

|   |          |                  |
|---|----------|------------------|
| Perquisite value of rent-free accommodation (15% of ₹ 4,80,000)<br><i>(As per amendment it is 10% of salary in cities having population &gt; 40 lakhs as per 2011 census)</i> | N.A.     | 72,000<br>48,000 |
| House rent Allowance (₹ 8,000 x 12 Months) ₹ 96,000   |          |                  |
| Less: Exempt u/s 10(13A) - least of the following -   |          |                  |
| - 50% of Basic Salary ₹ 2,40,000  |          |                  |
| - Actual HRA received ₹ 96,000  |          |                  |
| Rent paid less 10% of salary ₹ 30,000   | 66,000   |                  |
| Gross Salary  | 5,46,000 | 5,28,000         |
| Less: Standard deduction u/s 16(IA)   | 50,000   | 50,000           |
| Net Salary  | 4,96,000 | 4,78,000         |
| Less: Deduction under Chapter VI-A  | -        | -                |
| Total Income  | 4,96,000 | 4,78,000         |
| Tax on total income   | 12,300   | 11,400           |
| Less: Rebate under section 87A - Lower of ₹ 12,500 or income-tax of ₹ 12,300, since total income does not exceed ₹ 5,00,000   | 12,300   | 11,400           |
|   | Nil      | Nil              |
| Add: Health and Education cess@4%   | Nil      | Nil              |
| Total tax payable   | Nil      | Nil              |
| Tax Payable (Rounded off)   | Nil      | Nil              |

## Cash Flow Statement

| Particulars              | Option I - HRA | Option II - RFA |
|--------------------------|----------------|-----------------|
| Inflow: Salary           | 5,76,000       | 4,80,000        |
| Less: Outflow: Rent paid | (78,000)       | -               |
| Tax on total income      | Nil            | Nil             |
| Net Inflow               | 4,98,000       | 4,80,000        |

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

## Question 4

MTP May'20, Nov, 18

Mr. Neural, aged 45 years, working in Ashiyana Pvt. Ltd. provides the following details pertaining to the financial year 2023-24:

| Particulars   | ₹        |
|---|----------|
| Basic salary  | 7,20,000 |
| Dearness allowance (40% of basic pay) (50% of D.A. forms part of retirement benefits) | -        |
| Commission  | 50,000   |
| Entertainment allowance   | 7,500    |
| Medical expenses reimbursed by the employer   | 10,000   |



|  |        |
|--|--------|
| Profession tax (of this, 50% paid by employer)   | 3,000  |
| Health insurance premium paid by employer  | 9,000  |
| Gift voucher given by employer on his birthday   | 15,000 |
| Life insurance premium of Neeraj paid by employer  | 40,000 |
| Laptop provided for use at home. Actual cost of Laptop to employer [Children of the assessed are also using the laptop at home]  | 45,000 |
| Employer company owns a motor car, which was provided to the assessed, both for official and personal use. All repair and maintenance expenses are fully reimbursed by the employer. No driver was provided. (Engine cubic capacity less than 1.6 litres). |        |
| Annual credit card fees paid by employer [Credit card is not exclusively used for official purposes]   | 5,000  |

You are required to compute the income chargeable under the head salaries in the hands of Mr. Neeraj for the assessment year 2024-25. 7 Marks

Answer:

Computation of income chargeable under the head "Salaries" of Mr. Neeraj for A.Y.2024-25

| Particulars  | ₹         |
|--|-----------|
| Basic Salary   | 7,20,000  |
| Dearness allowance   | 2,88,000  |
| Commission   | 50,000    |
| Entertainment allowance  | 7,500     |
| Medical expenses reimbursed by the employer  | 10,000    |
| Professional tax paid by the employer is a taxable perquisite as per section 17(2)(iv), since it is an obligation of the employee which is paid by the employer  | 1,500     |
| Health insurance premium of ₹9,000 paid by the employer is an exempt perquisite [Clause (iii) of proviso to section 17(2)]   | Nil       |
| Gift voucher given by employer on Mr. Neeraj's birthday (entire amount is taxable since the perquisite value exceeds ₹5,000) as per Rule 3(7)(iv) [See Note below]   | 15,000    |
| Life insurance premium of Mr. Neeraj paid by employer is a taxable perquisite as per section 17(2)(v)  | 40,000    |
| Laptop provided for use at home is an exempt perquisite as per Rule 3(7)(vii)  | Nil       |
| Provision of motor car (engine cubic capacity less than 1.6 litres) owned by employer to employee for both official and personal purposes -perquisite value would be ₹21,600 [₹1,800 ×12] as per Rule 3(2) | 21,600    |
| Annual credit card fees paid by employer is a taxable perquisite as per Rule 3(7)(v) since the credit card is not exclusively used for official purposes.  | 5,000     |
| Gross Salary   | 11,58,600 |
| Less: Deductions under section 16  |           |
| Standard deduction u/s 16(ia)  | 50,000    |
| Entertainment allowance (deduction under section 16(ii) not allowable since Mr. Neeraj is not a Government employee)   | Nil       |



|   |           |
|---|-----------|
| Professional tax paid allowable as deduction as per section 16(iii) | 3,000     |
| Income chargeable under the head "Salaries"                         | 11,05,600 |

**Note:**

As per Rule 3(7)(iv), the value of any gift or voucher received by the employee or by member of his household on ceremonial occasions or otherwise from the employer shall be determined as the sum equal to the amount of such gift. However, the value of any gift or voucher received by the employee or by member of his household below ₹ 5,000 in aggregate during the previous year would be exempt as per the proviso to Rule 3(7)(iv). In this case, the gift voucher of ₹ 15,000 was received by Mr. Neeraj from his employer on the occasion of his birthday.

Since the value of the gift voucher exceeds the limit of ₹ 5,000, the entire amount of ₹ 15,000 is liable to tax as perquisite.

An alternate view possible is that only the sum in excess of ₹ 5,000 is taxable in view of the language of Circular No.15/2001 dated 12.12.2001, which states that such gifts up to ₹ 5,000 in the aggregate per annum would be exempt, beyond which it would be taxed as a perquisite. As per this view, the value of perquisite ₹ 10,000. In such case, the gross salary and net salary would be, ₹ 11,53,600 and ₹11,00,600, respectively.

