel with one attendant**
    - Exempt if GTI is upto ₹ 8,00,000. If GTI > ₹ 8,00,000 paid by employer is fully taxable.

- Mediclaim Policy taken by employer on the life of employees/his family member-**Exempt**
- Payment of Premium on Personal Accident Insurance Policies – **Not Taxable**
- **Family** = Spouse and children (Dependent/ independent) + Parents/Brother/ sister (if mainly or wholly dependent on individual)
- **Prescribed Diseases** = Cancer, TB, AIDS, diseases or ailments of the heart, blood, lymph glands, etc

P9. Ms.Rakhi is an employee in a private company. She receives the following medical benefits from the company during the previous year 2025-26:

	Particulars	₹
1	Reimbursement of following medical expenses incurredby Ms. Rakhi (A) On treatment of her self-employed daughter in a private clinic	4,000
	(A) On treatment of herself by family doctor	8,000
	(A) On treatment of her mother-in-law dependent on her, in a nursing home	5,000
2	Payment of premium on Mediclaim Policy taken on her health	7,500
3	Medical Allowance	2,000 p.m.
4	Medical expenses reimbursed on her son's treatment in a government hospital	5,000
5	Expenses incurred by company on the treatment of her minor son abroad including stay expenses	1,05,000
6	Expenses in relation to foreign travel of Rakhi and her son for medical treatment.	1,20,000

Examine the taxability of the 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 for A.Y. 2026-27**

	Particulars
1.	Reimbursement of medical expenses incurred by Ms. Rakhi (A) The amount of ₹ 4,000 reimbursed by her employer for treatment of her self-employed daughter in a private clinic is taxable perquisite. (B) The amount of ₹ 8,000 reimbursed by the employer for treatment of Ms. Rakhi by family doctor is taxable perquisite. (C) The amount of ₹ 5,000 reimbursed by her employer for treatment of her dependant mother-in-law in a nursing home is taxable perquisite. The aggregate sum of ₹ 17,000, specified in (A), (B) and (C) above, reimbursed by the employer is taxable perquisite
2.	Medical insurance premium of ₹ 7,500 paid by the employer for insuring health of Ms. Rakhi is a tax free 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 fullytaxable 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 a tax-free 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

6.	conditions –
	(i) Expenditure on medical treatment of the employee, or any member of the family of such employee, outside India including stay expenses **[₹ 1,05,000, in this case];**
	(ii) Expenditure on travel 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].**
	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 ₹8 lakh. Since the expenditure on medical treatment and stay abroad does not exceed the limit permitted by RBI, they would be fully exempt. However, 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 ₹8 lakh.

Specified Employee

Director-Employee	Employee having Substantial Interest	High Salary Employee
Employee who is also a Director of the company	**Employee having beneficial ownership ≥ 20% voting power**	**Employee whose salary exceeds prescribed limit of 4,00,000 Applies only if not covered in first two columns**
Full-time / Part-time/ Nominee director – ALL	**Beneficial ownership matters Legal ownership irrelevant** **Shares in Karta's name but owned by HUF → Not specified employee**	**Salary considered from all employers only cash items only** **Non-monetary benefits excluded** **Sec 16 deductions allowed**
Specified Employee = Director OR ≥20% Beneficial Owner OR Salary > ₹4,00,000		

P10. Determine whether Mr. X is specified or non-specified employee:

Basic Salary (Total)	₹ 4,95,000
Children Education Allowance	₹ 1,800 for 1 child
Reimbursement of Electricity Bill	₹ 2,000
Medical Allowance	₹ 2,600
Rent Free Accommodation	₹ 3,000
Professional Tax paid	₹ 200

Solution [495000+600+2000+2600=500200-50000-200=450000> 400000= SE]

P11. X & Y are working for Kishore Ltd. as per salary fixation norms following perquisites were offered:

- For X who engaged a domestic servant for ₹ 500/ month his employer reimbursed the entire salary paid to the domestic servant i.e. ₹ 500/month.
- For Y he was provided with a domestic servant @ ₹ 500/month as part of remuneration package. You are required to comment on the taxability of the above in the hands of X & Y who are not specified employee.

Solution

In the case of Mr. X, it becomes an obligation which the employee would have discharged even if the employer did not reimburse the same. Hence, the perquisite will be covered under section 17(2)(iv) and will be taxable in the hands of Mr. X. This is taxable in the case of all employees.

In the case of Mr. Y, it cannot be considered as an obligation which the employee would meet. The employee might choose not to have a domestic servant. This is taxable only in the case of specified employees covered by section 17(2)(iii). Hence, there is no perquisite element in the hands of Mr.Y.

Valuation of motor car/vehicle perquisites

- **Employer-provided cars** are perquisites only for **"specified employees."**
- Commuting between **home and office is not a perquisite**.
- If the **employee owns the car** and the **employer reimburses** personal use expenses, it's a perquisite **for all employees**.

1. **Employer-Owned, Employer-Expenses:[SE]**

Employer's Car & Expenses (Specified Employee Only)

- For official → Non-Taxable [D]
- For private use only → 10 P.A % of cost of car + R/M + Driver's Salary → Amount Changed will be Deducted
- Both official & Private use → Upto 1.6 litre = 1800 p.m; More than 1.6 litre = 2400 p.m → Driver = 900 p.m → - Amount Changed not deducted for this only; - Days to be ignored.

P12. Problems on Motor car

M1. Piyush, has been provided a car with driver (1.6 ltr.) for both purpose.from log book detail car was used for official purpose to the extent 80%.	**32400[1800X12+900X12]**
M2. Piyush, has been provided a self driven car (1.6 ltr.) car both for both purpose for 11months and 20 days.	**19800[1800X11]**
M3. Piyush has been provided a car (1.7 ltr.) by his employer. The cost of car to the employer was ₹3,50,000 and maintenance cost incurred by the employer ₹30,000 p.a. Chauffeur salary paid by the employer ₹3000 p.m. Find taxable value of perquisite for Piyush, if the car is used for - i) Office purpose. ii) Personal purpose.iii) Both purpose. In case (ii) and (iii), employee is being charged ₹15000 p.a. for such facility.	i) = 0 ii)86000[35000+30000+36000-15000] iii) 39600[2400x12+900x12]

2. Employer-Owned, Employee-Expenses:[SE]

Employer's Car & Expense by Employee (Specified Employee Only)

For official Purpose	For Private use Only	Both Official & Private Purpose
Not Taxable	10% p.a. of cost of car+ drivers salary if provided	Upto 1.6 litre = 600 p.m More than 1.6 litre = 900 p.m Driver =900 p.m

M4. Piyush has been provided a car (1.7 ltr.) by his employer. The cost of car to the employer was ₹3,50,000 and maintenance cost incurred by the Piyush ₹ 30,000 p.a. Chauffeur salary paid by the employer ₹3000 p.m. Find taxable value of perquisite for Piyush, if the car is used for - i) Office purpose. ii) Personal purpose. (iii) Both purpose. In case (ii) and (iii), employee is being charged ₹ 5000 p.a. for such facility.	i) 0 ii)66000[35000+36000-5000] iii) 21800[900x12+900x12]
M5. Piyush, has been provided a car with driver (1.6 ltr.) for both purpose	**32400 [1800x12+900x12]**
M6. Piyush, has been provided a self driven car (1.6 ltr.) car both for both purpose for 11months and 20 days.	**19800 [1800x11]**

3. Employee-Owned, Employer-Expenses:[ALL]

Employee car, Expenses by Employer (Taxable for all)

- For official use → Not taxable [Document]
- For private use only → - Amount Spent by Employer
- Both Official & Private use → Amount Spent XX
  Less: for Official use (fixed) 1800/2400/900 (for Driver)
  - If log Book is Maintained, Higher Deduction Allowed

M7. Mr.Akash has a car (1.7 ltr.) used for personal purpose. During the year, he incurred ₹40000 on maintenance and ₹20000 on driver's salary. The entire cost is reimbursed by employer. Find taxable perquisite.	**60000**
M8. Mr.Akash has a car (1.6 ltr.) used for office as well as for personal purpose. During the year, he incurred ₹40000 on maintenance and ₹20000 on driver's salary. The entire cost is reimbursed by employer. Find taxable perquisite.	**27600[60000-(1800+900)x12]**
M9. What will be value of perquisite if log book is maintained and 80% is used for official purpose and 20% for personal purpose?	**12000[60000-48000]**

4. Other Automotive Conveyance (Employee-Owned, Employer-Expenses):[ALL]

Employee conveyance, Expenses by Employer (Taxable for all)

- For official use → Not taxable [Document]
- For private use only → Amount Spent by Employer
- Both Official & Private use → Amount Spent Less : 900 pm

Important Notes:

- **Documentation:** For official use claims, detailed records and employer certificates are required.
- **Multiple Cars:** One car is valued as mixed use, others as private use.
- **Fractional Months:** Ignored.
- **Employee Contributions:** Employee contributions do not reduce the specified monthly amounts.

