Chapter - 3 Salaries

Income from salary

Income from salary:- Sec-15 = Sec 17(+) Sec 10(-) Sec 16

Basic points kept in mind

- Employer & Employee relationship exists.
- Income in hands of Employee.
- Every payment made by Employer to Employee is deemed as salary in the hands of Employee.
- Employer & Employee relation not exist may be taxable under any other head.
- Employer expenditure on Employee treatment under PGBP.

Important point

Payment

- Cash → Normally called Allowance [Sec-10]
- Non Cash → Normally called perquisite [Sec-17]

Section 15 : Charging section

Salary shall be chargeable to tax

On due Basis / On received Basis → which is earlier

Section 15 (point 2) + Section 89(1)

Normally speaking, Salary arrears must be charged on due Basis, however there are some circumstances when it may not be possible to bring tax on due Basis.for eg:- pay commission by CG, increase in HRA.

Grade base salary

How to compute salary

Certain employee are entitled to a graded System normal annual increment given.

Example :-

Case -1 :- Joining date = 1/4/20
Joining salary = ₹25,000
Gross salary = 24-25 ?

Case -2 :- Joining date = 1/1/20
Joining salary = ₹28000
Gross salary = 24-25 ?

Salary grade= 25000-1000-30000-500-32000

1/4/20-31/3/21	₹25,000
1/4/21-31/3/22	₹26,000
1/4/22-31/3/23	₹27,000
1/4/23-31/3/24	₹28,000
1/4/23-31/3/25	₹29,000

Gross salary = 30000×12 =360000

1/1/20-31/12/21	₹28,000
1/1/21-31/12/22	₹29,000
1/1/22-31/12/23	₹30,000
1/1/23-31/12/24	₹30,500
1/1/23-31/3/25	₹31,000

GS= 30500×9 =274500 + 31000×3 = 367500

Section16 : Deduction from salary

Section 16(ia) :- Standard Deduction
Section 16(ii) :- Entertainment Allowance Deduction
Section 16(iii) :- Profesional tax / Employment tax Deduction

Important point

	Default Scheme	Optional Scheme
Section 16(ia)	Allowed	Allowed
Section 16(ii)	Not allowed	Allowed
Section 16(iii)	Not allowed	Allowed

Section 16(ia) : Standard deduction

Eligible employee:- All employees [whether govt,non-govt,big,small]

Amount of deduction

- Default regime → Annual salary OR ₹75,000 → Which ever is Less
- Optional regime → Annual salary OR ₹50,000 → Which ever is Less

Section 16(ii) : Entertainment Allowance deduction

Eligible employee:- Only Govt employee
Scheme :- Optional only
Treatment :- Ist added in salary then allowed deduction as per section 16(ii)

Amount of deduction

Actual amount received / ₹5,000 p.a / 20% of basic salary → Whichever is Less

Important points

- Amusement allowance is fully taxable in all cases [govt,non-govt, default,optional]
- Entertainment Allowance fully taxable under default scheme.
- If question is silent about type of Employee we consider him as non-govt employee.

Section 16(iii) Profesional tax/Employment tax

Eligible employee:- All employee
Scheme :- Optional only

Amount received form Employer	Add in salary
Amount paid by Employee	Deduction from salary

Amount received from employer	Amount paid by employer	Add in salary	Deduction u/s 16(iii)
500	800	500	800
800	500	800	500
500	NIL	500	NIL
NIL	800	NIL	800

Important points

- If question is silent then same amount would be add and same amount would be minus.

Employment tax paid = 500	500	500

Section : 10 Allowances & Retirement benefits

Allowances

- Fully exempt
  - Allowances received by High court/ Supreme Court judges.
  - Allowances received by member of UNO.
  - Allowances paid govt of india to Indian citizen for service rendered o/s india.
- Partly exempt/ Partly taxable
  - Sec 10(13A) HRA
  - Sec 10(14) special allowances
- Fully taxable → All allowances which not cover in 2 point

Section 10(14) : Special Allowances

Total 13 allowances

6 Allowances

CAT UDH

Conveyance allowance / Academic allowance / Travelling allowance / Uniform allowance / Daily allowance / Helper allowance

How to compute?

Total taxable = Amount received
(-) Amount exempt
XXX

Amount exempt → Amount received OR Amount spent → Which ever is Less

7 Allowances

CHOTU HaT

- Children education allowance → ₹100 per month/per child (max -2 child) More beneficial to assessee
- Outstation/ Transport company employee allowance → 70% of amt received OR ₹10000 pm → Which ever is Less
- Hostel Expenditure Allowance → ₹300 per month/per child (max -2 child) More beneficial to assessee
- Transport Allowance
  - Normal employee (fully taxable)
  - Handicapped employee (3200 p.m)
- Underground allowance → Upto 800 p.m
- Hill,border or remote area → 200 p.m to 7000 p.m
- Tribal area Allowance → Upto 200 p.m

How to compute?

Total taxable = Amount received
(-) Amount exempt
XXX

Amount exempt → Amount received OR Special limit → Which ever is Less

Section 10(13A) : House rent allowance [HRA]

Scheme :- Optional only

HRA taxable = HRA received
(-) HRA exempt
xxx

a) Actual HRA received
b) Rent paid(-)10% of salary
c) If metro city = 50% of salary
OR
Other city = 40% of salary

Basic salary
(+)Daerness allowance (DA) (UTOE)
(+)Commission % on basis of T/O
Salary

Important points

- Metro city=Delhi,Mumbai,Chennai, Kolkata.
- Exemption will be allowed only for the number of months for which rent is paid.
- If the employee is not paying the rent or not living in the rented apartment, then the entire HRA received will taxable.

Allowance Allowed to default regime us 115BAC

Partly exempt allowances	Fully exempt Allowance
1. Daily Allowance 2. Travelling Allowance 3. Conveyance Allowance 4. Transport Allowance	1. Allowances payable o/s india by govt of india to an Indian citizen for services rendered o/s india.

- