

3

INCOMES WHICH DO NOT FORM PART OF TOTAL INCOME

Q.1 Write short note on Treatment of Agricultural Income for tax purposes. [Dec. 2010] [3 Marks]

Ans.: Under section 10(1) Agricultural Income in India is fully exempt provided the land is situated in India and used for agriculture purpose only. However it is exempted at starting slab rate and onwards.

Q.2 Write short notes on Agricultural Income. [June 2012] [3 Marks]

Ans.:

1. Any income derived from Land which is situated in India and used for agricultural purposes.
2. Land must be situated in India. If it is situated outside India then it is not considered.
3. Agricultural purposes means tilling of land, watering it, sowing of the seeds, planting and like operations on the land by the assessee.
4. But secondary activities are not necessary. It means if a person purchases standing crop and after cutting it, sells it and makes profit then it is not agricultural income. The reason behind this is the receiver of the income from the land must have an interest in the land and doing agricultural activities. The Landlord and tenant of the land has an interest in the land.
5. Similarly the salary of a farm manager or dividend from a company engaged in agricultural activities is not agricultural income.

Q.3 Explain the Kinds of Agricultural Income.

Ans.:

1. Rent or revenue derived from land for doing agricultural activities.
2. Income from agricultural operations.
3. Income from making the produce fit for market.
4. Income from the sale of produce.
5. Income from a farmhouse situated in area and fulfilling the necessary conditions.

Q.4 Write any five Non-Agricultural Income from Land.**Ans.:**

1. Income from markets.
2. Income from mining royalties.
3. Income from land used for storing agricultural produce.
4. Income from stone quarries.
5. Income from fisheries.

Q.5 What is the scheme of partial integration of Non-Agricultural Income with Agricultural Income? [June 2014] [7.5 Marks]

Ans.: For partial integration of non-agricultural income with agricultural income, following rules are applicable:

S. No.	Particulars	Non-Agricultural	Agricultural
1.	Growing and Manufacturing tea in India	40%	60%
2.	Sale of centrifuged latex or centex or latex based crepes or brown crepes or coagulum obtained from rubber plants in India.	35%	65%
3.	Sale of Coffee grown and cured in India	25%	75%
4.	Sale of Coffee grown, cured, roasted and grounded by seller in India	40%	60%

Q.6 Amrita, a resident aged 25 years, manufactures tea leaves from the tea plants, grown by her in India. Manufactured tea is sold in India for ₹ 40 Lakh. The cost of growing tea plants was ₹ 15 Lakh and the cost of manufacturing tea leaves was ₹ 10 Lakh.

Compute her Tax Liability for the Assessment Year 2026-27.

[June 2019] [3 Marks]

Ans.:

Computation of Tax Liability of Ms. Amrita for the Assessment Year 2026-27

In case where the assessee himself grows tea leaves and manufactures tea in India, 40% of Profit on sale of tea is taxable as business income under the head "Profit and Gains from Business or Profession" and the balance 60% is agricultural income, which is exempt from tax.

Profits from manufacture and sale of Tea = ₹ 40 Lakhs - ₹ 15 Lakhs - ₹ 10 Lakhs = ₹ 15 Lakhs.

Agricultural Income =
Business Income = 40
The tax liability of Ms. integration, since her non-agricultural income her non-agricultural (applicable in her case) Accordingly, her tax

A	Tax on Total Income on non-agricultural
B	Less: Tax on ₹ 11,50,000 [₹ 9
C	Tax Payable (ex
D	Add: Health an
E	Total Tax Liab

Q.7 Rudra Ltd. has unit at Domestic details for the pr

Particulars
Total Sales
Export Sales
Net Profit

Calculate the eli Act, 1961, for the

(a) If both th 22-5-2017.

(b) If both th 14-3-2020.

Ans.: Exemption u Economic Zone (S viding services on Accordingly unit exemption under

Agricultural Income = 60% of ₹ 15 Lakhs = ₹ 9 Lakhs

Business Income = 40% of ₹ 15 Lakhs = ₹ 6 Lakhs

The tax liability of Ms. Amrita has to be computed applying the concept of partial integration, since her total income comprises of both agricultural income and non-agricultural income and her agricultural income exceeds ₹ 5,000 p.a. and her non-agricultural income exceeds the basic exemption limit *i.e.* ₹ 2,50,000 (applicable in her case).

Accordingly, her tax liability would be computed in the following manner:

	Particulars	(₹)
A	Tax on Total Income of ₹ 15,00,000 being agricultural income and non-agricultural income	2,62,500
B	<i>Less:</i> Tax on agricultural income and basic exemption limit <i>i.e.</i> ₹ 11,50,000 [₹ 9,00,000 plus ₹ 2,50,000]	1,57,500
C	Tax Payable (excluding cess) A - B	1,05,000
D	<i>Add:</i> Health and Education Cess @ 4%	4,200
E	Total Tax Liability	1,09,200

Q.7 Rudra Ltd. has one unit at Special Economic Zone (SEZ) and other unit at Domestic Tariff Area (DTA). The company provides the following details for the previous year 2025-26.