GAS, ELECTRICITY & WATER SUPPLY FREE:

- **Bill in the name of employer**
  SE = Taxable
  NSE = Not taxable
- **Bill in the name of employee/reimbursement**
  SE + NSE = Taxable

FREE OR CONCESSIONAL JOURNEY:

- ⇒ Taxable value = value offered to public - amt charged
- Not taxable = airline / railway employees

DOMESTIC SERVANT: COST

- **Free Servant**
- Taxable = SE only

- **Reimbursement Cash**
- Both SE & NSE

VOLUNTARY RETIREMENT COMPENSATION (VRC) U/S 10(10C)- Exemption (least) of the following: -

- Actual
- ₹500,000
- Salary of remaining period of service
- 3 month's salary for each completed year of service

Salary = BS + DA(RB) + Commission on turnover (last drawn)

RETRENCHMENT COMPENSATION- EXEMPT (LEAST) OF THE FOLLOWING-

- Actual
- ₹500,000
- 15/26 days of average pay/salary for each completed year of service or part in case of 6 months

⇒ Salary includes all excluding bonus, contribution to retirement benefit scheme

⇒ availed under both NSE/DSE

P13. Mr. Dutta 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.

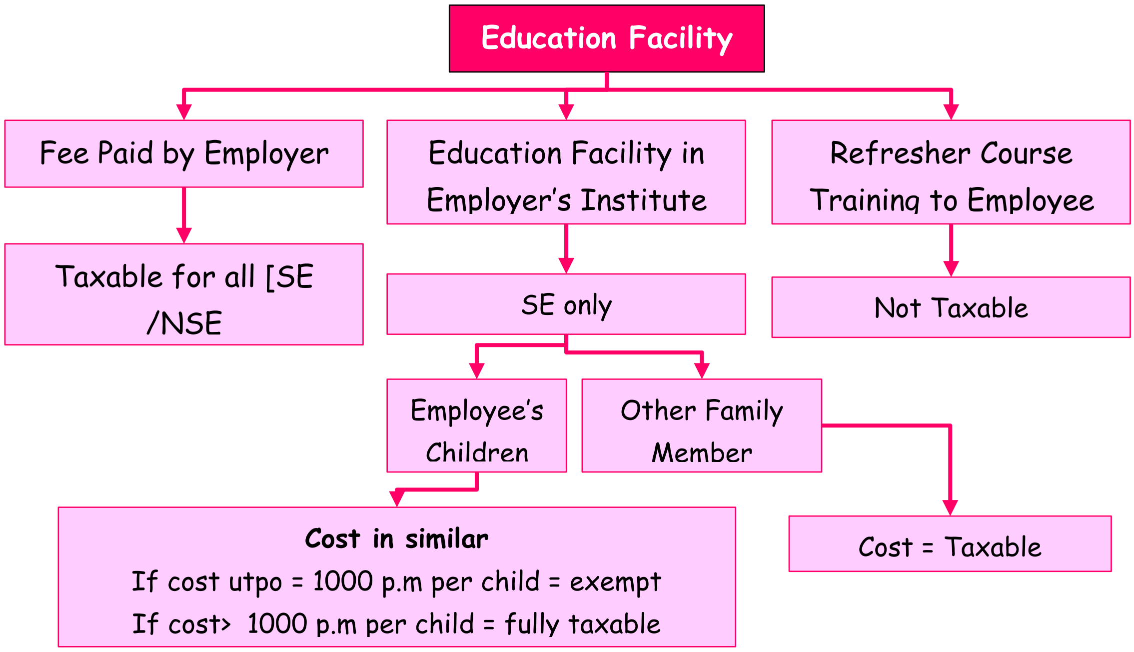
Solution:

Voluntary retirement compensation received	₹ 7,00,000
Less: Exemption under section 10(10C)**[See Note below]**	₹ 5,00,000
Taxable voluntary retirement compensation	₹ 2,00,000

Note: Exemption is to the extent of least of the following:

(i) Compensation actually received =	₹ 7,00,000
(ii) Statutory limit =	₹ 5,00,000
(iii) 3 months' salary × completed years of service = (₹ 20,000 + ₹ 5,000) × 3 × 30 years =	₹ 22,50,000
(iv) Last drawn salary × remaining months of service left = (₹ 20,000 + ₹ 5,000) × 6 × 12 months =	₹ 18,00,000

Education Facility (Rule 3(5)):



INCOME TAX ON PERQUISITE PAID BY EMPLOYER

- **Non-monetary perquisite-**
- Not taxable for employee)
- No deduction for employer under PGPB

- **Monetary perquisite**
- Taxable for employee
- Deduction for employer under PGPB

Gratuity Taxation:

Gratuity

- During Employment → Fully taxable (Both Govt & Non-Govt)
- Any death cum retirement gratuity
  - Govt. Employee → Exempt
  - Non - Govt. Employee
    - Covered by POGA least of the following:
      i) Amount received
      ii) ₹ 20 Lakhs
      iii) 15/26 days salary (1) for each completed year of service or in part in excess of 6 months [No. of days in a month = 26]
    - Not covered by POGA least of the following:
      i) Actual amount received.
      ii) ₹ 20 Lakhs
      iii) Half month's average salary (2) for each completed year of service [fraction to be ignored]

Imp Points

1. Salary = BS + DA (Last Drawn)
2. Salary = BS + DA (RB) + Commission (% of turnover) → Avg of last 10 months
3. Revised limit = ₹20L – exemption already claimed
4. Past service counted if gratuity not received earlier
5. Exemption available in both Old & New regime

P14. Mr. Ravi retired on 15.6.2025 after completion of 26 years 8 months of service and received gratuity of ₹ 15,00,000. At the time of retirement, his salary was:

Basic Salary	:	₹ 10,000 p.m.
Dearness Allowance	:	₹ 3,000 p.m. (60% of which is for retirement benefits)
Commission	:	1% of turnover (turnover in the last 12 months was ₹120,00,000)
Bonus	:	₹ 25,000 p.a.

Compute his taxable gratuity assuming:

(a) He is non-government employee and covered by the Payment of Gratuity Act 1972.

(b) He is non-government employee and not covered by Payment of Gratuity Act 1972.

(c) He is a Government employee.

Solution

(A) Covered by Payment of Gratuity Act, 1972

Particulars	Amount (₹)
Gratuity received	15,00,000
Less: Exemption u/s 10(10) (Least of the following):	
(i) Actual gratuity	15,00,000
(ii) Statutory limit	20,00,000
(iii) 15/26 × Last drawn salary × Years (15/26 × 60,000 × 27)	**9,34,615**
Exemption allowed	**9,34,615**
Taxable gratuity	**5,65,385**

(B) Not Covered by Payment of Gratuity Act, 1972

Particulars	Amount (₹)
Gratuity received	15,00,000
Less: Exemption u/s 10(10) (Least of the following):	
(i) Actual gratuity	15,00,000
(ii) Statutory limit	20,00,000
(iii) ½ × Average salary × Years	**8,58,000**
Exemption allowed	**8,58,000**
Taxable gratuity	**6,42,000**

(C) Government Employee

Particulars	Amount (₹)
Gratuity received	15,00,000
Less: Exemption u/s 10(10)	**15,00,000**
Taxable gratuity	**Nil**

Pension Taxation:

PENSION

- Uncommuted (Periodically)
  - Fully Taxable (Both Govt &
- Commuted
  - Gov. Employee Fully exempt
  - Non-Gov. Employee
    - Exempt
      Gratuity NOT Received = ½ of full pension
      Gratuity Received = 1/3 of full pension
- After the death of Employee
  - IFOS
    Exempt= 1/3rd of family pension Max ₹ 15,000 [NS]/25,000 [DS]

Exemption = NS /DS

P15. Mr. Sagar who retired on 1.10.2025 is receiving ₹ 5,000 p.m. as pension. On 1.2.2026,he commuted 60% of his pension and received ₹ 3,00,000 as commuted pension. You are required to compute his taxable pension assuming:

(a) He is a government employee.

(b) He is a private sector employee and received gratuity of ₹ 5,00,000 at the time of retirement.

(c) He is a private sector employee and did not receive any gratuity at the time of retirement.

Solution:

(a) He is a government employee

Uncommuted pension received (October – March)		₹ 24,000
[(₹ 5,000 × 4 months) + (40% of ₹ 5,000 × 2 months)]		
Commuted pension received	₹ 3,00,000	
Less: Exempt u/s 10(10A)	₹ 3,00,000	NIL
Taxable pension		**₹ 24,000**

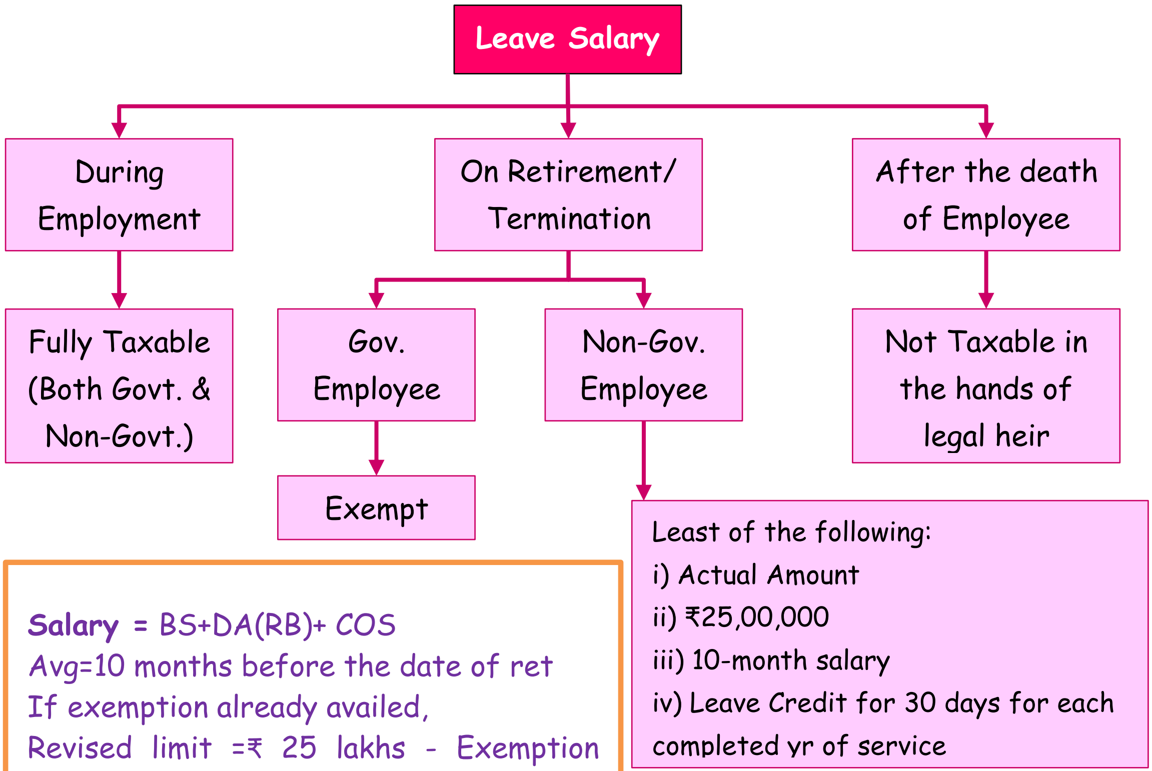
(b) He is a private sector employee and received gratuity ₹ 5,00,000 at the time of retirement

Uncommuted pension received (October – March)		₹ 24,000
[(₹ 5,000 × 4 months) + (40% of ₹ 5,000 × 2 months)]		
Commuted pension received	₹ 3,00,000	
Less: Exempt u/s 10(10A)		
(1/3 x ₹3,00,000/60% x 100%)	₹1,66,667	₹1,33,333
Taxable pension		**₹ 1,57,333**

(c) He is a private sector employee and did not receive any gratuity at the time of retirement

Uncommuted pension received (October – March)		₹ 24,000
[(₹ 5,000 × 4 months) + (40% of ₹ 5,000 × 2 months)]		
Commuted pension received	₹ 3,00,000	
Less: Exempt u/s 10(10A)		
(1/2 x ₹3,00,000/60% x 100%)	₹2,50,000	₹50,000
Taxable pension		₹74,000

Leave Salary Taxation:



Salary = BS+DA(RB)+ COS
Avg=10 months before the date of ret
If exemption already availed,
Revised limit =₹ 25 lakhs - Exemption taken

P16. Mr. Gupta retired on 1.12.2025 after 20 years 10 months of service, receiving leave salary of ₹ 5,00,000.Other details of his salary income are:

Basic Salary	:	₹5,000 p.m. (₹1,000 was increased w.e.f. 1.4.2025)
Dearness Allowance	:	₹3,000 p.m. (60% of which is for retirement benefits)
Commission	:	₹ 500 p.m.
Bonus	:	₹ 1,000 p.m.
Leave availed during service	:	480 days

He was entitled to 30 days leave every year.

You are required to compute his taxable leave salary assuming:

(a) He is a government employee.

(b) He is a non government employee.

Solution:

(a) He is a government employee

Leave Salary received at the time of retirement	₹ 5,00,000
Less: Exemption under section 10(10AA)	₹ 5,00,000
Taxable Leave salary	Nil

(b) He is a non-government employee

Leave Salary received at the time of retirement	₹ 5,00,000
Less: Exempt under section 10(10AA) [See Note below]	₹ 26,400
Taxable Leave Salary	₹ 4,73,600

Note: Exemption under section 10(10AA) is least of the following:

(i) Leave salary received	₹ 5,00,000
(ii) Statutory limit	₹ 25,00,000

(iii) 10 months' salary based on average salary of last 10 monthsi.e.

$$10 \times \frac{\text{Salary of last 10 months i.e. Feb - Nov}}{\text{10 months}}$$

$$= 10 \times \frac{(5000 \text{ x } 8) + (4000 \text{ x } 2) + (60\% \text{ x } 3000 \text{ x } 10)}{\text{10 months}} \qquad ₹66,000$$

(iv) Cash equivalent of leave standing at the credit of the employee based on the average salary of last 10 months' (max. 30 days per year of service)

Leave Due = Leave allowed – Leave taken

= (30 days per year × 20 years) – 480 days= 120 days

i.e. $\frac{\text{Leave due (in days)}}{\text{30 days}} \times \text{Average salary p.m}$

$$= \frac{\text{120 days}}{\text{30 days}} \times \frac{66,000}{10}$$

=₹26,400

Tax treatment of Provident Fund (P.F.)

Recognized Provident Fund (RPF)

- Employer's Contribution to RPF → Exempt Upto 12% Salary
- Employee Contribution → Deduction u/s 80 C **NS**
- Interest on Employer's → Exempt upto 9.5%
- Amount Received from RPF → Exempt [Minimum continuous service of 5 years]

Unrecognized Provident Fund (URPF)

- Employer's contribution + Interest on employee's contribution → Not Taxable
- Employees contribution → No deduction
- Amount received from URPF
  - Employers' contribution and Int **Salary**
  - Interest on Employee's contribution **IFOS**
  - Employees contribution Employees contribution **Not Taxable**

Statutory PF

Employer's Contribution + Interest	Employee Contribution	Amount Received
Exempt	Deduction u/s 80C under normal scheme	Exempt

RPF Withdrawal Exemption Conditions:

- **Min 5 yrs continuous service (incl. transferred service)**
- **No 5 yr condition if termination due to ill-health / closure / unavoidable reason**
- **No tax if RPF transferred to new employer**

Interest on Employee's PF Contribution – Tax Exemption Rules

- Payments from **Provident Fund Act, 1925** or **Public Provident Fund** are exempt under **Section 10(11)**.
- Accumulated balance in **Recognized Provident Fund (RPF)** is exempt under **Section 10(12)**.
- Interest on **employee contribution exceeding ₹2,50,000 per year** is taxable.
- If **no employer contribution**, the exemption limit is **₹5,00,000 per year**.
- Interest accrued on contributions **up to 31st March 2021** is **fully exempt**, regardless of withdrawal date.

