

EKATVAM ACADEMY
SOLUTION FOR PAPER 4: INCOME FROM SALARY
CA/CMA INTER [30 Marks]

SOLUTION 1 :

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

(i) Domestic servant was employed by the employee and the salary of such domestic servant was paid/ reimbursed by the employer. It is taxable as perquisite for all categories of employees. Taxable perquisite value = ₹ 1,500 × 12 = ₹ 18,000.

If the company had employed the domestic servant and the facility of such servant is given to the employee, then the perquisite is taxable only in the case of specified employees. The value of the taxable perquisite in such a case also would be ₹ 18,000.

(ii) Where the educational institution is owned by the employer, the value of perquisite in respect of free education facility shall be determined with reference to the reasonable cost of such education in a similar institution in or near the locality. However, there would be no perquisite if the cost of such education per child does not exceed ₹ 1,000 per month.

Therefore, there would be no perquisite in respect of cost of free education provided to his child Sachin, since the cost does not exceed ₹ 1,000 per month.

However, the cost of free education provided to his child Ashok would be taxable, since the cost exceeds ₹ 1,000 per month. The taxable perquisite value would be ₹ 14,400 (₹ 1,200 × 12).

Note : An alternate view possible is that only the sum in excess of ₹ 1,000 per month is taxable. In such a case, the value of perquisite would be ₹ 2,400.

(iii) Where the employer has provided movable assets to the employee or any member of his household, 10% per annum of the actual cost of such asset owned or the amount of hire charges incurred by the employer shall be the value of perquisite. However, this will not apply to laptops and computers. In this case, the movable assets are television, refrigerator and air conditioner and actual cost of such assets is ₹ 1,10,000. The perquisite value would be 10% of the actual cost i.e., ₹ 11,000, being 10% of ₹ 1,10,000.

(iv) The value of any gift or voucher or token in lieu of gift received by the employee or by member of his household not exceeding ₹ 5,000 in aggregate during the previous year is exempt. In this case, the amount was received on the occasion of marriage anniversary and the sum exceeds the limit of ₹ 5,000.

Therefore, the entire amount of ₹ 10,000 is liable to tax as perquisite.

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 ₹ 5,000

(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 outstanding balance as on last date of month (₹)	Perquisite value at 4% for the month (₹)
April, 2023	5,88,000	1,960
May, 2023	5,76,000	1,920
June, 2023	5,64,000	1,880
July, 2023	5,52,000	1,840
August, 2023	5,40,000	1,800
September, 2023	5,28,000	1,760
October, 2023	5,16,000	1,720
November, 2023	5,04,000	1,680
December, 2023	4,92,000	1,640
January, 2024	4,80,000	1,600
February, 2024	4,68,000	1,560
March, 2024	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].

SOLUTION 2

Computation of taxable salary of Mr. X for A.Y. 2024-25

Particulars	₹
Basic pay [(₹20,000×9) + (₹21,000×3)] = ₹1,80,000 + ₹ 63,000	2,43,000
Dearness allowance [10% of basic pay]	24,300
Bonus	21,000
Employer's contribution to Recognized Provident Fund in excess of 12% (15%-12% =3% of ₹2,67,300) [See Note 1 below]	8,019
Taxable allowances	
Telephone allowance	6,000
Taxable perquisites	
Rent-free accommodation [See Note 1 & 2 below]	44,145
Medical reimbursement	25,000
Reimbursement of salary of housekeeper	12,000
Gift voucher [See Note 5 below]	10,000
Gross Salary	3,93,464

Less: Deduction under section 16(ia) – Standard deduction	50,000
Salary income chargeable to tax	3,43,464

Notes:

1. Since dearness allowance forms part of salary for retirement benefits, the perquisite value of rent-free accommodation and employer's contribution to recognized provident fund have been accordingly worked out.
2. Where the accommodation is taken on lease or rent by the employer, the value of rent-free accommodation provided to employee would be actual amount of lease rental paid or payable by the employer or 15% of salary, whichever is lower.

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

- (i) Basic salary i.e., ₹2,43,000
- (ii) Dearness allowance (assuming that it is included for calculating retirement benefits) i.e. ₹24,300
- (iii) Bonus i.e., ₹21,000
- (iv) Telephone allowance i.e., ₹6,000

Therefore, salary works out to

$$₹2,43,000 + ₹24,300 + ₹21,000 + ₹6,000 = ₹2,94,300.$$

$$15\% \text{ of salary} = ₹2,94,300 \times 15/100 = ₹44,145$$

Value of rent-free house = Lower of rent paid by the employer (i.e. ₹1,20,000) or 15% of salary (i.e., ₹44,145).

Therefore, the perquisite value is ₹44,145.

3. Facility of use of laptop is not a taxable perquisite.
4. Conveyance allowance is exempt since it is based on actual reimbursement for official purposes.
5. The value of any gift or voucher or token in lieu of gift received by the employee or by member of his household below ₹5,000 in aggregate during the previous year is exempt. In this case, the gift voucher was received on the occasion of marriage anniversary and the sum exceeds the limit of ₹5,000.

Therefore, the entire amount of ₹10,000 is liable to tax as perquisite.

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 ₹5,000.

6. Premium of ₹5,000 paid by the company for personal accident policy is not liable to tax.

SOLUTION 3

Computation of Gross Total Income of Mr. X for A.Y. 2024-25

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
Commutated pension (See Note - 5)	1,50,000
Gross Salary	7,32,769

Less: Standard deduction u/s 16(ia)	50,000
Taxable Salary/ Gross Total Income	6,82,769

Notes:

- (1) As per Rule 3(7)(iv), the value of any gift or voucher or token in lieu of gift received by the employee or by member of his household not exceeding ₹ 5,000 in aggregate during the previous year is exempt. In this case, the amount was received on his retirement and the sum exceeds the limit of ₹ 5,000.