**Question 5**

MTP Aug'18

Mr. Thomas is an executive at M/s. A Ltd., Chennai from 01-04-2023. His salary and other particulars are as given here under:

Basic Salary ₹ 20,000 p.m.

Dearness Allowance ₹ 15,000 p.m. (100% forming part of retirement benefits) House Rent Allowance ₹ 20,000 p.m.

Rent paid by Mr. Thomas is ₹ 25,000 p.m.

Telephone bills paid by A Ltd. for the telephone installed at his Residence ₹ 24,000 p.a.

Motor car running and maintenance charges of ₹ 30,600 fully paid by employer. (The motor car is owned and driven by Mr. Thomas. The engine cubic capacity is below 1.60 liters. The motor car is used for both official and personal purpose by the employee)

Annual premium paid by A Ltd. towards a personal accident policy on his life ₹ 5,000.

He was retrenched by his previous employer M/s B Ltd. after continuous service of 20 year. He received a compensation of ₹ 15 Lakhs. His Basic Salary and Dearness Allowance at the time of retrenchment was ₹ 25,000 p.m. and ₹ 18,000 p.m. respectively.

Compute the amount taxable under the head salary for the Assessment Year 2024-25. Assume that he has not opted for 115BAC.

10 Marks

Answer:

Computation of Income taxable under the head "Salaries" for the A.Y. 2024-25

| Particulars                        | ₹ | ₹        | ₹        |
|------------------------------------|---|----------|----------|
| Basic Salary (₹ 20,000 × 12)       |   |          | 2,40,000 |
| Dearness Allowance (₹ 15,000 × 12) |   |          | 1,80,000 |
| House Rent Allowance Received      |   | 2,40,000 |          |



|  |          |           |           |
|--|----------|-----------|-----------|
| Less: Exempt under section 10(13A)   |          | 2,10,000  | 30,000    |
| Least of the following would be exempt   |          |           |           |
| House Rent Allowance Received  | 2,40,000 |           |           |
| Rent paid (-) 10% of salary [(₹ 25,000 × 12) - 10% × 4,20,000]   | 2,58,000 |           |           |
| 50% of salary, since place of residence is Chennai (50% × 4,20,000)  | 2,10,000 |           |           |
| Telephone bills paid by A Ltd. for the telephone installed of his Residence [Telephone provided at the residence of the employee and payment of bill by the employer is a tax-free perquisite] |          |           | -         |
| Annual premium paid by A. Ltd. for towards personal accident policy on his life  |          |           | -         |
| Motor car owned and driven by employee, running and maintenance charges borne by the employer [₹ 30,600 - ₹ 21,600 (i.e., ₹ 1,800 × 12)]   |          |           | 9,000     |
| Retrenchment compensation received   |          | 15,00,000 |           |
| Exempt under section 10(10B)   |          | 4,96,154  | 10,03,846 |

|  |           |  |           |
|--|-----------|--|-----------|
| Least of the following would be exempt   |           |  |           |
| Compensation actually received   | 15,00,000 |  |           |
| Monetary Limit   | 5,00,000  |  |           |
| Amount calculated as per section 25F of Industrial Disputes Act {15/26 × [(25,000 + 18,000) × 3]/3 × 20} | 4,96,154  |  |           |
| Salary income chargeable to tax  |           |  | 14,62,846 |
| Less- Standard Deduction (Actual salary or Rs 50,000 whichever is lower) (As per amendment)              |           |  | 50,000    |
| Net Salary Income  |           |  | 14,12,846 |

**Question 6**

MTP March'18

Mrs. Anjali is a Finance Manager of Anand Construction Ltd. in Mumbai, furnishes the following particulars for the financial year 2023-24:

- She was appointed on 01-03-2023 in the scale of ₹ 20,000 - ₹ 2,500 - ₹ 35,000.
- She is paid dearness allowance (which forms part of salary for retirement benefits) @30% of basic pay and bonus equivalent to two month's basic pay as at the end of the year.
- She receives ₹ 2,000 per month as transport allowance (for commuting between place of residence and office) and ₹ 4,000 each as hostel allowance for three children.
- She contributes 15% of his salary (basic pay plus dearness allowance) towards recognized provident fund and the Company contributes the same amount.
- Lunch provided by the company during office hours Cost to the employer ₹ 10,000
- Rent free unfurnished accommodation provided by the company for which the company pays ₹ 60,000 per annum.



- (vii) The Company reimbursed the medical treatment bill of ₹ 35,000 of her son, who is dependent on her.
- (viii) A gift voucher of ₹ 6,000 was given on the occasion of her marriage anniversary. It is given by the company to all employees above certain grade.
- (ix) Facility of laptop and computer was provided to Mrs. Anjali for both official and personal use. Cost of laptop ₹ 45,000 and computer ₹ 35,000 were acquired by the company on 01.12.2022.
- (x) Professional tax paid by the company ₹ 2,000 Compute the amount of salary chargeable to tax in the hands of Mrs. Anjali for A.Y. 2024-25. Assume that she has not opted for 115BAC.

10 Marks

Answer:

## Computation of taxable salary of Mrs. Anjali for A.Y. 2024-25

| Particulars   |        | ₹                                 |
|---|--------|-----------------------------------|
| Basic pay [(₹20,000×11) + (₹22,500×1)] = ₹2,20,000 + ₹22,500  |        | 2,42,500                          |
| Dearness allowance [30% of basic pay]   |        | 72,750                            |
| Bonus [₹22,500 × 2]   |        | 45,000                            |
| Employer's contribution to Recognized Provident Fund in excess of 12% (15% - 12% = 3% of ₹3,15,250)                         |        | 9,458                             |
| Taxable allowances  |        |                                   |
| Transport allowance (₹2,000 × 12)   | 24,000 |                                   |
| Less: Exemption under section 10(14) read with Rule 2BB) @ ₹1,600 p.m.<br>(As per amendment no transport allowance allowed) | 19,200 | 4,800<br>24,000                   |
| Hostel allowance (₹ 4,000 × 3)  | 12,000 |                                   |
| Less: Exemption under section 10(14) read with Rule 2BB) @ ₹300 p.m.<br>per child maximum for two children                  | 7,200  | 4,800                             |
| <b>Taxable perquisites</b>  |        |                                   |
| Rent-free accommodation [See Note 1 below]  |        | 55,478<br>58,358<br><b>38,905</b> |
| Medical reimbursement (₹35,000 - ₹15,000) [See Note 2 below]<br>(As per amendment no ₹15,000 deduction withdrawn)           |        | 20,000<br><b>35,000</b>           |
| Gift voucher [See Note 3 below]   |        | 6,000                             |
| Value of free lunch facility [See Note 4 below]   |        | -                                 |
| Professional tax paid by the company [See Note 6 below]   |        | 2,000                             |
| Gross Salary  |        | 4,80,413                          |
| Less- Standard Deduction (Actual salary or Rs 50,000 whichever is lower) (As per amendment)                                 |        | 50,000                            |
| Less: Professional tax paid by the company [Section 16(iii)]  |        | 2,000                             |
| <b>Salary chargeable to tax</b>   |        | <b>4,28,213</b>                   |



**Notes:**

- 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% 10% of salary, whichever is lower.

(As per amendment it is 10% of salary in cities having population > 40 lakhs as per 2011 census)

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

|       |                     |                |
|-------|---------------------|----------------|
| (I)   | Basic salary        | 2,42,500       |
| (ii)  | Dearness allowance  | 72,750         |
| (iii) | Bonus               | 45,000         |
| (iv)  | Transport allowance | 4,800 (24,000) |
| (v)   | Hostel allowance    | 4,800          |
| Total |                     | 3,89,050       |

15% of salary = ₹3,89,050 × 10/100 = ₹ 38,905 Value of rent-free house will be

- Actual amount of lease rental paid by employer (i.e. ₹ 60,000) or
- 10% of salary (i.e., ₹ 38,905), whichever is lower.

Therefore, the perquisite value is ₹ 38,905.

- Any sum paid by the employer in respect of any expenditure actually incurred by the employee on his medical treatment or treatment of any member of his family is exempt to the extent of ₹ 15,000. Therefore, in this case, the balance of ₹ 20,000 (i.e., ₹ 35,000 - ₹ 15,000) is a taxable perquisite.

As per amendment the ₹ 15,000 allowance is withdrawn. Hence full ₹ 35,000 will be added.

- The value of any gift or voucher or token in lieu of gift received by the employee or by member of his household is 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, entire amount of ₹ 6,000 is liable to tax as perquisite.

Alternative View: An alternate view possible is that only the sum in excess of ₹ 5,000 is taxable in view of the language of Circular No. 15/2001 dated 12.12.2011 that such gifts up to ₹ 5,000 in the aggregate per annum would be exempt, beyond which it would be taxed as a perquisite. As per this view, the value of perquisite would be ₹1,000.

- Free lunch provided by the employer during office hours is not a perquisite, assuming that the value does not exceed ₹50 per meal.
- As per Rule 3(7)(vii), facility of use of laptop and computer is an exempt perquisite, whether used for official or personal purpose or both.
- Professional tax paid by employer on behalf of employee is a taxable perquisite, hence, included in gross salary as a perquisite.

**Question 7**

MTP March'21... Mtp2 Sep24

Mr. Samaksh is a Marketing Manager in Smile Ltd. From the following information, you are required to compute his income chargeable under the head salary for assessment year 2024-25.

Basic salary is ₹ 70,000 per month.

- Dearness allowance @ 40% of basic salary
- He is provided health insurance scheme approved by IRDA for which ₹ 20,000 incurred by Smile Ltd.
- Received ₹ 10,000 as gift voucher on the occasion of his marriage anniversary from Smile Ltd.



- (iv) Smile Ltd. allotted 800 sweat equity shares in August 2023. The shares were allotted at ₹ 450 per share and the fair market value on the date of exercising the option by Mr. Samaksh was ₹ 700 per share.
- (v) He was provided with furniture during September 2019. The furniture is used at his residence for personal purpose. The actual cost of the furniture was ₹ 1,10,000. On 31st March, 2024, the company offered the furniture to him at free of cost. No amount was recovered from him towards the furniture till date.
- (vi) Received ₹ 10,000 towards entertainment allowance.
- (vii) Housing Loan@ 4.5% p.a. provided by Smile Ltd., amount outstanding as on 01.04.2023 is ₹ 15 Lakhs. ₹ 50,000 is paid by Mr. Samaksh every quarter towards principal starting from June 2023. The lending rate of SBI for similar loan as on 01.04.2023 was 8%.
- (viii) Facility of laptop costing ₹ 50,000

7 Marks

Answer:

Computation of income under the head "Salaries" of Mr. Samaksh for the A.Y.2024-25

| Particulars   | ₹        | ₹         |
|---|----------|-----------|
| Basic Salary [₹ 70,000 × 12 months]   |          | 8,40,000  |
| Dearness allowance [40% of ₹ 8,40,000]  |          | 3,36,000  |
| Entertainment allowance   |          | 10,000    |
| Interest on housing loan given at concessional rate, would be perquisite, since the amount of loan exceeds ₹ 20,000, For computation, the lending rate of SBI on 1.4.2023 @8% has to be considered. Thus, perquisite value would be determined @ 3.5% (8% - 4.5%) [See Working Note]        |          | 49,291    |
| Health insurance premium paid by the employer [tax free perquisite]   |          | Nil       |
| Gift voucher on the occasion of his marriage anniversary [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 exceeding ₹ 5,000 in aggregate during the previous year is fully taxable] (See note below) |          | 10,000    |
| Allotment of sweat equity shares  |          |           |
| Fair market value of 800 sweat equity shares @ ₹ 700 each   | 5,60,000 |           |
| Less: Amount recovered @ ₹ 450 each   | 3,60,000 | 2,00,000  |
| Use of furniture by employee 10% p.a. of the actual cost of ₹ 1,10,000  |          | 11,000    |
| Use of Laptop   |          |           |
| Facility of use of laptop is not a taxable perquisite   |          | Nil       |
| Transfer of asset to employee Value of furniture transferred to Mr. Samaksh   | 1,10,000 |           |
| Less: Normal wear and tear @10% for each completed year of usage on SLM basis [1,10,000 × 10% × 4 years (from September 2019 to 2023)]  | 44,000   | 66,000    |
| Gross Salary  |          | 15,22,291 |
| Less: Standard deduction u/s 16 [Actual salary or ₹ 50,000, whichever is less]  |          | 50,000    |
| Net Salary  |          | 14,72,291 |



**Working Note:****Computation of perquisite value of loan given at concessional rate**

For computation, the lending rate of SBI on 1.4.2023 @8% has to be considered. Thus, perquisite value would be determined @ 3.5% (8% - 4.5%)

| Month                                 | Maximum outstanding balance as on last date of month (₹) | Perquisite value at 3.5% for the month (₹) |
|---------------------------------------|--|--|
| April, 2023                           | 15,00,000  | 4,375                                      |
| May, 2023                             | 15,00,000  | 4,375                                      |
| June, 2023                            | 14,50,000  | 4,229                                      |
| July, 2023                            | 14,50,000  | 4,229                                      |
| August, 2023                          | 14,50,000  | 4,229                                      |
| September, 2023                       | 14,00,000  | 4,083                                      |
| October, 2023                         | 14,00,000  | 4,083                                      |
| November, 2023                        | 14,00,000  | 4,083                                      |
| December, 2023                        | 13,50,000  | 3,937.50                                   |
| January, 2024                         | 13,50,000  | 3,937.50                                   |
| February, 2024                        | 13,50,000  | 3,937.50                                   |
| March, 2024                           | 13,00,000  | 3,792                                      |
| <b>Total value of this perquisite</b> |  | <b>49,290.50</b>                           |

**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 and gross salary and net salary would be ₹ 15,17,291 and ₹ 14,67,291, respectively.

**Question 8**

MTP March'22

Ms. Aashima is a Finance manager in ABC limited. She has given the details of her income for the P.Y. 2023-24. You are required to compute the income chargeable to tax under the head "Salaries" in the hands of Ms. Aashima from the details given below:

Basic Salary ₹ 60,000 p.m.

Dearness Allowance ₹ 24,000 p.m. (40% of which forms part of retirement benefits) Bonus ₹ 21,000 p.m.

Motor car owned by the employer (cubic capacity of engine exceeds 1.6 liters) provided to Ms. Aashima from 1st October, 2023 which is used for both official and personal purposes. Repair and running expenses of ₹ 60,000 were fully met by the company. The motor car was self-driven by the employee.

Professional tax paid ₹ 2,500 out of which ₹ 2,000 was paid by the employer. Her employer has provided her with an accommodation on 1<sup>st</sup> April 2023 at a concessional rent. The house was taken on lease by ABC Ltd. for ₹ 12,000 p.m. Ms. Aashima occupied the house from 1st December, 2023, ₹ 4,800 p.m. is recovered from the salary of Ms. Aashima. The employer gave her a gift voucher of ₹ 8,000 on her birthday. Ms. Aashima contributes 15% of her salary (Basic Pay plus DA) towards recognized provident fund and the company contributes the same amount. The company pays medical insurance premium to effect insurance on the health of Ms. Aashima ₹ 20,000. Assume that she does not opt for 115BAC.

**7 Marks**

Answer:



Computation of income chargeable to tax under the head "Salaries" in the hands of Ms. Aashima for A.Y.2024-25

| Particulars   |        | ₹         |
|---|--------|-----------|
| Basic Salary [₹ 60,000 × 12]  |        | 7,20,000  |
| Dearness allowance [₹ 24,000 × 12]  |        | 2,88,000  |
| Bonus [₹ 21,000 × 12]   |        | 2,52,000  |
| Perquisite of Motor car (₹2,400 × 6 months) [See Note 1]  |        | 14,400    |
| Professional tax paid by employer [See Note 2]  |        | 2,000     |
| Perquisite value in respect of concessional rent [See Note 3]   |        | 17,040    |
| Gift voucher given by employer on Ms. Aashima's birthday (entire amount is taxable since the perquisite value exceeds ₹ 5,000) [See Note 4]   |        | 8,000     |
| Employer's contribution to recognized provident fund in excess of 12% of salary<br>= 15% × [ (₹ 60,000 + ₹ 24,000) × 12 ] - 12% × { [₹ 60,000 + ₹ 9,600 (being 40% of ₹ 24,000)] × 12 } = 1,51,200 - 1,00,224<br>[Salary = Basic Salary + Dearness allowance, to the extent it forms part of pay for retirement benefits] |        | 50,976    |
| Medical insurance premium of ₹ 20,000 paid by the employer to affect an insurance on the health of an employee is an exempt perquisite  |        | -         |
| Gross salary  |        | 13,52,416 |
| Less: Deduction under section 16  |        |           |
| Standard deduction under section 16(ia)   | 50,000 |           |
| Professional tax u/s 16(iii) [See Note 2]   | 2,500  | 52,500    |
| Salary chargeable to tax  |        | 12,99,916 |

**Notes:**

- In case a motor car (engine cubic capacity more than 1.6 litres) owned by employer is provided to an employee without chauffeur for both official and personal purpose, where the expenses are fully met by the employer, the value of perquisite would be ₹ 2,400 p.m. The car was provided to Ms. Aashima on 1.10.2023, therefore, the perquisite value has been calculated for 6 months.
- 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 Ms. Aashima. 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.
- Where the accommodation is taken on lease or rent by the employer, the actual amount of lease rent paid or payable by the employer or (10%) of salary, whichever is lower, in respect of the period during which the house is occupied by the employee, as reduced by the rent recoverable from the employee, is the value of the perquisite. Actual rent paid by the employer from 1.12.2023 to 31.3.2024 = ₹ 48,000 [₹ 12,000 × 4 months] 10% of salary = ₹ 36,240 [10% × (₹ 60,000 + ₹ 9,600 + ₹ 21,000) × 4 months] Salary = Basic Salary + Dearness Allowance, to the extent it forms part of pay for retirement



benefits + Bonus Lower of the above is ₹ 36,240 which is to be reduced by the rent recovered from the employee. Hence, the perquisite value of concessional rent = ₹ 36,240 - ₹ 19,200 [₹ 4,800 × 4 months] = ₹ 17,040

(As per amendment it is actual amount of lease rental paid or payable by the employer or 10% of salary whichever is lower as reduced by rent paid by the employee)

4. As per Rule 3(7)(iv), the value of any gift or voucher received by the employee or by member of his household on ceremonial occasions or otherwise from the employer shall be determined as the sum equal to the amount of such gift. However, the value of any gift or voucher received by the employee or by member of his household below ₹ 5,000 in aggregate during the previous year would be exempt as per the proviso to Rule 3(7)(iv). In this case, the gift voucher of ₹ 8,000 was received by Ms. Aashima from her employer on the occasion of her birthday. Since the value of the gift voucher exceeds the limit of ₹ 5,000, the entire amount of ₹ 8,000 is liable to tax as perquisite. The above solution has been worked out accordingly. Alternative view - An alternate view is also possible is that only the sum in excess of ₹ 5,000 is taxable in view of the language of Circular No.15/2001 dated 12.12.2001, which states that such gifts up to ₹ 5,000 in the aggregate per annum would be exempt, beyond which it would be taxed as a perquisite. As per this view, the value of perquisite would be ₹ 3,000. The salary chargeable to tax, in this case, would be ₹ 13,06,676.

### Question 9

MTP May'19

Ms. Aarohi is the HR manager in Shipra limited. She gives you the following particulars: Basic

Salary ₹ 70,000 p.m.

Dearness Allowance ₹ 24,000 p.m. (30% of which forms part of retirement benefits)

Bonus ₹ 21,000 p.m.

Her employer has provided her with an accommodation on 1<sup>st</sup> April 2023 at a concessional rent. The house was taken on lease by Shipra Ltd. for ₹ 12,000 p.m. Ms. Aarohi occupied the house from 1<sup>st</sup> November 2023, ₹ 4,800 p.m. is recovered from the salary of Ms. Aarohi. The employer gave her a gift voucher of ₹ 10,000 on her birthday. She contributes 18% of her salary (Basic Pay plus DA) towards recognized provident fund and the company contributes the same amount. The company pays medical insurance premium to effect insurance on the health of Ms. Aarohi ₹ 20,000. Motor car owned by the employer (cubic capacity of engine exceeds 1.6 liters) provided to Ms. Aarohi from 1<sup>st</sup> November 2023 which is used for both official and personal purposes. Repair and running expenses of ₹ 70,000 were fully met by the company. The motor car was self-driven by the employee.

Compute the income chargeable to tax under the head "Salaries" in the hands of Ms. Aarohi for the Assessment Year 2024-25.

Answer:

Computation of income chargeable to tax under the head "Salaries" in the hands of Ms. Aarohi for A.Y. 2024-25

| Particulars                        | ₹        |
|------------------------------------|----------|
| Basic Salary [₹ 70,000 × 12]       | 8,40,000 |
| Dearness allowance [₹ 24,000 × 12] | 2,88,000 |
| Bonus [₹ 21,000 × 12]              | 2,52,000 |



|  |                  |
|--|------------------|
| Perquisite value in respect of concessional rent [See Working Note below]  | 25,100           |
| Gift voucher given by employer on Ms. Aarohi's birthday (entire amount is taxable since the perquisite value exceeds ₹5,000) [See Note for Alternative view]   | 10,000           |
| Employer's contribution to recognized provident fund in excess of 12% of salary  | 91,872           |
| = $18\% \times [(\text{₹ } 70,000 + \text{₹ } 24,000) \times 12] - 12\% \times \{[\text{₹ } 70,000 + \text{₹ } 7,200 \text{ (being 30\% of ₹ } 24,000)] \times 12\} = 2,03,040 - 1,11,168$<br>[Salary = Basic Salary + Dearness allowance, to the extent it forms part of pay for retirement benefits] |                  |
| Medical insurance premium of ₹ 20,000 paid by the employer to affect an insurance on the health of an employee is an exempt perquisite   | -                |
| Provision of motor car (engine cubic capacity more than 1.6 litres) owned by employer to an employee without chauffeur for both official and personal purpose, where the expenses are fully met by the employer - the perquisite value would be ₹2400/- p.m. [₹2,400 × 5 months]                       |                  |
|  | 12,000           |
| Gross salary   | 15,18,972        |
| Less: Standard deduction under section 16(ia)  | 40,000           |
| <b>(As per amendment Rs. 50,000)</b>   | <b>50,000</b>    |
| Salary chargeable to tax   | 14,89,872        |
|  | <b>14,68,972</b> |

**Working Note:**

Where the accommodation is taken on lease or rent by the employer, the actual amount of lease rent paid or payable by the employer or 15% 10% of salary, whichever is lower, in respect of the period during which the house is occupied by the employee, as reduced by the rent recoverable from the employee, is the value of the perquisite.

Actual rent paid by the employer from 1.11.2023 to 31.3.2024 = ₹ 60,000 [ ₹ 12,000 × 5 months]

10% of salary = ₹ 49,100 [10% × (₹ 70,000 + ₹ 7,200 + ₹ 21,000) × 5 months]

Salary = Basic Salary + Dearness Allowance, to the extent it forms part of pay for retirement benefits + Bonus

Lower of the above is ₹49,100 which is to be reduced by the rent recovered from the employee.

Hence, the perquisite value of concessional rent = ₹ 49,100 - ₹24,000 [₹ 4,800 × 5 months] = ₹ 25,100  
**(As per amendment it is actual amount of lease rental paid or payable by the employer or 10% of salary whichever is lower as reduced by rent paid by the employee)**

**Note:** As per Rule 3(7)(iv), the value of any gift or voucher received by the employee or by member of his household on ceremonial occasions or otherwise from the employer shall be determined as the sum equal to the amount of such gift. However, the value of any gift or voucher received by the employee or by member of his household below ₹ 5,000 in aggregate during the previous year would be exempt as per the proviso to Rule 3(7)(iv).

In this case, the gift voucher of ₹ 10,000 was received by Ms. Aarohi from her employer on the occasion of her birthday. Since the value of the gift voucher exceeds the limit of ₹ 5,000, the entire amount of ₹ 10,000 is liable to tax as perquisite. The above solution has been worked out accordingly.



Alternative view - An alternate view is also possible is that only the sum in excess of ₹ 5,000 is taxable in view of the language of Circular No.15/2001 dated 12.12.2001, which states that such gifts up to ₹ 5,000 in the aggregate per annum would be exempt, beyond which it would be taxed as a perquisite. As per this view, the value of perquisite would be ₹ 5,000. The salary chargeable to tax, in this case, would be ₹ 14,84,872.

**Question 10**

RTP May'22

Mr. Sunil is the CEO of Sheetal Textiles Ltd. His basic salary is ₹ 6,00,000 p.m. He is paid 8% as D.A. He contributes 10% of his pay and D.A. towards his recognized provident fund and the company contributes the same amount. The accumulated balance in recognized provident fund as on 1.4.2022, 31.3.2023 and 31.3.2024 is ₹ 50,35,000, ₹ 71,46,700 and ₹ 94,57,700, respectively. Compute the perquisite value chargeable to tax in the hands of Mr. Sunil u/s 17(2)(vii) and 17(2) (viia) for the A.Y. 2023-24 and A.Y. 2024-25.

**Answer:****Computation of perquisite value taxable u/s 17(2)(vii) and 17(2) (viia) for A.Y. 2023-24**

- Perquisite value taxable u/s 17(2)(vii) = ₹ 7,77,600, being employer's contribution to recognized provident fund during the P.Y. 2022-23 - ₹ 7,50,000 = ₹ 27,600
- Perquisite value taxable u/s 17(2) (viia) = Annual accretion on perquisite taxable u/s 17(2)(vii)  
=  $(PC/2) * R + (PC1 + TP1) * R$   
=  $(27,600/2) \times 0.0914 + 0 = ₹ 1,261$

|      |   |
|------|---|
| PC   | Sheetal Textile Ltd.'s contribution in excess of ₹ 7.5 lakh to recognized provident fund during P.Y. 2022-23 = ₹ 27,600   |
| PC1  | Nil   |
| TP1  | Nil   |
| R    | $I/F_{avg} = 5,56,500/60,90,850 = 0.0914$   |
| I    | RPF balance as on 31.3.2024 - employee's and employer's contribution during the year - RPF balance as on 1.4.2023 = ₹ 5,56,500 (₹ 71,46,700 - ₹ 7,77,600 - ₹ 7,77,600 - ₹ 50,35,000)  |
| Favg | Balance to the credit of recognized provident fund as on 1 <sup>st</sup> April, 2022 + Balance to the credit of recognized provident fund as on 31 <sup>st</sup> March, 2023)/2 = (₹ 50,35,000 + ₹ 71,46,700)/2 = ₹ 60,90,850 |

**Computation of perquisite value taxable u/s 17(2)(vii) and 17(2)(viia) for A.Y. 2024-25**

- Perquisite value taxable u/s 17(2)(vii) = ₹ 7,77,600, being employer's contribution to recognized provident fund during the P.Y. 2023-24 - ₹ 7,50,000 = ₹ 27,600
- Perquisite value taxable u/s 17(2)(viia) = Annual accretion on perquisite taxable u/s 17(2)(vii)  
=  $(PC/2) * R + (PC1 + TP1) * R$   
=  $(27,600/2) \times 0.0910 + (27,600 + 1,261) \times 0.0910$   
= ₹ 1,256 + ₹ 2,626 = ₹ 3,882

|     |   |
|-----|---|
| PC  | Sheetal Textile Ltd.'s contribution in excess of ₹ 7.5 lakh to recognized provident fund during P.Y. 2022-23 = ₹ 27,600 |
| PC1 | Amount of employer's contribution in excess of ₹ 7,50,000 to RPF in P.Y. 2022-23 = ₹ 27,600                             |



|      |   |
|------|---|
| TP1  | Taxable perquisite under section 17(2)(viii) for the P.Y. 2022-23 = ₹ 1,261   |
| R    | $I/\text{Favg} = 7,55,800/83,02,200 = 0.0910$   |
| I    | RPF balance as on 31.3.2024 - employee's and employer's contribution during the year - RPF balance as on 1.4.2023 = ₹ 7,55,800 (₹ 94,57,700 - ₹ 7,77,600 - ₹ 7,77,600 - ₹ 71,46,700)  |
| Favg | Balance to the credit of recognized provident fund as on 1 <sup>st</sup> April, 2023 + Balance to the credit of recognized provident fund as on 31 <sup>st</sup> March, 2024)/2 = (₹ 71,46,700 + ₹ 94,57,700)/2 = ₹ 83,02,200 |

**Note -**

Since the employee's contribution to RPF exceeds ₹ 2,50,000 in the P.Y.2023-24, interest on ₹ 5,27,600 (i.e., ₹ 7,77,600 - ₹ 2,50,000) will also be chargeable to tax.

**Question 11**

PYQ Nov'18

Examine with brief reasons, whether the following are chargeable to income-tax and the amount liable to tax with reference to the provisions of the Income-tax Act, 1961:

Allowance received by an employee Mr. Ram working in a transport system at ₹ 12,000 p.m. which has been granted to meet his personal expenditure while on duty. He is not in receipt of any daily allowance from his employer.

Answer:

|     | Chargeability  | Amount liable to tax (₹) | Reason   |
|-----|----------------|--------------------------|--|
| (I) | Partly taxable | 43,200                   | Any allowance granted to an employee working in a transport system to meet his personal expenditure during his duty is exempt provided he is not in receipt of any daily allowance. The exemption is 70% of such allowance (i.e., ₹ 8,400 per month being, 70% of ₹ 12,000) or ₹ 10,000 per month, whichever is less. Hence, 1,00,800 (i.e., ₹ 8,400 × 12) is exempt. Balance ₹ 43,200 (₹ 1,44,000 - ₹ 1,00,800) is taxable in the hands of Mr. Ram. |

**Question 12**

PYQ May'18

Mr. Honey is working with a domestic company having a production unit in the U.S.A. for last 15 years. He has been regularly visiting India for export promotion of company's product. He has been staying in India for at least 184 days every year.