P17. Mr. JOJO retires from service on January 31,2026, after 25 years of service.
Basic pay @ ₹ 20,000 per month
Dearness pay (40% forms part of the retirement benefits) ₹ 9,000 per month
Lumpsum payment received from the Unrecognised Provident ₹6,00,000
Out of the amount received from the unrecognized provident fund, the employer's share was ₹ 2,20,000 and the interest thereon ₹ 50,000. The employee's share was ₹ 2,70,000 and the interest thereon ₹ 60,000. What is the taxable portion of the amount received from the unrecognized provident fund in the hands of Mr. JOJO for the AY 2026-27? Will your answer be any different if the fund mentioned above was a recognised provident fund?

Solution

(A) Unrecognised Provident Fund (URPF) – Taxable Portion

Particulars	Amount (₹)	Head of Income
Employer's contribution received	2,20,000	Salary
Interest on employer's contribution	50,000	Salary
Subtotal	**2,70,000**	Salary
Interest on employee's contribution	60,000	Other Sources
Total Taxable Amount	**3,30,000**	—
Employee's contribution	Not taxable	

(B) Recognised Provident Fund (RPF) – After 25 years service

Particulars	Amount	Taxability
Employer's contribution	Fully Exempt	Exempt
Interest on employer's contribution	Fully Exempt	Exempt
Employee's contribution	Fully Exempt	Exempt
Interest on employee's contribution	Fully Exempt	Exempt
Total Amount Received	Fully Exempt	**Nil Taxable**

Meaning of Salary for various purpose:

For contribution to PF	Basic salary + DA(forming part/ retirement benefit/) + Commission on sales achieved by assessee
HRA	Basic salary + DA(forming part/ retirement benefit/)+ Commission on sales achieved by assessee [For relevant period]
Entertainment Allowance	Basic salary only.
Rent Free Accommodation (RFA)	Basic salary + DA(forming part/ retirement benefit/) + all Commission + Bonus + all taxable allowances (taxable amount only) + monetary payment [For relevant period]
Leave Salary	Basic salary + DA (if provided in terms of employment) + commission on turnover. (Average of 10 months immediately preceding date of retirement)
VRS	Basic salary + DA (if provided in terms of employment) + commission on turnover. [Last drawn]
Gratuity:	**Covered under Payment of Gratuity Act** = Basic Salary + DA *(Last drawn)* **Not Covered under Payment of Gratuity Act** = Basic Salary + DA (if part of employment terms) + Commission on Turnover *(Average of last 10 completed months).*

Computation of income under the head "Salaries" as per default tax regime under section 115BAC

Particulars			**Amt (₹)**
(i) Basic Salary			xxx
(ii) Fees/Commission			xxx
(iii) Bonus			xxx
(iv) Allowances:			
(a) Dearness Allowance [Fully taxable]			xxx
(b) House Rent Allowance (HRA) [Fully taxable]			xxx
(c) Children Education Allowance [Fully taxable]			xxx
(d) Children Hostel Allowance [Fully taxable]			xxx
(e) Transport allowance		xxx	
Less: ₹ 3,200 per month only in case of blind/ deaf and dumb/orthopedically handicapped employee		xxx	
			xxx
(f) Entertainment Allowance [Fully taxable]			xxx
(g) Travelling Allowance/Daily Allowance/ Conveyance Allowance		xxx	
Less: Exempt if the amount is fully utilised for the purpose		xxx	
			xxx
(h) Other Allowances including overtime allowance, city compensatory allowance etc. [Fully taxable]			xxx
(v) Taxable Perquisites			
(a) Value of rent-free accommodation provided to the employee / Value of any accommodation provided to the employee at a concessional rate			xxx
I) Where the accommodation is provided by the Govt. to its employees			
License fee determined by the Govt.		xxx	
Less: Rent actually paid by the employer		xxx	
II) Where the accommodation is provided by any other employer			
If accommodation is owned by the employer			
(i) Cities having population > 40 lakh as per 2011 census 10% of salary in respect of the period of occupation (–) rent recovered from employee			
(ii) Cities having population > 15 lakh ≤ 40 lakh as per 2011 census 7.5% of salary in respect of the period of occupation (–) rent recovered from employee		xxx	
(iii) In other cities 5% of salary in respect of the period of occupation (–) rent recovered from employee		xxx	
If accommodation is taken on lease/rent by the employer		xxx	
Lower of lease rental paid or payable by the employer (or) 10% of salary			
Less: Rent recovered from the employee		xxx	
(b) Obligation of employee discharged by employer:		xxx	xxx

For e.g., Professional tax paid by the employer			
(c) LIP of employee paid by employer			xxx
(d) Amount or aggregate of amounts of any contribution made RPF +NPS+ approved superannuation fund by the employer to the account of the assessee, to the extent it exceeds ₹ 7,50,000 in a P.Y.			xxx
(e) **Annual accretion by way of interest, dividend or any other amount of similar nature** on above amount			xxx
(f) **Value of use of motor car [SE]**			xxx
(g) **Any other perquisite: [SE]**			xxx
(1) **Provision of services of a sweeper, gardener, watchman or personal attendant:**			
(2) **Gas, electricity, or water supplied by employer for household consumption of the employee**			
(3) **Provision of free or concessional education facilities for any member of employee's household:**Sum equal to the expenditure incurred by the employer **Where educational institution is maintained and owned by employer:** Cost of such education in similar institution in or near the locality (-) amount paid or recovered from employee [However, there would be no perquisite if the value of benefit per child does not exceed ₹ 1,000 p.m.			
(4) **Interest-free or concessional loan exceeding ₹ 20,000:** SBI Rate as on 1st day of relevant P.Y. in respect of loans			
(5) **Free food and non-alcoholic beverages through paid vouchers**			
(6) **Value of gift, voucher:** Sum equal to the amount of such gift [If value of gift, voucher is below ₹ 5,000, there would be no perquisite]			
(7) **Use of moveable assets**			
(8) **Transfer of moveable assets:**			
(vi) Leave travel concession [Fully taxable]			xxx
(vii) Gratuity			
(a) Received during the tenure of employment (fully taxable)		xxx	
(b) Received at the time of retirement or otherwise		xxx	
Less: Exempt u/s 10(10)		xxx	
			xxx
(viii) Uncommuted pension [fully taxable]			xxx
(ix) Commuted pension		xxx	
Less: Exempt u/s 10(10A)		xxx	
			xxx
(x) Leave encashment			
(a) Received during the employment [fully taxable]		xxx	
(b) Received at the time of retirement or otherwise		xxx	
Less: Exempt u/s 10(10AA)		xxx	
			Xxx
(xi) Voluntary retirement compensation		xxx	

Less: Exempt u/s 10(10C) - Least of the following:		xxx	
			xxx
(a) Compensation received/receivable on voluntary retirement	xxx		
(b) ₹ 5,00,000	xxx		
(c) 3 months' salary x completed years of service	xxx		
(d) Last drawn salary x remaining months of service left	xxx		
(xii) Retrenchment compensation etc.		xxx	
Less: Exempt u/s 10(10B)] – Least of the following:		xxx	
			xxx
(a) Compensation actually received	xxx		
(b) ₹ 5,00,000	xxx		
(c) 15 days average pay x completed years of service and part thereof in excess of 6 months	xxx		
Gross Salary			**xxx**
Less: Deduction under section 16			
Standard deduction u/s 16(ia)- amount of salary or ₹ 75,000, whichever is less			xxx
Income under the head "Salaries"			**xxx**

<u>Computation of income under the head "Salaries" under optional tax regime taking Salaries computed as per default tax regime under section 115BAC as the starting point</u>

Particulars	**Amt (₹)**
Income under the head "Salaries" under default tax regime under section 115BAC	xxx
Add: Deduction under section 16	
[75,000 - 50,000]	25,000
Less: HRA exempt under section 10(13A)	xxx
CEA(Upto ₹ 100 per month per child upto maximum of two children)	xxx
Children Hostel Allowance (Upto ₹ 300 per month per child upto maximum of two children)	xxx
Free food and non-alcoholic beverages through paid vouchers upto ₹ 50 per meal	xxx
Leave travel concession exempt u/s 10(5)	xxx
	xxx
Less: **Deduction under section 16**	
Entertainment allowance u/s 16(ii) (only for Govt. employees)	xxx
Professional Tax/Tax on employment paid by employer/ employee u/s 16(iii)	xxx
Income under the head "Salaries" under optional tax regime	**xxx**

PRACTICAL PROBLEMS

P18. "Amount received by MP/MLA from the Government for rendering of services is taxable under the head Salary."	Solution:Incorrect. MPs/MLAs are not employees of the Government; there is no employer–employee relationship. Hence, such income is taxable under "Income from Other Sources", not under "Salaries."
P19. "Amount received by Minister for rendering of services from the Government is taxable under the head Salary."	Solution: Correct. A Minister is treated as a Government employee; there exists an employer–employee relationship. Therefore, such income is taxable under the head "Salaries."
P20.An employee instructs his employer to pay a certain portion of his salary to a charity and claims it as exempt as it is diverted by overriding charge/title – Comment.	Solution:It is a foregoing of salary after accrual, hence an application of income.As per CIT v. L.W. Russell (1964) 52 ITR 91 (SC), salary foregone after accrual remains taxable.Therefore, the amount paid by employer to charity on employee's direction is taxable in employee's hands.

P21. Pay-Scale:

10,000- 1,000-15,000 - 2,000 - 25,000

It means basic pay at the time of appointment (say 1st April, 2022) will be ₹ 10,000 per month and it will increase by ₹ 1,000 per month every year. After basic pay becomes 15,000, increment will be ₹ 2,000 per month for every subsequent year. No further increment when salary reaches to ₹ 25,000.
Answer the following questions based on the above data given on pay-scale:
What will be the salary income of Mr. X for PY 2025-26 assuming date of appointment was 1-12-23 ?

P22. Mr. X retired from the services of M/s Y Ltd. on 31.01.2026, after completing service of 30 years and one month. He had joined the company on 1.1.1994 at the age of 30 years and received the following on his retirement:

(i) Gratuity ₹ 6,00,000. He was covered under the Payment of Gratuity Act, 1972.
(ii) Leave encashment of ₹ 3,30,000 for 330 days leave balance in his account. He was credited 30 days leave for each completed year of service.
(iii) As per the scheme of the company, he was offered a car which was purchased on 30.01.2023 by the company for ₹ 5,00,000. Company has recovered
(iv) ₹ 2,00,000 from him for the car. Company depreciates the vehicles at the rate of 15% on Straight Line Method.

(v) An amount of ₹ 3,00,000 as commutation of pension for 2/3 of his pension commutation.
(vi) Company presented him a gift voucher worth ₹ 6,000 on his retirement.
(vii) His colleagues also gifted him a Television (LCD) worth ₹ 50,000 from their own contribution.

Following are the other particulars:

(i) He has drawn a basic salary of ₹ 20,000 and 50% dearness allowance per month for the period from 01.04.2025 to 31.01.2026.
(ii) Received pension of ₹ 5,000 per month for the period 01.02.2026 to 31.03.2026 after commutation of pension.

Compute his gross total income from the above for Assessment Year 2026-27 assuming he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

Solution

Computation of Gross Total Income of Mr. X for A.Y. 2026-27

Particulars	**₹**
Basic Salary = ₹20,000 x 10	2,00,000
Dearness Allowance = 50% of basic salary	1,00,000
Gift Voucher **(See Note - 1)**	6,000
Transfer of car **(See Note - 2)**	56,000
Gratuity **(See Note - 3)**	80,769
Leave encashment **(See Note - 4)**	1,30,000
Uncommuted pension (₹5000 x 2)	10,000
Commuted pension **(See Note - 5)**	1,50,000
Gross Salary Less: Standard deduction u/s 16(ia)	7,32,769 50,000
Taxable Salary /Gross Total Income	**6,82,769**

Notes:

(1) The value of any gift or voucher or token in lieu of gift received by the employee or by member of his household in excess of ₹ 5,000 in aggregate during the previous year is taxable. **Note –** An alternate view possible is that only the sum in excess of ₹ 5,000 is taxable. In such a case, the value of perquisite would be ₹ 1,000 and gross total income would be ₹ 7,27,769.

(2) The value of benefit to the employee, arising from the transfer of an asset, being a motor car, by the employer is the actual cost of the motor car to the employer as reduced by 20% of WDV of such motor car for each completed year during which such motor car was put to use by the employer. Therefore, the value of perquisite on transfer of motor car, in this case, would be:

Particulars	
Purchase price (30.1.2023)	5,00,000
Less: Depreciation @ 20%	1,00,000
WDV on 29.1.2024	4,00,000
Less: Depreciation @ 20%	80,000
WDV on 29.1.2025	3,20,000
Less: Depreciation @ 20%	64,000

WDV on 29.1.2026	2,56,000
Less: Amount recovered	2,00,000
Value of perquisite	**56,000**

The rate of 15% as well as the straight line method adopted by the company for depreciation of vehicle is not relevant for calculation of perquisite value of car in the hands of Mr. X.

(3) Taxable gratuity

Particulars	₹
Gratuity received	**6,00,000**
Less : Exempt under section 10(10) - Least of the following: (i) Notified limit = ₹20,00,000 (ii) Actual gratuity = ₹ 6,00,000 (iii) 15/26 x last drawn salary x no. of completed yearsof services or part in excess of 6 months 15/26 x ₹30,000 x 30 = ₹ 5,19,231	5,19,231
Taxable Gratuity	**80,769**

(4) Taxable leave encashment

Particulars	
Leave Salary received	₹
Less : Exempt under section 10(10AA) - Least of the following: (i)Notified limit ₹ 25,00,000 (ii)Actual leave salary ₹3,30,000 (iii)10 months x ₹ 20,000 ₹2,00,000 (iv)Cash equivalent of leave to his credit ₹ 2,20,000 330/30 ×20,000	2,00,000
Taxable Leave encashment	**1,30,000**

Note – It has been assumed that dearness allowance does not form part of salary for retirement benefits.

(5) Commuted Pension

Since Mr. X is a non-government employee in receipt of gratuity, exemption under section 10(10A) would be available to the extent of 1/3rd of the amount of the pension which he would have received had he commuted the whole of the pension.

Particulars	₹
Amount received	3,00,000
Less: Exemption under section 10(10A) = $1/3 \times 3,00,000 \times 3/2$	1,50,000
Taxable amount	**1,50,000**

(6) The taxability provisions under section 56(2)(x) are not attracted in respect of television received from colleagues, since television is not included in the definition of property there in.

P23. Mr. Anshul, a salaried employee in a private company, furnishes you the following information for the year ended on 31-03-2026:

(i) Basic salary ₹ 75,000 p.m.From 1st December 2025, 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 RPF 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 1.7.2025 for medical treatment of his brother for tuberculosis treatment. Interest charged on such loan is 5%. The entire loan is outstanding as on 31.3.2026. No medical insurance has been taken for his brother. SBI rate of interest on 1.4.2025 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.

(viii) 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. **[RTP SEP 2024/MTP MAY 25]**

Solution: **Computation of taxable salary of Mr. Anshul for the A.Y. 2026-27**

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 upto 12% of basic salary and D.A. forms part of retirement benefit [12% x ₹ 11,28,000]	1,35,360	33,840
Taxable allowances		
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)	91,200	1,00,800
(i) HRA received 1,92,000 (ii) Rent paid (-) 10% of salary [₹ 2,04,000 – 10% x ₹ 11,28,000] 91,200		
(iii) 40% of salary [40% x ₹ 11,28,000] 4,51,200		
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 [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.]	45,000	-
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
Taxable Salary		**15,15,040**

P24. Shri Bala employed in ABC Co. Ltd. as Finance Manager gives you the list of perquisites provided by the company to him for the entire financial year 2025-26:

(i) Domestic servant was provided at the residence of Bala. Salary of domestic servant is ₹ 1,500 per month. The servant was engaged by him and the salary is reimbursed by the company (employer).
In case the company has employed the domestic servant, what is the value of perquisite?