Therefore, the entire amount of ₹ 6,000 is liable to tax as perquisite.

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 taxable income would be ₹ 7,27,769.

- (2) **Perquisite value of transfer of car:** As per Rule 3(7)(viii), the value of benefit to the employee, arising from the transfer of an asset, being a motorcar, 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 (30.1.2021)	5,00,000
Less: Depreciation @ 20%	1,00,000
WDV on 29.1.2022	4,00,000
Less: Depreciation @ 20%	80,000
WDV on 29.1.2023	3,20,000
Less: Depreciation @ 20%	64,000
WDV on 29.1.2024	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 u/s following : 10(10) - Least of the	
(i) Notified limit = ₹ 20,00,000	
(ii) Actual gratuity = ₹ 6,00,000	
(iii) $15/26 \times \text{last drawn salary} \times \text{no. of Completed years of services or part in excess of 6 months}$ $15/26 \times ₹ 30,000 \times 30 = ₹ 5,19,231$	5,19,231
Taxable Gratuity	80,769

Note: As per the Payment of Gratuity Act, 1972, D.A. is included in the meaning of salary. Since in this case, Mr. X is covered under payment of Payment of Gratuity Act, 1972, D.A. has to be included within the meaning of salary for computation of exemption u/s 10(10).

(4) Taxable leave encashment

Particulars	₹
Leave Salary received	3,30,000
Less: Exempt u/s 10(10AA) - Least of the following:	
(i) Notified limit ₹ 3,00,000	
(ii) Actual leave salary ₹ 3,30,000	
(iii) 10 months x ₹ 20,000 ₹ 2,00,000	
(iv) Cash equivalent of leave to his Credit $\left(\frac{330 \times 20,000}{30} \right)$	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. In case it is assumed that dearness allowance forms part of pay for retirement benefits, then, the third limit for exemption u/s 10(10AA) in respect of leave encashment would be ₹ 3,00,000 (i.e. 10 x ₹ 30,000) and the fourth limit ₹ 3,30,000, in which case, the taxable leave encashment would be ₹ 30,000 (₹ 3,30,000 - ₹ 3,00,000). In such a case, the gross total income would be ₹ 6,32,769.

(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
Exemption under section 10(10A) = $\left(\frac{1}{3} \times 3,00,000 \times \frac{3}{2} \right)$	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 therein.

SOLUTION 4**(a) He is a government employee**

Uncommuted pension received (October – March)		₹ 24,000
$[(₹5,000 \times 4 \text{ months}) + (40\% \text{ of } ₹5,000 \times 2 \text{ months})]$		
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
$[(₹5,000 \times 4 \text{ months}) + (40\% \text{ of } ₹5,000 \times 2 \text{ months})]$		
Commuted pension received	₹ 3,00,000	
Less: Exempt u/s 10 (10A)		
$\left(\begin{array}{l} 1 \quad ₹ 3,00,000 \\ \text{-----} \times \text{-----} \times 100\% \\ 3 \quad \quad 60\% \end{array} \right)$	₹ 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
$[(₹5,000 \times 4 \text{ months}) + (40\% \text{ of } ₹5,000 \times 2 \text{ months})]$		
Commuted pension received	₹ 3,00,000	
Less: Exempt u/s 10 (10A)		
$\left(\begin{array}{l} 1 \quad ₹ 3,00,000 \\ \text{-----} \times \text{-----} \times 100\% \\ 2 \quad \quad 60\% \end{array} \right)$	₹ 2,50,000	₹ 50,000
Taxable pension		₹ 74,000

SOLUTION 5 :**Tax treatment of medical benefits, allowances and medical claim premium in the hands of Ms. Rakhi for A.Y. 2024-25**

	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 fully taxable allowance.
4	As per clause (ii)(a) of the first proviso to section 17(2), reimbursement of medical expenses of ₹ 5,000 on her son's treatment in a hospital maintained by the Government is a tax free perquisite.
5 & 6	As per clause (vi) of the first proviso to section 17(2), the following expenditure incurred by the employer would be excluded from perquisite subject to certain conditions – (i) Expenditure on medical treatment of the employee, or any member of the family of such employee, outside India 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 ₹ 2 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 ₹ 2 lakh.

SOLUTION 6

(a) He is a government employee	
Leave Salary received at the time of retirement	₹ 5,00,000
Less: Exemption under section 10(10AA)	<u>₹ 5,00,000</u>
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]	<u>₹ 26,400</u>
Taxable Leave Salary	<u>₹ 4,73,600</u>

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

(i) Leave salary received	₹ 5,00,000
(ii) Statutory limit	₹ 3,00,000
(iii) 10 months' salary based on average salary of last 10 months	
i.e. $\left(\frac{10 \times \text{Salary of last 10 months i.e Feb- Nov}}{10 \text{ months}} \right)$	

$= \left[10 \times \frac{(5000 \times 8) + (4000 \times 2) + (60\% \ 3000 \times 10)}{10 \text{ months}} \right]$	₹ 66,000
<p>(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</p>	
<p>i.e. $\left[\frac{\text{Leave due (in days)}}{30 \text{ days}} \times \text{Average salary p.m.} \right]$</p>	
$= \left[\frac{120 \text{ days}}{30 \text{ days}} \times \frac{₹ 66,000}{10} \right]$	₹ 26,400