Particulars	Rudra Ltd. (₹)	Unit in DTA (₹)
Total Sales	6,00,00,000	2,00,00,000
Export Sales	4,60,00,000	1,60,00,000
Net Profit	80,00,000	20,00,000

Calculate the eligible deduction under section 10AA of the Income-tax Act, 1961, for the Assessment Year 2026-27, in the following situations:

- If both the units were setup and started manufacturing from 22-5-2017.
 - If both the units were setup and started manufacturing from 14-3-2020.
- [CA May 2015] [8 Marks]

Ans.: Exemption under section 10AA is available to units established in Special Economic Zone (SEZ) and started manufacturing or producing articles or providing services on or after 1st April 2005 up to 31st March, 2020.

Accordingly unit established in Domestic Tariff Area (DTA) is not eligible for exemption under section 10AA.

Exemption for unit in SEZ is calculated as under:

Computation of Sales and Profit for SEZ Unit

S. No.	Particulars	Total of Rudra Ltd. (₹ In Lacs)	Minus of DTA Unit (₹ In Lacs)	Balance of SEZ Unit (₹ In Lacs)
1.	Total Sales	600	200	400
2.	Export Sales	460	160	300
3.	Net Profit	80	20	60

Computation of exemption for SEZ unit

S. No.	Particulars	If SEZ unit started on 22.05.2017 (Previous Year 2017-18)	If SEZ unit started on 14.03.2020 (Previous Year 2019-20)
A: Calculation of Exemption:		(₹ In Lacs)	(₹ In Lacs)
1.	Net Profit of unit in SEZ	60	60
2.	Exemption in first 5 years (100% of profit on export sales) = Net Profit $\times \frac{\text{Export Sales}}{\text{Total Sales}} \times 100\%$ = $60 \times \frac{300}{400} \times \frac{100}{100} = 45$	45 (for previous year 2017-18 to previous year 2021-22)	45 (for previous year 2019-20 to previous year 2023-24)
3.	Exemption in next 5 years (50% of profit on export sales) = Net Profit $\times \frac{\text{Export Sales}}{\text{Total Sales}} \times 50\%$ = $60 \times \frac{300}{400} \times \frac{50}{100} = 22.5$	22.5 (for previous year 2022-23 to previous year 2026-27)	22.5 (for previous year 2024-25 to previous year 2028-29)
B: Exemption for previous year 2025-26:			
1.	If SEZ unit started working in previous year 2017-18, it is 9th year. Hence exemption is 50% of export profits (as above)	22.5	
2.	If SEZ unit started working in previous year 2019-20, it is 7th year. Hence exemption is 50% of export profits (as above)		22.5

SEZ Unit

Balance of SEZ Unit (₹ In Lacs)
400
300
60

unit

If SEZ unit started on 14.03.2020 (Previous Year 2019-20)
(₹ In Lacs)
60
45
(for previous year 2019-20 to previous year 2023-24)
22.5
(for previous year 2024-25 to previous year 2028-29)
22.5

Q.8 Mr. Kamal grows paddy and uses the same for the purpose of manufacturing of rice in his own Rice Mill. The cost of cultivation of 40% of paddy produce is ₹ 7,00,000 which is sold for ₹ 15,00,000; and the cost of cultivation of balance 60% of paddy is ₹ 12,00,000 and the market value of such paddy is ₹ 24,00,000. To manufacture the rice, he incurred ₹ 2,00,000 in the manufacturing process on the balance (60%) paddy. The rice was sold for ₹ 30,00,000.

Compute the business income and Agriculture income of Mr. Kamal.

[CA Nov. 2016] [4 Marks]

Ans.: Computation of Business Income and Agricultural Income of Mr. Kamal

Particulars	Amount (₹)	Amount (₹)	Amount (₹)
Business Income:			
Sale of Rice Proceeds		30,00,000	
<i>Less:</i> Market value of 60% Paddy	24,00,000		
<i>Less:</i> Manufacturing Expenses incurred	2,00,000	26,00,000	4,00,000
Agricultural Income:			
(i) Market value of 60% Paddy	24,00,000		
<i>Less:</i> Cost of Cultivation of 60% Paddy	12,00,000	12,00,000	
(ii) Sale of Paddy 40% Produced	15,00,000		
<i>Less:</i> Cost of Cultivation of 40% Paddy	7,00,000	8,00,000	20,00,000

Q.9 Neelam, a resident individual, received the following incomes during the financial year 2025-26:

Details of Income

S. No.	Particulars	Amount (₹)
(i)	Agricultural income from land in Pune (Maharashtra)	2,40,000
(ii)	Agricultural income from land situated in Kenya	1,60,000
(iii)	Share of profit from a partnership firm (assessed as firm)	3,00,000
(iv)	Interest on capital received from the partnership firm @ 15%	60,000
(v)	Dividend received from: <ul style="list-style-type: none"> ◆ A domestic listed company ◆ A foreign company 	1,50,000 90,000
(vi)	Income from ULIP (Unit Linked Insurance Plan) with annual premium of ₹ 3,00,000, policy issued on 1st January, 2023	20,000

You are required to compute incomes exempt under section 10 or other relevant provisions of the Income-tax Act, 1961. Identify which incomes are not exempt and why? [CS Executive Dec. 2025] [5 Marks]

Ans.: Computation of Income exempt under section 10 of Neelam, a resident individual

	Particulars	Nature	Amount (₹) (Exempt)
(i)	Agricultural Income ₹ 2,40,000 from land in Pune (Maharashtra) is exempt u/s 10(1).	Exempt	2,40,000
(ii)	Agricultural Income ₹ 1,60,000 from Land situated in Kenya	Taxable	NIL
(iii)	Share of Profit ₹ 3,00,000 from Partnership Firm (Assessed as Firm)	Exempt	3,00,000
(iv)	Interest on Capital Received from partnership Firm @15% ₹ 60,000 is taxable under the head Income from Business or Profession. $(60,000 \times 12/15) = 48,000$	Taxable	NIL
(v)	Dividend received from Domestic Listed Companies ₹ 1,50,000 and from Foreign Company ₹ 90,000 is fully taxable.	Taxable	NIL
(vi)	Income ₹ 20,000 from ULIP with annual premium of ₹ 3,00,000	Taxable	NIL
	Total Exempted Amount		5,40,000

INCOME UNDER THE HEAD SALARY

Q.1 Distinguish between Allowances and Perquisites.

[Dec. 2010] [5 Marks]

Ans.: Allowances are given by the employer in cash for some specific purpose and taxable after considering exemptions.

Perquisites means facilities provided by employer to his employee either from own or from payment to outsiders. These are taxable on the basis of their valuation. Some perquisites are exempt.

Q.2 Write short note on Profit in lieu of Salary.

[June 2010] [3 Marks]

Ans.: Following sums received by an employee are considered as 'Profit in lieu of Salary':

1. Compensation for termination of his services.
2. Compensation for modification in terms of service.
3. Employer's contribution and interest accrued there upon in Unrecognized Provident Fund.
4. Sum received under 'Keyman Insurance Policy' including sum assured plus bonus.
5. Sum received from previous employer.

Q.3 Distinguish between Statutory Provident Fund and Public Provident Fund.

[Dec. 2010] [5 Marks]

Ans.: Statutory Provident Fund is governed by Provident Fund Act, 1925 and applicable to government, Semi-Government, Local Authorities, Railways, University and Recognized Educational Institutions, Interest accrued is fully exempt.

Public Provident Fund is governed by PPF Act, 1968 and applicable to any person, whether he is employee or self-employed or general public person. Interest accrued is fully exempt.

Q.4 Distinguish between Recognized Provident Fund and Unrecognized Provident Fund.

[Dec. 2011] [4 Marks]

Ans.: Recognized Provident fund is covered by Provident Fund Act, 1952.

Unrecognized Provident Fund is mutual arrangement between employer and employee, not covered by any Law.

Q.5 After serving for 29 years and 7 months in Sonam Limited, Karim retired on 30th September, 2025. He is covered by the Payment of Gratuity Act, 1972. The Company has paid him Gratuity of ₹ 6,68,800. At the time of retirement, he was getting Basic Salary of ₹ 15,800, Dearness Allowance ₹ 4,260 and House Rent Allowance ₹ 1,800 per month. Determine the amount of gratuity exempt under section 10(10). Also show your workings.

[June 2014] [5 Marks]

Ans.: Amount of Gratuity received by Karim under Payment of Gratuity Act, 1972.

Under section 10(10) Least of the following is exempt:

(a)	Actual Amount of Gratuity Received	6,68,800
(b)	$₹ 20,060 \times 30 \times \frac{15}{26}$	3,47,192
(c)	Maximum Exemption	20,00,000
	Hence Exemption = ₹ 3,47,192	
	Taxable = ₹ 3,21,608	
	Total = ₹ 6,68,800	

Q.6 X resides at Bhopal, his basic salary is ₹ 4,80,000 per annum. He resided in a house owned by his father up to 30th September, 2025 during the relevant previous year 2025-26, for which he did not pay any rent. After that, he took a house on rent at ₹ 10,000 per month. The employer paid ₹ 5,000 per month to him as house rent allowance throughout the year. He argues that he paid the whole amount of house rent allowance i.e. ₹ 60,000 to the landlord as rent, thus whole amount of allowance should be exempted from tax. State whether X is correct in his argument?

[June 2014 New] [6 Marks]

Ans.: Under section 10(13A) least of the following is exempted house rent allowance:

		(₹)
(a)	House Rent Allowance received for the period when house was occupied on rent (5,000 × 6)	30,000
(b)	House Rent paid in excess of 10% of Salary for such period (10,000 × 6) - 10% of ₹ 2,40,000 = 60,000 - 24,000 = 36,000	36,000
(c)	Maximum 40% of Salary for such period = 40% of ₹ 2,40,000 = ₹ 96,000	96,000

Accordingly Exempted HRA is ₹ 30,000. Hence Argument of Mr. X is wrong.

Q.7 State of allowance

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Ans.:

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Q.8 After Narayan

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3. Maxim

Q.7 State which of the following is a taxable allowance and the quantum of allowance liable to tax in the hands of salaried employees:

- (i) Tiffin Allowance given by a company to employees at ₹ 1,000 per month.
- (ii) Non-practice Allowance ₹ 5,000 per month given by State Government to doctors employed in State Government Service.
- (iii) Transport Allowance given by a company (home to office and back) ₹ 2,000 per month.
- (iv) Leave travel Allowance ₹ 10,000 given every year to employees above certain grade.

[Dec. 2018] [4 Marks]

Ans.:

- (i) Tiffin allowance provided by the employer to employee is fully taxable in the hands of salaried employees as there is no section under the Income-tax Act, 1961 providing any such exemption. Hence the whole amount of ₹ 1,000 per month is taxable under the head of Salaries.
- (ii) Non-Practice allowance given by the State Government to doctors employed in State Government Service is fully taxable as there is no section under the Income-tax Act, 1961 providing any such exemption. Hence, the entire amount ₹ 5,000 per month is chargeable to tax under the head of Salaries.
- (iii) Transport allowance given by the Company *i.e.* employer to employees for commuting home to office and back is fully taxable. But if employee is Blind, Handicapped, Deaf or Dumb then it is exempt up to ₹ 3,200 per month.
- (iv) Leave travel allowance is fully taxable in the hands of employee.

Q.8 After serving for 29 years and 7 months in Mansha Steels Limited, Narayan retired on 30th September, 2025. He is covered by the Payment of Gratuity Act, 1972. The Company has paid him a gratuity of ₹ 4,19,800. At the time of retirement, he was getting basic salary ₹ 11,800, Dearness Allowance ₹ 2,200 and House Rent Allowance ₹ 1,400 per month. Determine the amount of Gratuity exempt under section 10(10).

[June 2011] [10 Marks]

Ans.: Under section 10(10) least of the following amount is exempt for Narayan who is covered by Payment of Gratuity Act, 1972.

- | | |
|---|---------------|
| 1. Amount of gratuity actually received | = ₹ 4,19,800 |
| 2. 15/26 days of salary last drawn including dearness allowance for each year of service (30 Years) = $[14,000 \times 30 \times 15/26]$ | = ₹ 2,42,308 |
| 3. Maximum Exemption Limit | = ₹ 20,00,000 |

Exempt: ₹ 2,42,308

Taxable: ₹ 1,77,492

Total: ₹ 4,19,800

Q.9 Mr. Ramseshan, General Manager of Gee Co. Ltd., retired on 31st October, 2025, after rendering service for 29 years and 8 months. His monthly salary break up are:

- (i) Basic salary ₹ 52,000;
- (ii) DA 50% of basic salary (eligible for retirement benefits);
- (iii) HRA ₹ 20,000;
- (iv) City Compensatory Allowance ₹ 5,000.

He received ₹ 15 lakh from the employer by way of gratuity. He is governed by the Payment of Gratuity Act, 1972. Determine the amount of gratuity chargeable to tax. [Dec. 2018] [4 Marks]

Ans.:

Determination of Gratuity Taxable

S. No.	Particulars	(₹)	(₹)
1.	Actual Amount of Gratuity Received		
2.	Exemption under section 10(10)		15,00,000
	(a) Actual Amount Received	15,00,000	
	(b) Maximum Exemption	20,00,000	
	(c) 15 days Salary including Dearness Allowance* for each nearest year of Service out of 26 days. [78,000 × 15/26] × 30 = 13,50,000	13,50,000	
	Least of the above (a), (b) or (c) is Exempt		(13,50,000)
3.	Taxable Gratuity		1,50,000

* Salary = Basic Salary + Dearness Allowance = ₹ 52,000 + ₹ 26,000 = ₹ 78,000

Q.10 Following particulars are related to the Income of Mrs. Bimla for the previous year 2025-26:

- Salary (after deducting ₹ 48,000 for income tax at source) ₹ 3,60,000 per annum.
- Dearness allowance (under the terms of employment) ₹ 42,000 per annum.
- Education allowance (for 3 children) ₹ 15,700 per annum.
- Medical allowance (actual medical expenditure ₹ 14,000) ₹ 37,200 per annum.

- Rent free house (in Mumbai). The company paid ₹ 40,000 per month as rent. The house is furnished and the rent of the furniture is ₹ 35,000 per annum.
- The company spent ₹ 18,000 on her refresher course.
- She paid professional tax @ ₹ 7,000 for three years.

Find out taxable income of Mrs. Bimla from salary for the assessment year 2026-27. [Dec. 2012 old] [5 Marks]

Ans.:

**Computation of Taxable Income from Salary of Mrs. Bimla
(Assessment Year 2026-27)**

	Particulars	(₹)	(₹)
1.	Basic Salary (3,60,000 + 48,000)	4,08,000	
2.	Dearness Allowance (as Basic)	42,000	4,50,000
3.	Children Education Allowance	15,700	
	<i>Less:</i> Exempt (100 × 2 × 12)	(2,400)	13,300
4.	Medical Allowance		37,200
5.	Rent Free furnished house		
	10% of Salary (4,50,000 × 10/100)	45,000	
	<i>Add:</i> Rent of furniture	35,000	80,000
6.	Gross Salary		5,80,500
7.	<i>Less:</i> Standard Deduction	50,000	
	<i>Less:</i> Professional Tax Paid	7,000	(57,000)
8.	Taxable Salary		5,23,500

Q.11 Savita submits the following information regarding her salary income:

Basic salary	₹ 11,000 per month
City compensatory allowance	₹ 150 per month
Children education allowance	₹ 400 per month (for 3 children)
Reimbursement of medical expenses	₹ 25,000

She was entitled to house rent allowance of ₹ 6,000 per month from 1st April, 2025 to 31st August, 2025. However, she was paying a rent of ₹ 7,000 per month for a house in New Delhi. With effect from 1st September, 2025, she was provided with an accommodation by the company for which the company was paying a rent of ₹ 5,000 per month.

Compute her Gross Salary for the Assessment Year 2026-27.

[June 2012] [5 Marks]

Ans.:

Computation of Gross Salary of Savita for the Assessment Year 2026-27

Particulars		(₹)	(₹)
1.	Basic Salary (₹ 11,000 × 12 months)		1,32,000
2.	City Compensatory Allowance (₹ 150 × 12 months)		1,800
3.	Children Education Allowance	4,800	2,400
	<i>Less:</i> Exempt for two children	(2,400)	
4.	Reimbursement of medical expenses		25,000
5.	House Rent Allowance (₹ 6,000 × 5 months)	30,000	
	<i>Less:</i> Exempted HRA (Least of the following):		
	(a) Actual house rent allowance received	30,000	
	(b) Rent paid in excess of 10% of salary (35,000 – 5,500)	29,500	
	(c) Maximum 50% of salary	27,500	(27,500)
6.	Rent free accommodation by employer (7 months)		2,500
	Least of the following is taxable:		
	10% of salary (7 × 11,000)		7,700
	or lease rent paid by employer (7 × 5,000)		35,000
	Gross Salary		7,700
			1,71,400

Q.12 Dev is an officer of Rajasthan Government. He is in the pay scale of ₹ 20,000 – 800 – 28,000 since 1st June 2024. He gets dearness allowance @ ₹ 1,000 per month. The employment tax payable to State Government was ₹ 2,000 but Dev paid ₹ 1,500 in the previous year. He has paid ₹ 15,000 as premium on a policy of ₹ 1,00,000 which was taken on 1st April, 2023. He also paid part-time coaching fees of his son ₹ 10,000. Compute the tax liability of Dev for the assessment year 2026-27. [Dec. 2012] [10 Marks]

Ans.: Computation of Tax Liability of Dev for Assessment Year 2026-27

Particulars		(₹)	(₹)
1.	Income from Salary:		
	Basic Salary (01.04.2025 to 31.05.2025) [2 × ₹ 20,000]	40,000	

He is g
official

	Particulars	(₹)	(₹)
	Basic Salary (01.06.2025 to 31.03.2026) [10 × ₹ 20,800]	2,08,000	
	Dearness Allowance 10% of ₹ 2,48,000	24,800	
	Entertainment Allowance [12 × 1,000] Note 1	12,000	
2.	Gross Salary		2,84,800
3.	Deductions:		
	Standard Deduction		
	Entertainment Allowance	50,000	
	Employment Tax Paid	5,000	
4.	Gross Total Income	1,500	(56,500)
5.	Deductions u/ss 80C to 80U: Life Insurance Premium (10% of Sum Assured)		2,28,300
6.	Total Income		(10,000)
7.	Tax Liability		2,18,300
			NIL

Note 1:

Entertainment Allowance Deduction: Least of the following is deductible:

a.	Actual Amount of Entertainment Allowance received	12,000
b.	20% of Basic Salary	49,600
c.	Maximum limit	5,000

Deduction is ₹ 5,000.

Q.13 Subodh, aged 41 years, gives the following particulars of his income received from Nalanda Limited for the year ended 31st March, 2026:

Sl. No.	Particulars	(₹)
1.	Salary after deduction of Income tax at source and own contribution to Recognized Provident Fund	9,00,000
2.	Income tax deducted at source	80,000
3.	Own contribution to Recognized Provident Fund	1,45,000
4.	Employer's contribution to Recognized Provident Fund	1,40,000
5.	Interest credited to Recognized Provident Fund @ 11% per annum	2,89,000
6.	House Rent Allowance (Actual rent paid by Subodh for the house in Delhi was ₹ 1,08,000) in addition to Salary of ₹ 9,00,000 as given above.	1,20,000

He is given free use of 1200 cc car by the employer for domestic as well as official purposes (with effect from 1st November, 2024) and all expenses

Q.14 Mohan is sales manager of Khan Co. Ltd., at Mumbai. He furnishes you the following details for the year ended 31st March, 2026:

- Basic salary up to 31st August, 2025 ₹ 50,000 per month.
- Basic salary from 1st September, 2025 ₹ 70,000 per month.
- Dearness allowance 50% of basic salary (It is fully eligible for retirement benefits).
- Transport allowance ₹ 400 per month.
- Tax on employment ₹ 7,000 (₹ 3,000 paid by employer).
- Motor car with engine cubic capacity more than 1.6 litres was given by the employer.
- The car is self-driven by Mr. Mohan. Running and maintenance expenses of car incurred by the employer ₹ 53,500. The car is used both for personal and official use.
- Recognized Provident Fund contribution of the employer at 15% of basic salary.
- Recognized Provident Fund contribution of employee ₹ 10,000 per month.
- Donation to Prime Minister's Relief fund paid by cheque ₹ 20,000.

Compute the Total Income of Mohan for the assessment year 2026-27.