(ii) Free education was provided to his two children Arthy and Ashok in a school maintained and owned by the company. The cost of such education for Arthy is computed at ₹ 900 per month and for Ashok at ₹ 1,200 per month. No amount was recovered by the company for such education facility from Bala.

(iii) The employer has provided movable assets such as television, refrigerator and air-conditioner at the residence of Bala. The actual cost of such assets provided to the employee is ₹ 1,10,000

(iv) A gift voucher worth ₹ 10,000 was given on the occasion of his marriage anniversary. It is given by the company to all employees above certain grade.

(v) Telephone provided at the residence of Shri Bala and the bill aggregating to₹ 25,000 paid by the employer.

(vi) Housing loan @ 6% per annum. Amount outstanding on 1.4.2025 is ₹ 6,00,000. Shri Bala pays ₹ 12,000 per month towards principal, on 5th of each month.

Compute the chargeable perquisite in the hands of Mr. Bala for the A.Y. 2026-27.The lending rate of State Bank of India as on 1.4.2025 for housing loan may be taken as 10%.

Solution:

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

(i) If the employee hires a domestic servant and the employer reimburses the salary, it's taxable for all employees.
If the employer employs the servant and provides the facility, it's taxable only for specified employees.
Perquisite value = ₹1,500 × 12 = ₹18,000.

(ii) If the employer owns the school, perquisite value = reasonable cost of similar education nearby.
Exempt if cost ≤ ₹1,000 per month per child.
→ Arthy: exempt (cost ≤ ₹1,000).
→ Ashok: taxable ₹14,400 (₹1,200 × 12).
Alternate view: Only excess over ₹1,000 p.m. taxable → ₹2,400.

(iii) If movable assets (other than laptops/computers) are provided, perquisite = 10% p.a. of actual cost or hire charges.
Here, TV, fridge & AC worth ₹1,10,000 → taxable perquisite = ₹11,000 (10% of ₹1,10,000).

(iv) Gifts/vouchers up to ₹5,000 in a year are exempt. Here, ₹10,000 received → fully taxable ₹10,000. Alternate view: Only excess ₹5,000 taxable.

(v) Telephone provided at the residence of the employee and payment of bill by the employer is a tax free perquisite.

(vi) The value of the benefit to the assessee resulting from the provision of interest-free or concessional loan made available to the employee or any member of his household during the relevant previous year by the employer or any person on his behalf shall be determined as the sum equal to the interest computed at the rate charged per annum by the State Bank of India (SBI) as on the 1st day of the relevant previous year in respect of loans for the same purpose advanced by it. This rate should be applied on the maximum outstanding monthly balance and the resulting amount should be reduced by the interest, if any, actually paid by him.

"Maximum outstanding monthly balance" means the aggregate outstanding balance for loan as on the last day of each month.

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

Month	Maximum outstandingbalance as on last dateof month (₹)	Perquisite value at 4% for the month (₹)
April, 2025	5,88,000	1,960
May, 2025	5,76,000	1,920
June, 2025	5,64,000	1,880
July, 2025	5,52,000	1,840
August, 2025	5,40,000	1,800
September, 2025	5,28,000	1,760
October, 2025	5,16,000	1,720
November, 2025	5,04,000	1,680
December, 2025	4,92,000	1,640
January, 2026	4,80,000	1,600
February, 2026	4,68,000	1,560
March, 2026	4,56,000	1,520
Total value of this perquisite		**20,880**

Total value of taxable perquisite

= ₹ 74,280 [i.e. ₹ 18,000 + ₹ 14,400 + ₹ 11,000 + ₹ 10,000 + ₹ 20,880].

Note - In case the alternate views are taken for items (ii) & (iv), the total value of taxable perquisite would be ₹ 57,280 [i.e., ₹ 18,000 + ₹ 2,400 +₹ 11,000 + ₹ 5,000 + ₹ 20,880

P25. Mr. Balaji, employed as Production Manager in Beta Ltd., furnishes you the following information for the year ended 31.03.2026:

(i) Basic salary upto 31.10.2025 ₹ 50,000 p.m.
Basic salary from 01.11.2025 ₹ 60,000 p.m.

Note: Salary is due and paid on the last day of every month.

(ii) Dearness allowance @ 40% of basic salary.

(iii) Bonus equal to one month salary. Paid in October 2025 on basic salary plus dearness allowance applicable for that month.

(iv) Contribution of employer to recognized provident fund account of the employee@16% of basic salary.

(v) Profession tax paid ₹ 2,500 of which ₹ 2,000 was paid by the employer.

(vi) Facility of laptop and computer was provided to Balaji for both official and personal use. Cost of laptop ₹ 45,000 and computer ₹ 35,000 were acquired by the company on 01.12.2025.

(vii) Motor car owned by the employer (cubic capacity of engine exceeds 1.60 litres) provided to the employee from 01.11.2025 meant for both official and personal use. Repair and running expenses of ₹ 45,000 from 01.11.2025 to 31.03.2026, were fully met by the employer. The motor car was self-driven by the employee.

(viii) Leave travel concession given to employee, his wife and three children (one daughter aged 7 and twin sons aged 3). Cost of air tickets (economy class) reimbursed by the employer ₹ 30,000 for adults and ₹ 45,000 for three children. Balaji is eligible for availing exemption this year to the extent it is permissible in law.

Compute the salary income chargeable to tax in the hands of Mr. Balaji for the A.Y. 2026-27 assuming he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

Solution **Computation of Taxable Salary of Mr. Balaji for A.Y. 2026-27**

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) **(See Note 1)**		70,000
Employers contribution to recognised provident fund in excess of 12% of salary = 4% of ₹ 6,50,000 **(See Note 4)**		26,000
Professional tax paid by employer		2,000
Perquisite of Motor Car (₹ 2,400 for 5 months) **(See Note 5)**		12,000
Gross Salary		**10,20,000**
Less: Deduction under section 16		
Standard deduction u/s 16(ia)	50,000	
Professional tax u/s 16(iii) (**See Note 6**)	2500	52,500
Taxable Salary		**9,67,500**

Notes:

1. Since bonus was paid in the month of October, the basic salary of ₹ 50,000 for the month of October is considered for its calculation.
2. It is assumed that dearness allowance does not form part of salary for computing retirement benefits.
3. As per Rule 3(7)(vii), facility of use of laptop and computer is a tax free perquisite, whether used for official or personal purpose or both.
4. As per the provisions of Rule 3(2), in case a motor car (engine cubic capacity exceeding 1.60 liters) owned by the employer is provided to the employee

without chauffeur for personal as well as office use, the value of perquisite shall be ₹ 2,400 per month. The car was provided to the employee from 01.11.2025, therefore the perquisite value has been calculated for 5 months.

5. Mr. Balaji 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.

   He is eligible to claim benefit of exemption u/s 10(5) since he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

6. As per section 17(2)(iv), a "perquisite" includes any sum paid by the employer in respect of any obligation which, but for such payment, would have been payable by the assessee. Therefore, professional tax of ₹ 2,000 paid by the employer is taxable as a perquisite in the hands of Mr. Balaji. As per section 16(iii), a deduction from the salary is provided on account of tax on employment i.e. professional tax paid during the year.

   Therefore, in the present case, the professional tax paid by the employer on behalf of the employee ₹ 2,000 is first included in the salary and deduction of the entire professional tax of ₹ 2,500 is provided from salary.

P26. Mr. Kunal (age 27 years) is an employee in a private company posted in Delhi. He was appointed on 01.02.2024 in the scale of ₹ 60,000 - ₹ 1,000 - ₹ 70,000. He furnishes the following information for the previous year 2025-26:

(i) Dearness allowance @25% of basic salary (60% of DA forms part of retirement benefits)

(ii) Bonus equal to one month's salary. Paid in November 2025 on basic salary applicable for that month.

(iii) Leave encashment for P.Y. 2025-26 of ₹ 10,000.

(iv) He also received a motor car on 01.12.2025 (cubic capacity of engine exceeds 1.60 litres) along with chauffeur for both official and personal purpose. The motor car is owned by his employer and all expenses are met by the employer.