He submits the following information:

Salary received outside India (For 6 months) ₹ 50,000 P.M Salary received in India (For 6 months) ₹ 50,000 P.M.

He has been given rent free accommodation in U.S.A. for which company pays ₹ 15,000 per month as rent, but when he comes to India, he stays in the guest house of the company. During this period, he is given free lunch facility.

During the previous year, company incurred an expenditure of ₹ 48,000 on this facility.

He has been provided a car of 2000 cc capacity in U.S.A. which is used by him for both office and private purposes. The actual cost of the car is ₹ 8,00,000. But when he is in India, the car



is used by him and the members of his family only for personal purpose. The monthly expenditure of car is ₹ 5,000. His elder son is studying in India for which his employer spends ₹ 12,000 per year whereas his younger son is studying in U.S.A. and stays in a hostel for which Mr. Honey gets ₹ 3,000 per month as combined allowance.

The company has taken an accident insurance policy and a life insurance policy. During the previous year, the company paid premium of ₹ 5,000 and ₹ 10,000, respectively. Compute Mr. Honey's taxable income from salary for the Assessment Year 2024-25. Assume that he does not opt for 115BAC.

10 Marks

Answer:

Since Mr. Honey stays in India for at least 184 days every year, he is resident and ordinarily resident in India, every year. Therefore, his global income would be taxable in India. The salary received by him in India and outside India would be taxable in India as per the provisions of the Income-tax Act, 1961.

#### Computation of total income from salary of Mr. Honey for the A.Y. 2024-25

| Particulars  | ₹        | ₹        |
|--|----------|----------|
| Basic Salary   |          |          |
| Salary received outside India for 6 months (₹ 50,000 × 6)  | 3,00,000 |          |
| Salary received in India for 6 months (₹ 50,000 × 6)   | 3,00,000 | 6,00,000 |
| Children Education and Hostel Allowance  |          |          |
| Amount received from employer (₹ 3,000 × 12)   | 36,000   |          |
| [No exemption is available in respect of allowance received for any education or hostel facility of children outside India]  | Nil      | 36,000   |
| Perquisites:   |          |          |
| Value of rent-free accommodation in USA  |          | 63,600   |
| Lower of:  |          |          |
| 15% 10% of ₹ 6,36,000 (Basic Salary + Children Education and Hostel Allowance)<br>(As per amendment it is actual amount of lease rental paid or payable by the employer or 10% of salary whichever is lower as reduced by rent paid by the employee) | 63,600   |          |
| Rent paid by employer = ₹ 15,000 × 12  | 1,80,000 |          |
| Value of guest house in India  |          | -        |
| [not taxable, since it is provided for stay when he visits India wholly for official purposes]   |          |          |
| Lunch facility provided by employer [Taxable perquisite, since the value exceeds ₹ 50 per meal] [See Note 1 below]   |          | 48,000   |
| Motor car provided by employer [₹14,400 + ₹ 70,000] [See Note 2 below]   |          | 84,400   |
| Used for both official and personal purposes for 6 months when he is in US. Hence, the perquisite value is ₹14,400 [₹ 2,400 × 6], since cubic capacity exceeds 1.6 liters, assuming that expenses are fully met by employer                          | 14,400   |          |



|   |        |        |          |
|---|--------|--------|----------|
| Used for personal purposes by his family members for 6 months when he is in India   |        |        |          |
| Actual running and maintenance expenditure <sup>3</sup> [₹ 5,000 × 6]   | 30,000 |        |          |
| Normal wear and tear [10% of actual cost of motor car for 6 months]<br>= ₹ 8,00,000 × 10% × 6/12  | 40,000 | 70,000 |          |
| Education expenditure of elder son in India met by employer [Fully taxable perquisite]  |        |        | 12,000   |
| Life insurance premium paid by the employer - any sum payable by the employer to affect an assurance on the life of the employee is a taxable perquisite                                      |        |        | 10,000   |
| Accident insurance premium paid by employer - exempt perquisite, since such policy is taken by the employer in business interest so as to indemnify the company from payment of compensation. |        |        | -        |
| Gross Salary  |        |        | 8,85,800 |
| Less: Deductions under section 16   |        |        | Nil      |
| Standard deduction (lower of actual salary or Rs. 50,000) (as per amendment)  |        |        | (50,000) |
| Taxable Salary  |        |        | 8,35,800 |

**Notes:**

- Lunch facility provided to Mr. Honey is a taxable perquisite as per Rule 3(7)(iii). The benefit under the proviso to this Rule would be available only if the value does not exceed ₹ 50 per meal. In this case since the value far exceeds ₹ 50 per meal, the benefit under the proviso to Rule 3(7)(iii) is not available. The above solution has been worked out accordingly. However, in page 17 of the CBDT Circular No. 29/2017 dated 5.12.2017, the method of valuation of perquisite of free lunch facility has been explained. As per the said circular, a fixed sum of ₹ 50 per meal has to be reduced to arrive at the value of perquisite of free food provided by the employer. If the beneficial view given in the circular is considered for answering this question, an assumption as to the number of working days per month has to be made and thereafter, calculation for 6 months has to be made to arrive at the value of taxable and exempt perquisite of provision of lunch facility.
- It is assumed that the same is fully met by the employer the above solution, the perquisite value of motor car provided by employer has been worked out assuming that the employer fully **meets the** running and maintenance expenses. However, if expenses of running and maintenance of motor car are fully met by Mr. Honey himself, then, the value of perquisite of motor car would be as follows:

| Particulars  | ₹      |
|--|--------|
| Motor car provided by employer [₹5,400 + ₹40,000]  |        |
| Used for both official and personal purposes for 6 months when he is in US. Hence, the perquisite value is ₹900 p.m., since cubic capacity exceeds 1.6 liters, | 5,400  |
| Used for personal purposes by his family members for 6 months when he is in India  |        |
| Normal wear and tear [10% of actual cost of motor car for 6 months] = ₹ 8,00,000 × 10% × 6/12  | 40,000 |
|  | 45,400 |

In this case, the taxable salary would be ₹8,46,800.



**Question 13**

Mr. B is a sales manager in PQR Ltd. During F.Y. 2023-24 he has received the following towards his salary and allowances/perquisites:

- Basic pay ₹ 85,000 per month up to December 2023 and thereafter an increase of ₹ 2,000 per month.
- Dearness allowance 40% of basic pay forming part of retirement benefits.
- Bonus 1-month basic pay based on the salary drawn during January month every year.
- He contributes 14% of his basic pay & DA towards his recognized provident fund and his employer company contributes the same amount.
- Travelling allowance of ₹ 5,000 per month towards on duty tours.
- Research and training allowance ₹ 3,000 per month.
- Children education allowance of ₹ 600 per month, per child for his 2 sons and 1 daughter.
- Accommodation owned by PQR Ltd. was provided to him in Hyderabad for the whole year and furniture of ₹ 2,00,000 was provided from 1st October, 2023.
- Reimbursement of medical expenses on his treatment in private hospital ₹ 15,000, medical allowance ₹ 1,500 per month. Company has paid premium on medical policy purchased on his health ₹ 12,500.

You are required to:

- Compute the income chargeable to tax under the head "Income from Salary", assuming that he does not opt for the provisions under section 115BAC.
- What will be the income under the head "Salaries", if he opts for the provisions under section 115BAC?

**8 Marks**

**Answer:**

Computation of income chargeable to tax under the head "Salaries" for A.Y.2024-25, if Mr. B does not opt for the provisions of section 115BAC

| Particulars   | ₹        | ₹         |
|---|----------|-----------|
| Basic Pay [₹ 85,000 × 9 + ₹ 87,000 × 3]   |          | 10,26,000 |
| Dearness Allowance [₹ 10,26,000 × 40%]  |          | 4,10,400  |
| Bonus   |          | 87,000    |
| Travelling allowance [Exempt, since provided towards duty tours <sup>1</sup> ]  |          | -         |
| Research and training allowance [₹ 3,000 × 12]  |          | 36,000    |
| Medical allowance [₹ 1500 × 12]   |          | 18,000    |
| Children Education allowance [₹ 600 × 12 × 3]   | 21,600   |           |
| Less: Exempt [₹100 × 12 × 2]  | 2,400    | 19,200    |
| Salary (for the purpose of valuation of Rent-free accommodation)  |          | 15,96,600 |
| Value of Rent-free accommodation [10% of ₹ 15,96,600]<br>(As per amendment it is 10% of salary in cities having population > 40 lakhs as per 2011 census) | 1,59,660 |           |
| Add: Value of furniture [₹ 2,00,000 × 10% p.a. for 6 months]  | 10,000   | 1,69,660  |
| Reimbursement of medical expenses [taxable, since amount is reimbursed for treatment in private hospital]   |          | 15,000    |



|  |  |           |
|--|--|-----------|
| Health insurance premium paid by PQR Ltd. [Exempt]   |  | -         |
| Employers' contribution to RPF in excess of 12% of salary = 2% of ₹ 14,36,400 (₹ 10,26,000 + ₹ 4,10,400) |  | 28,728    |
| Gross Salary   |  | 18,09,988 |
| Less: Deductions under section 16  |  |           |
| Standard deduction   |  | 50,000    |
| Income chargeable under the head "Salaries"  |  | 17,59,988 |

ii. Computation of income chargeable to tax under the head "Salaries" for A.Y. 2024-25, if Mr. B opts for the provisions of section 115BAC

|   |                 |                 |
|---|-----------------|-----------------|
| Income chargeable under the head "Salaries"   |                 | 17,59,988       |
| Add: Exemption in respect of children education allowance [Not allowable as per section 115BAC]   |                 | 2400            |
| Add: <del>Standard deduction [Not allowable as per section 115BAC]</del><br><i>(As per amendment standard deduction is allowable as per section 115BAC)</i>   |                 | 50,000          |
|   |                 | 17,62,388       |
| Less: Value of rent-free accommodation (As per regular provisions)  |                 | <b>1,69,660</b> |
|   |                 | 15,92,728       |
| Add: Value of Rent-free accommodation [ <del>15%</del> <b>10%</b> of ₹ 15,99,000 (₹ 15,96,600 (as calculated above) + ₹ 2,400)]<br><i>(As per amendment it is 10% of salary in cities having population &gt; 40 lakhs as per 2011 census)</i> | <b>1,59,900</b> |                 |
| Add: Value of furniture [₹ 2,00,000 × 10% p.a. for 6 months]  | 10,000          | <b>1,69,900</b> |
| Income chargeable under the head "Salaries"   |                 | 17,62,628       |

It is assumed that he has fully expended the amount

#### Question 14

PYQ May'23

Mr. Rohan retired from M/s. QRST Ltd. a private sector company, on 31st March, 2024 after completing 28 years and 3 months of service. He received the following sums/gifts on his retirement:

- (ii) Gratuity of ₹ 7,50,000. He was covered under the Payment of Gratuity Act, 1972.
- (iii) Leave encashment of ₹ 3,25,000 for 210 days leave balance in his account. He was credited with 30 days leave for each completed year of service.
- (iv) Crockery set worth ₹ 4,500 from his employer at the farewell party which was organized by the HR department a day before his retirement.

He drew a basic salary of ₹ 25,000 per month along with 50% of basic salary as dearness allowance (not forming part of retirement benefits) for the period from 1st April, 2023 to 31st March, 2024.

Further, during the year, his employer provided him a motor car of 1800 cc which was used by him and his family solely for personal purposes. The cost of fuel and repairs were met by Mr. Rohan himself. The car was purchased by the employer on 1st April, 2022 at a cost of ₹ 8,00,000. Salary of driver amounting to ₹ 10,000 per month was met by the employer only.