[Dec. 2018] [8 Marks]

Ans.:

**Computation of Total Income of Mr. Mohan
for the Assessment Year 2026-27**

S. No.	Particulars	(₹)
1.	Basic Salary (₹ 50,000 × 5)	2,50,000
2.	Basic Salary (₹ 70,000 × 7)	4,90,000
3.	Dearness Allowance (50% of Basic Pay ₹ 7,40,000)	3,70,000
4.	Transport Allowance (₹ 400 × 12)	4,800
5.	Tax on Employment paid by the Employer	3,000
6.	Motor Car more than 1.6 liter (₹ 2,400 × 12)	28,800
7.	Employer Contribution in excess of 12% in Recognized Provident Fund [₹ 7,40,000 × 15/100] - [₹ 11,10,000 × 12/100] = [1,11,000] - [1,33,200] = NIL	NIL
8.	Gross Salary	11,46,600
9.	Less: Professional Tax and Standard Deduction (7,000 + 50,000)	(57,000)
10.	Gross Total Income	10,89,600
11.	Less: Deduction under Chapter VI-A	

4.10

S. No.	Particulars	(₹)
	Section 80C - Employee Contribution in Recognized Provident Fund	(1,20,000)
	Section 80G - Donation to Prime Minister Relief Fund	(20,000)
12.	Total Income	9,49,600

Q.15 Alok is employed in BCD Co. Ltd. as Finance Manager. The employer transferred the following assets to him on 15th April, 2025:

- Computer acquired by the employer in May, 2024 for ₹ 20,000 was given to Alok for a consideration of ₹ 1,000.
- Motor car acquired by the employer for ₹ 6 lakh in July, 2022 was given to Alok for ₹ 3 lakh.
- Furniture items acquired by the employer for ₹ 2 lakh in August 2022 were given to Alok for ₹ 50,000.

Compute the amount of income, if any, taxable in the hands of Alok for the above transactions. [Dec. 2018] [5 Marks]

Ans.: Computation of Taxable Perquisites Value in the hands of Mr. Alok for the Assessment Year 2026-27

S. No.	Particulars	(₹)	(₹)
1.	Computer (Acquired in May 2024 sold to Alok in April 2025). No reduction in value as there is no completed year after the date of acquisition <i>i.e.</i> Original Value taken.	20,000	
	Less: Sale Consideration	(1,000)	
	Perquisite Value in respect of Computer		19,000
2.	Motor Car (Acquired in July 2022)	6,00,000	
	Less: Deduction @ 15% for July 2022 to June 2023	(90,000)	
	Written Down Value	5,10,000	
	Less: Deduction @ 15% for July 2023 to June 2024	(76,500)	
	Written Down Value	4,33,500	
	Less: Deduction @ 15% for July 2024 to April 2025 - Applicable as it was sold on 15.04.2025	(54,188)	
	Written Down Value	3,79,312	
	Less: Sale consideration received from Mr. Alok	(3,00,000)	

S. No.	Particulars	(₹)	(₹)
	Perquisites Value of Motor Car		
3.	Furniture items (Acquired in August 2022)	2,00,000	79,312
	<i>Less:</i> Deduction @ 10% for August 2022 to July 2023 SLM basis	(20,000)	
	Written Down Value	1,80,000	
	<i>Less:</i> Deduction @ 10% for August 2023 to July 2024 SLM basis	(18,000)	
	Written Down Value	1,62,000	
	<i>Less:</i> Deduction @ 10% for August 2024 to April 2025 SLM basis	(12,150)	
	Not Applicable as it was sold on 15.04.2025		
	Written Down Value	1,49,850	
	<i>Less:</i> Sale consideration received from Mr. Alok	(50,000)	
	Perquisite Value of Furniture Items		99,850
4.	Total Perquisites Value Chargeable in the hands of Mr. Alok		1,98,162

Q.16 Ramamoorthy, an employee of M/s. Gopal Krishan & Company of Chennai receives following payments during the Previous Year ended March 31, 2026:

Particulars	(₹)
Basic Salary	40,000
Dearness Pay	3,000
Leave Salary	5,400
Professional tax paid by the employer	1,000
Fair rent of the flat provided by the employer	6,000
Rent paid for furniture	1,000
Rent recovered by the employer	3,000
Contribution to Recognised Provident Fund	4,000
Employer's Contribution to Recognised Provident Fund	4,000
Donation to a local temple	50,000

Compute his Taxable Income for the Assessment Year 2026-27.

[June 2019] [4 Marks]

Ans.:

**Computation of Taxable Income of
Mr. Ramamoorthy for the Assessment Year 2026-27**

S. No.	Particulars	(₹)	(₹)
1.	Basic Salary		40,000
2.	Dearness Pay		3,000
3.	Leave Salary		5,400
4.	Professional Tax Paid by the Employer		1,000
5.	Valuation of Perquisites of house provided by the Employer (Note-1)		2,840
6.	Gross Salary		52,240
7.	Less: Standard Deduction u/s 16(ia)		(50,000)
8.	Less: Professional Tax u/s 16(iii)		(1,000)
9.	Taxable Salary		1,240
10.	Less: Deduction u/s 80C		(1,240)
11.	Total Taxable Income		NIL

Note:

1. Valuation of Perquisite of house provided by the Employer:

$$\text{Salary} = ₹ 40,000 + ₹ 3,000 + ₹ 5,400 = ₹ 48,400$$

$$10\% \text{ of Salary} = ₹ 4,840$$

$$\text{Add: Furniture rent paid by the Employer} = ₹ 1,000$$

$$= ₹ 5,840$$

$$\text{Less: Rent recovered by the Employer} = ₹ (3,000)$$

$$\text{Value of Perquisite} = ₹ 2,840$$

Q.17 Goldie Limited has advanced an interest free loan of ₹ 5,00,000 to its employee Ramesh for purchase of Car on 1st May, 2025. Ramesh has been regularly repaying the loan in instalments of ₹ 20,000 per month at the end of each month.

Compute the value of perquisite on account of interest assuming that SBI rate of Interest for such loan as on 1st April, 2025 is 10% per annum.
[June 2011] [5 Marks]

Ans.:

**Computation of Interest on Car Loan as value of
perquisite for the Period from May 2025 to March 2026**

S. No.	For Month	Outstanding Loan Amount	Period for interest (Months)	Amount of interest @ 10% p.a.
1.	May 2025	5,00,000	01	4,167

S. No.	For Month	Outstanding Loan Amount	Period for interest (Months)	Amount of interest @ 10% p.a
2.	June 2025	4,80,000	01	4,000
3.	July 2025	4,60,000	01	3,833
4.	August 2025	4,40,000	01	3,667
5.	September 2025	4,20,000	01	3,500
6.	October 2025	4,00,000	01	3,333
7.	November 2025	3,80,000	01	3,167
8.	December 2025	3,60,000	01	3,000
9.	January 2026	3,40,000	01	2,833
10.	February 2026	3,20,000	01	2,667
11.	March 2026	3,00,000	01	2,500
			TOTAL	36.667

Q.18 What is tax treatment of 'Committed Value of Pension' under section 10(10A)?

Ans.: Pension is an amount which is paid by employer (Government or Non-Government) to his employee after his retirement. A part of the pension can be encashed (Committed) by the employee to meet his immediate unavoidable needs. The amount so received is called 'committed value of Pension'.

The tax treatment is as follows:

S. No.	Type of Employee	Provision
1	Govt. Employee	Fully Exempt
2	Non-Govt. Employee	There are two categories: (a) Getting Gratuity: Committed value of 1/3rd pension is exempt. (b) Not Getting Gratuity: Committed value of 1/2 pension is exempt.

Note:

1. Un-commuted pension is fully taxable.

Q.19 Ramesh working in ABC Pvt. Ltd. draws the following amount by way of salary for the previous year ended 31st March, 2026:

- (i) Basic Salary ₹ 1,25,000 per month.
- (ii) Commission on sales @ 2% on sale made by him, Commission amount ₹ 40,000 (per annum).
- (iii) Employer's contribution to Recognized Provident Fund (RPF) ₹ 3,00,000.

- (iv) Employer's contribution to National Pension Scheme (NPS) ₹ 1,00,000
- (v) Employer's Contribution to Superannuation Fund ₹ 2,00,000
- (vi) The company has given him a housing loan of ₹ 15,00,000 on 1st June, 2024 on which it charges interest @ 6% per annum. The entire loan is still outstanding.

(Assume the interest charged by SBI for same kind of home loan is 9.5% p.a.)

Compute the Income Chargeable to tax under the head of salary for the assessment year 2026-27 on assumption that Ramesh has not opted for section 115BAC. [June 2024] [5 Marks]

Ans.:

Computation of Income from Salary of Ramesh
(Assessment Year 2026-27)

	Particulars	Amount
1.	Basic Salary (1,25,000 × 12)	15,00,000
	Commission on Sales (to be treated as salary)	40,000
	Total (to be treated as Salary)	15,40,000
2.	Employer's Contribution in RPF (3,00,000 - 12% of 15,40,000 Exempt) i.e. 3,00,000 - 1,84,800	1,15,200
3.	Employer's Contribution in NPS	1,00,000
4.	Housing Loan interest (15,00,000 × 9.5/100) - (15,00,000 × 6/100) = 3.5% of 15,00,000 × 10/12 (10 months)	43,750
5.	Gross Salary	17,98,950
6.	Less: Standard deduction	(50,000)
7.	Taxable Salary	17,48,950

Q.20 Mrs. Vijayta aged 31 years working as finance manager of M/s MPK & Co. Pvt. Ltd. registered at Mumbai. She has been in continuous service since 1-8-2020 and received the following salary and perks from the company during the year ending 31-3-2026:

- (i) She joined the service in the grade of ₹ 40,000-5,000-60,000-6,000-90,000 on 1-8-2020.
- (ii) Dearness Allowance 40% of basic pay forming part of retirement benefits.
- (iii) The Company gifted a Smart Watch costing ₹ 35000 to Mrs. Vijayta on the occasion of her birthday.
- (iv) Children education allowance for one child ₹ 2,500 per month.
- (v) Entertainment Allowance ₹ 2,400 per month.

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- (vi) Motor car (engine cubic capacity below 1.60 liters) owned by employer and provided to employee since 01-08-2025. It is partly used for official and personal purposes by the employee. Expenditure fully met by the employer ₹ 75,100. (Car is self-driven by the employee).
- (vii) Leave travel facility provided by her employer to Mrs. Vijayta, her husband and one child. Cost of air tickets (economy class) reimbursed by the employer ₹ 35,000 per person. Vijayta is eligible for availing exemption this year to the extent it is permissible in law.
- (viii) The employer also paid professional tax of ₹ 2,500 for F.Y. 2025-26 on behalf of Mrs. Vijayta to State Govt.