(v) His employer granted him a loan of ₹ 2,00,000 on 1st June, 2025 which is repayable in equal quarterly installments over 2 years starting from 1st October, 2025. The State Bank of India (SBI) lending rate for such loans is 9.5% per annum as on 01.04.2025, while the employer recovers interest @5.5% per annum from the employee.

(vi) His employer gave him a rent-free accommodation (fully furnished) in Delhi from 01.04.2024. This house is owned by the employer. The perquisite value of such furnished rent-free accommodation during the previous year 2024-25 was valued at ₹ 92,000. Further, the accommodation is continued to be provided by the employer to the employee in P.Y. 2025-26 also.

(vii) The furniture and appliances provided with the house were bought by the employer at an a ggregate cost of ₹ 1,50,000 on

01.01.2024. Electricity and water bills of ₹ 5,000 p.m. for t he said house were paid by the employer.

Cost Inflation Index

F.Y. 2024-25-363; F.Y. 2025-26-376.

(viii) His colleagues gifted him a mobile phone worth ₹ 45,000 from their own contribution on account of his marriage.

You are required to compute the income chargeable under the head Salaries in the hands of Mr. Kunal for the Assessment Year 2026-27 assuming that he wants to pay tax under default tax regime under section 115BAC. **[RTP May 25]**

Solution:

Computation of income chargeable under the head "Salaries" of Mr. Kunal for A.Y.2026-27 under default tax regime

Particulars	₹	₹
Basic Pay [₹ 61,000 x 10 + ₹ 62,000 x 2]		7,34,000
Dearness Allowance [₹ 7,34,000 x 25%]		1,83,500
Bonus		61,000
Leave encashment for P.Y. 2025-26		10,000
Value of perquisite Perquisite of Motor Car [₹ 3,300 x 4] As per the provisions of Rule 3(2), in case a motor car (engine cubic capacity exceeding 1.60 litres) owned by the employer is provided to employee with chauffeur for both official and personal use, the value of perquisite shall be ₹ 3,300 (₹ 2,400 + ₹ 900). The car was provided to employee from 01.12.2025, therefore the perquisite value has been calculated for 4 months.		13,200
Perquisite of interest on loan **(Working Note Below)**		5,917
Value of Rent-free accommodation Value of Rent-free accommodation {10% of ₹ 9,15,100 i.e., [₹ 7,34,000, basic salary + ₹ 1,10,100 (₹ 1,83,500 x 60%, DA forming part of retirement benefit) + ₹ 10,000, leave encashment + ₹ 61,000, bonus]}	91,510	
Add: Value of furniture [₹ 1,50,000 × 10% p.a.]	15,000	
	1,06,510	

As per Rule 3, where an accommodation is provided to an employee for more than one previous year, the value of perquisite for the later year(s) cannot exceed the amount determined for the first previous year, multiplied by the ratio of the Cost Inflation Index (CII) for the relevant year to the CII of the year in which the accommodation was first provided.Accordingly, value of perquisite for P.Y. 2025-26 to be restricted to = ₹ 92,000 x 376/363	95,295	95,295
Facility of use of electricity and water [Electricity and water bills paid by the employer would be taxable as perquisite] [₹ 5,000 x 12]		60,000
Mobile phone received as gift from colleagues (Not taxable under the head "Salaries")		Nil
Gross Salary		**11,62,912**
Less: Standard deduction under section 16 [Actual salary or ₹ 75,000, whichever is less]		75,000
Net Salary		**10,87,912**

Working Note:

Perquisite of Interest on Loan

The value of the benefit to the assessee resulting from the concessional loan made to the employee during the relevant previous year by the employer shall be determined as the sum equal to the interest computed at the rate charged per annum by the State Bank of India (SBI) as on the 1st day of the relevant previous year in respect of loans for the same purpose advanced by it. This rate should be applied on the maximum outstanding monthly balance and the resulting amount should be reduced by the interest, if any, actually paid by him.

"Maximum outstanding monthly balance" means the aggregate outstanding balance for loan as on the last day of each month.

The perquisite value for computation is 9.5% - 5.5% = 4% p.a.

Month	Maximum outstanding balance as on last date of month (₹)	Perquisite value at 4% for the month (₹)
June, 2025	2,00,000	667
July, 2025	2,00,000	667
August, 2025	2,00,000	667
September, 2025	2,00,000	667
October, 2025	1,75,000	583
November, 2025	1,75000	583
December, 2025	1,75,000	583
January, 2026	1,50,000	500
February, 2026	1,50,000	500

March, 2026	1,50,000	500
Taxable Value of perquisite		**5,917**

P.31 Ms. Ashima, aged 45 years, has been the HR manager for the past 15 years in Shipra Ltd. She gives you the following particulars for F.Y. 2024-25:
Basic Salary ₹ 70,000 p.m.
Dearness Allowance ₹ 24,000 p.m. (30% forms part of retirement benefits)
Bonus ₹ 21,000 p.m.
She contributes 18% of basic salary to RPF. Employer contributes same amount.
Medical insurance premium of ₹ 20,000 paid by employer.
She received arrears of salary of ₹ 3,35,000 (details year-wise given).
Compute relief under section 89 and tax payable for A.Y. 2025-26. She shifts out of default tax regime. (JAN 26 RTP)

Solution:

Basic Salary [₹ 70,000 × 12] = ₹ 8,40,000 Arrears of salary = ₹ 3,35,000 Dearness allowance [₹ 24,000 × 12] = ₹ 2,88,000 Bonus [₹ 21,000 × 12] = ₹ 2,52,000
Employer's contribution to RPF in excess of 12% = ₹ 40,032
Medical insurance premium paid by employer = Exempt
Gross Salary = ₹ 17,55,032
Less: Standard deduction under section 16(ia) = ₹ 50,000
Salary chargeable to tax = ₹ 17,05,032

MCQs

1. The maximum ceiling limit for exemption under section 10(10) in respect of gratuity for employees covered by the Payment of Gratuity Act, 1972 is -
   (a) ₹ 10,00,000 (b) ₹ 5,00,000 (c) ₹ 3,50,000 **(d) ₹ 20,00,000**
2. The maximum ceiling limit for exemption under section 10(10C) with respect to compensation received on voluntary retirement is -
   (a) ₹ 2,50,000 (b) ₹ 3,00,000 (c) ₹ 3,50,000 (d) ₹ **5,00,000**
3. The HRA paid to an employee residing in Pune is exempt up to the lower of actual HRA, excess of rent paid over 10% of salary and -
   (a) 30% of salary **(b) 40% of salary** (c) 50% of salary (d) 60% of salary
4. 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

5. Mr. KK received basic salary of ₹ 10,000 p.m. from his employer. The amount of standard deduction allowed is -

(a) ₹ 10000 **(b) ₹ 50000** (c) ₹ NIL (d) ₹ 120000

6. Rajesh is provided with a rent free unfurnished accommodation, which is owned by his employer, XY Pvt. Ltd., in New Delhi. The value of perquisite in the hands of Rajesh is

(a) 20% of salary **(b) 10% of salary** (c) 15% of salary (d) 7.5% of salary

7. For the purpose of determining the perquisite value of loan at concessional rate given to the employee, the lending rate of State Bank of India as on ___ is required;

(a) 1st day of the relevant previous year
(b) Last day of the relevant previous year
(c) the day the loan is given (d) 1st day of the relevant assessment year

8. Mr. Kashyap received basic salary of ₹ 20,000 p.m. from his employer. He also received children education allowance of ₹ 3,000 for three children and transport allowance of ₹ 1,800 p.m. The amount of salary chargeable to tax for P.Y is –

(a) ₹ 2,62,600 (b) **₹ 2,12,600** (c) ₹ 2,22,20 (d) ₹ 2,07,800

9. The entertainment allowance received by a Government employee is exempt up to the lower of the actual entertainment allowance received, 1/5th of basic salary and-

(a) ₹ 4,000 (b) ₹ 6,000 **(c) ₹ 5,000** (d) ₹ 10,000.

10. Where there is a decision to increase the D.A. in March, 2026 with retrospective effect from 1.4.2024, and the increased D.A. is received in April, 2026, the increase is taxable

(a) in the previous year 2024-25 **(b) in the previous year 2025-26**
(c) in the previous year 2026-27
(d) in the respective years to which they relate

11. Anand is provided with furniture to the value of ₹ 70,000 along with house from February, 2025.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.2026-27 is-

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

12. 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. 2025-26, 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.

