5 to 8 marks

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# Income from Salary

* section 15 : charging section
Income is taxable under the Head salary if there is employee employer relationship [master - servent relationship].

Contract of service → salary
contract for service → PGBP

# Salary Received by MP, MLA, MLC → Taxable under IFOS

# salary received by partner from partnership Firm → Taxable under PGBP.

# Notes :-

1) salary is taxable on the basis of due or received whichever is earlier.

2) salary is taxable even in case of part-time job like employee working with two employer.

3) Salary forgone → It is taxable since it is application of Income

4) Salary surrender to central government → It is not taxable.

5) Any amount received before ~~the~~ joing the job, after ~~living~~ leaving the job is always taxable under the Head salary & it is known as profit in lieu of salary.

# In this topic, we have to find out salary income of employee.

Statement of salary

| Particular | ₹ |
| --- | --- |
| Basic salary (Note - 1) | xxx |
| Dearness Allowance (D.A.) (Note - 2) | xxx |
| commission (Note - 3) | xxx |
| Bonus (Note - 4) | xxx |
| Advance salary / Arrears salary (Note - 5) | xxx |
| Gratuity (Note - 6) | xxx |
| pension (Note - 7) | xxx |
| Leave salary (Note - 8) | xxx |
| Allowances (Note - 9) | xxx |
| provident Fund (Note - 10) | xxx |
| Voluntary Retirement compensation (VRS) (Note - 11) | xxx |
| Super Annuation fund (Note - 12) | xxx |
| Retrenchment compensation (Note - 13) | xxx |
| perquisite (Note - 14) | xxx |
| Gross salary | xxx |
| Less : Deduction U/S 16 : | |
| 1. professional Tax (Note - 15) | (xxx) |
| 2. Entertainment Allowance (Note - 16) | (xxx) |
| 3. Standard deduction (Note - 17) | (xxx) |
| Net salary | xxx |

# Note - 1 : Basic salary :-

It is a base salary of employee. It is fully taxable. If net basic salary is given then we have to convert into ~~net~~ gross basic salary.

# Note - 2 : Dearness Allowance (D.A.)

D.A. is fully taxable whether it is 'interms' or 'not in terms'.

D.A interms means, D.A. which is forming part of retirement benefit calculation. In all the retirement benefit calculation formulas D.A. is considered only if it 'interms'.

If nothing is given about D.A. then assume it is 'not interms'.

# Commission : Note - 3 -

It is fully taxable whether commission is based on turnover or not.

# Note - 4 : Bonus - It is fully taxable on receipt basis. If only bonus declared is given then it should be ignored. If in the question only Bonus is given then assume it is received & it is taxable.

# Note - 5 : Advance salary

It means salary received in advance. It is taxable on receipt basis. If advance against salary or only advance is given then it should be ignore because it is treated as loan.

- Arrear salary :-

It means salary under dispute or increase of salary retrospectively. It is taxable in the year of receipt.

# Note - 6 : Gratuity -

Gratuity

- Received during employment
  - Taxable for All employee
- Received on Retirement
  - Govt. employee
    - Fully exempt u/s 10(10)
  - other employee
    - exempt u/s [10(10)]
      - POGA EE [covered by Payment of Gratuity Act, 1972]
        - Exempt
          - i) 15/26 × salary p.m. × No. of years of completion of service
          - ii) Actual amt. Recd.
          - iii) max. 2000000
      - Non POGA.
        - Exempt
          - i) 1/2 × Avg salary p.m × No. of year of completion of services
          - ii) Actual Amt. Recd
          - iii) max. 2000000

★

| Salary per month | | Average salary per month | |
|---|---|---|---|
| latest Basic salary | xx | Avg. Basic salary last 10 months | xxx |
| D.A. (Both) | xx | Avg. D.A. (Terms) of —"— | xx |
| | xx | Avg. T/o commision of —"— | xx |
| | | | xx |

excluding month of Retirement (10 months)

Note :-

1) In case of POGA employee & If fraction of month is more than 6 months then it should be rounded off.

e.g → ① 26 years + 7 months = 27 years
② 26 years + 6 months = 26 years
③ 26 years + 4 months = 26 years

2) In case of non-POGA employee fraction should ~~de~~ be ignored.

e.g → ① 26 years + 11 months = 26 years
② 26 years + 4 months = 26 years
③ 26 years + 6 months = 26 years.

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PY 24-25 AY 25-26

Ⓐ He is private employee + covered by POGA 1972

computation of Taxable Gratuity

| | | |
|---|---|---|
| Actually Gratuity Received | | 1500000 |
| Less : exempt u/s 10(10) | | |
| i) 15/26 × salary pm × no. of years of completion of service | | |
| 15/26 × 60000 × 27 years | 934615 | |
| ii) Actual amt Received | 1500000 | |
| iii) max. | 2000000 | (934615) |
| Taxable Amt. | | 565385 |

# salary pm.

| | |
|---|---|
| Basic salary | 50000 |
| D.A. (Both) | 10000 |
| | 60000 |

PY 24-25 AY 25-26

(B) He is private employee & not covered by POGA, 1972
computation of Taxable Gratuity

| | | |
|---|---|---|
| Actual Gratuity Received | | 1500000 |
| (-) Exempt U/S 10(10) | | |
| i) 1/2 × Avg salary pm × No. of years of completion of service | | |
| 1/2 × 66000 × 26 years | = 858000 | |
| ii) Actual amt. Recd. | 1500000 | |
| iii) max. 2000000 | 2000000 | (858000) |
| Taxable Gratuity | | 642000 |

| | | |
|---|---|---|
| Average Basic salary of last 10 months | : | 50000 |
| -ll- D.A. (T) -ll- | (10000 × 60%) | 6000 |
| -ll- T/O commission -ll- | | |
| $\frac{12000000 \times 1\% = 120000}{12m}$ = 10k | | 10000 |
| | | 66000 |

(C) He is Government employee.

| | |
|---|---|
| Gratuity Received | 1500000 |
| (-) Exempt U/S 10(10) | (1500000) |
| | — |

# Notes :-

1) If Gratuity received from more than 1 employer in the same p.y. then maximum exemption can be claimed is ₹ 2000000

2) If gratuity already received by employee from earlier employer in earlier p.y. and in the current p.y. He received gratuity from other employer then limit of ₹ 2000000 is reduced by exemption claimed earlier.