You are required to compute the Taxable Income under the head of Salary of Mrs. Vijayta for the assessment year 2026-27, assuming that she opts the benefits of the provisions under section 115BAC.

[CS Executive Dec. 2024] [5 Marks]

Ans.:

Computation of Income Salary of Mrs. Vijayta (31years)
(Assessment Year 2026-27)

(Assuming section 115BAC has been opted)

Particulars	Amount
Salary (4 × 60,000) + (8 × 66,000)	7,68,000
Dearness Allowance (as salary)	3,07,200
Smart Watch (35,000 – 5,000)	30,000
Children Education Allowance (2,500 × 12)	30,000
Entertainment Allowance (2,400 × 12)	28,800
Car Perquisite (1,800 × 12)	21,600
Leave Travel (35,000 × 3)	1,05,000
Professional tax paid by employer	2,500
Gross Salary	12,93,100
Less: Standard Deduction	(75,000)
Taxable Salary	12,18,100

Q.21 Gajendra is working as a Sales Manager of Bansal Green Pvt. Ltd. He furnishes the following particulars of his remuneration for the previous year 2025-26:

S. No.	Particulars	Amount (₹)
1.	Basic Salary	65,000 p.m.
2.	Dearness Allowance (40% is part of retirement benefit)	15,000 p.m.

S. No.	Particulars	Amount (₹)
3.	Medical Allowance	5,000 p.m.
4.	Children Education Allowance (for 2 children)	1,600 p.m. per child

The company provided him a furnished accommodation in Chennai. The cost of the furniture provided in this house is ₹ 1,50,000 and three air-conditioners, which have been taken on hire by the company, have also been provided in the accommodation. The hire charge of each air conditioner is ₹ 7,500 per annum. The fair rental value of such house is ₹ 15,000 per month. But the company charges him only ₹ 7,000 per month. Compute the Taxable Value of rent-free accommodation of Gajendra to be included in Salary for the assessment year 2026-27. Assume that he does not opt to pay tax under section 115BAC.

[CS Executive Dec. 2024] [5 Marks]

Ans.:

**Computation of Taxable Value of rent free accommodation of Gajendra
(Assessment Year 2026-27)**

Salary for purpose of valuation = 65,000 + 6,000 + 5,000 + 3,000 = 79,000 × 12 months = 9,48,000

Valuation:

Particulars	Amount
10% of Salary	94,800
10% of Furniture	15,000
Hire charges of air conditioners	22,500
Total	1,32,300
Less: Charged by employer	(84,000)
Taxable	48,300

Q.22 The particulars given below are of Mr. Ramaswamy's income (age 57 years) posted in J. K. Swami Pvt. Ltd. in Hyderabad, for the previous year 2025-26:

- (1) Basic Pay 30,000 per month till January 31, 2026, ₹ 35,000 p.m. from February 2026.
- (2) Dearness allowance 30% of basic salary (50% of DA forms part of retirement benefits).
- (3) Employee's contribution to recognized provident fund ₹ 72,000 and his employer matches the same contribution.

- (4) Leave encas
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 - (6) The emplo grading M
 - (7) Motor Car capacity w personal i the emplo
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Notes:

- (a) Arrear c
 - (b) ₹ 74,000
- Mr. Ran

- (4) Leave encashment received for P.Y. 2025-26 ₹ 15,000.
- (5) He also received salary for the month of April, 2026 in advance without Dearness allowance on 31st March 2026. Also, he received an arrear salary for the month of March, 2025 on the same day assuming it is taxed on the due basis.
- (6) The employer also spent ₹ 74,000 on a refresher course for upgrading Mr. Ramaswamy's skills.
- (7) Motor Car owned and driven by Mr. Ramaswamy and engine capacity within 1.6 liters, used partly for official and partly for personal purposes. Running & Maintenance expenses borne by the employer during the year was ₹ 46,600.

Compute the taxable salary income of Mr. Ramaswamy for the assessment year 2026-27 assuming that he has opted out of the default tax regime under section 115BAC.

[CS Executive June 2025] [5 Marks]

Ans.:

**Computation of Taxable Salary Income of Mr. Ramaswamy
for the Assessment Year 2026-27 under Old Tax Regime**

1.	Basic Pay (3000 × 10) + (35000 × 2)		3,70,000
2.	Dearness Allowance (30 % of 370000)		1,11,000
3.	Employer's Contribution in Recognized Provident Fund	72,000	
	<i>Less:</i> Exempt 12% of (370000 + 55500)	(51,060)	20,940
4.	Leave Encashment		15,000
5.	Advance Salary of April 2026		35,000
6.	Motor Car Facility		
	Actual Expenditure incurred by employer	46,600	
	<i>Less:</i> Taxable Value of Perquisite (1800 × 12)	(21,600)	25,000
7.	Gross Salary		5,76,940
8.	<i>Less:</i> Standard Deduction		(50,000)
9.	Taxable Salary Income		5,26,940

Notes:

- (a) Arrear of Salary for March 2025 already taxed.
- (b) ₹ 74,000 spent by employer on a refresher course for upgrading skills of Mr. Ramaswamy is exempt.