What shall be the amount which is chargeable to tax under the head "Salaries" in hands of Mr. Jagat for A.Y. 2026-27?

(a) ₹25,000 (b) ₹37,500 (c) ₹66,500 **(d) ₹79,000**

13. Mr. Rajesh Sharma, aged 54 years, an Indian citizen, is working as Assistant Manager in ABC India Ltd. He is getting basic salary of ₹ 58,000 per month. He used to travel frequently out of India for his office work. He left India from Delhi Airport on 5th October, 2025 and returned to India on 2nd April,2026.
For previous year 2025-26, following information's are relevant;
Dearness Allowance - 10% of Basic Pay(considered for retirement purposes)
(b) Bonus - ₹ 98,000
(c) Medical allowance paid during P.Y. 2025-26 amounting to ₹ 60,000
(d) He was also reimbursed medical bill of his mother amounting to ₹ 15,000.
(e) He was also transferred a laptop by company for ₹ 15,000 on 31st December, 2025. The laptop was acquired by company on 1st October, 2022 for ₹ 1,00,000. Company was charging depreciation at 31.666% assuming useful life of laptop as 3 years.
(f) He was also reimbursed salary of house servant of ₹ 4,000 per month.
(g) Professional Tax paid by employer amounting to ₹ 2,400.
(h) 400 equity shares allotted by ABC India Ltd. at the rate of ₹ 250 per share against fair market value of share of ₹ 350 on the date of exercise of option.
(i) Short-term capital gain on sale of shares of listed company on which STT is paid amounting to ₹ 94,000.
(j) Mr. Rajesh opt out to pay tax under section 115BAC i.e., paying tax under normal provisions of the Act.

Based on the facts of the case scenario given above, choose the most appropriate answer to the following questions: **[MTP-Sep-2024]**

i. What is Mr. Rajesh Sharma's residential status for the A.Y.2026-27?
(a) Resident but can't determine resident and ordinarily resident or resident but not ordinarily resident, from the given information
(b) Non-Resident
(c) Resident but not ordinarily resident
(d) Resident and ordinarily resident

ii. What are his taxable perquisites for A.Y. 2026-27?
(a) ₹ 55,000 (b) ₹ 90,400 **(c) ₹ 1,05,400** (d) ₹ 1,03,000

iii. What is the income chargeable under the head "Salaries" in the hands of Mr. Rajesh Sharma for A.Y.2026-27?
(a) ₹9,76,600 (b) ₹9,86,600 (c) ₹9,71,600 (d) ₹9,61,600

iv. The total tax liability of Mr. Rajesh Sharma for A.Y.2026-27 is:
(a) ₹1,26,800 (b) ₹1,40,710 (c) ₹1,12,130 (d) ₹1,39,960

v. Assume for the purpose of this question only, that Mr. Rajesh was found owner of ₹ 5 lakh worth jewellery acquired in F.Y. 2025-26, of which he could not provide any satisfactory explanation about source of income. What would be the tax liability (without considering surcharge and Health and education cess, if any) of Mr. Rajesh Sharma towards such unexplained expenditure:
(a) ₹1,00,000 (b) ₹1,50,000 **(c) ₹3,00,000** (d) ₹3,90,000

14. Mr. Hardik (age 45 years) is appointed as senior executive officer in Sky India Limited, Mumbai on 01.02.2025 in the scale of ₹ 35,000- 3500-65,000. He is paid dearness allowance @ 40% of salary forming part of retirement benefits.
He is given rent free unfurnished accommodation on 01.5.2025 which he occupied only from 01.10.2025. The company pays lease rent of ₹ 5,000 p.m.
He has been provided a car of above 1.6 liters capacity which is used by him for private purposes only. The actual cost of the car is ₹ 8,00,000. The monthly expenditure of car is ₹ 5,000, which is fully met by the employer. Car is owned by his employer. He pays lumpsum premium of ₹ 1,20,000 towards health insurance for self and his wife (age 43 years) for 48 months on 01.10.2025 by account payee cheque. He also contributes ₹ 1,50,000 towards PPF.
Mr. Hardik has not opted out i.e., he is income taxable under section 115BAC.
Based on the facts of the case scenario given above, choose the most appropriate answer to the following questions: **[MTP MAY 25]**

i. What would be the value of rent-free accommodation chargeable to tax in the hands of Mr. Hardik?
(a) ₹ 44,835 (b) ₹ 44,100 (c) ₹ 45,570 **(d) ₹ 30,000**

ii. What amount of health insurance premium paid during the previous year 2025-26 by Mr. Hardik can be claimed as deduction while computing total income, if he does not opt to pay tax under section 115BAC?
(a) ₹ 30,000 (b) ₹ 15,000 **(c) ₹ 24,000** (d) ₹ 25,000

iii. What would be perquisite value of car chargeable to tax in the hands of Mr. Hardik? (a) ₹28,800 (b) ₹21,600 (c) ₹60,000 **(d) ₹1,40,000**

15. Mr. Namesh, a citizen of India, is employed in the Indian embassy in Australia. He is a non-resident for A.Y. 2026-27. He received salary and allowances in Australia from the Government of India for the year ended 31.03.2026 for services rendered by him in Australia. In addition, he was allowed perquisites by the Government. Which of the following statements are correct?
a. Salary, allowances and perquisites received outside India are not taxable in the hands of Mr. Namesh, since he is non-resident.
b.Salary, allowances and perquisites received outside India by Mr. Namesh are taxable in India since they are deemed to accrue or arise in India.
c. Salary received by Mr. Namesh is taxable in India but allowances and perquisites are exempt.
d.Salary received by Mr. Namesh is exempt in India but allowances and perquisites are taxable.

16. Mr. Hari received voluntary retirement compensation of ₹ 8,00,000 after 30 years 2 months of service. He still has 5 years of service left. At the time of voluntary retirement, he was drawing basic salary ₹ 15,000 p.m.; Dearness allowance (which forms part of pay) ₹ 3,000 p.m. Compute his taxable voluntary retirement compensation, assuming that he does not claim any relief under section 89.
a. ₹ 8,00,000 b.₹ 5,00,000 **c.₹ 3,00,000** d. Nil

17. XYZ Pvt. Ltd. provides a car (below 1.6 ltr cc) along with a driver to Mr. Sanjay, employee of XYZ Pvt. Ltd., partly for official and partly for personal purpose. The expenses incurred by the company are: Running and maintenance expenses ₹

32,000 and driver s salary ₹ 36,000. The taxable value of car facility for A.Y. 2026-27 will be -

a.₹ 21,600 b. ₹ 10,800 **c. ₹ 32,400** d. ₹ 39,600

18. Mr. Karan completed his MBA in April 2025 and joined XYZ Ltd from 01.05.2025. His basic salary is ₹ 2,25,000 p.m. He is paid 12% of basic salary as D.A forming part of retirement benefits. He contributed 11% of his pay and D.A. towards recognized provident fund and the company contributes the same amount. Accumulated interest on provident fund as on 31.3.2026 is ₹ 49,325. What would be the income chargeable to tax under the head Salaries of Mr. Karan for the A.Y. 2026-27, if he exercises the option of shifting out of the default regime provided under section 115BAC(1A)?

a. ₹ 27,01,442 b. ₹ 27,30,884 c.₹ 27,22,000 d.₹ 27,71,325

19. Mr. Ross, an Australian citizen, is employed in the Indian embassy in Australia. He is a non-resident in India for A.Y. 2026-27. He received salary and allowances in Australia from the Government of India for the year ended 31.03.2026 for services rendered by him in Australia. In addition, he was allowed perquisites by the Government. Which of the following statements are correct? **[MTP SEP 24]**

(a) **Salary, allowances and perquisites received outside India are not taxable in the hands of Mr. Ross, since he is non-resident**

(b) Salary, allowances and perquisites received outside India by Mr. Ross are taxable in India since they are deemed to accrue or arise in India

(c) Salary received by Mr. Ross is taxable in India but allowances and perquisites are exempt

(d) Salary received by Mr. Ross is exempt in India but allowances and perquisites are taxable.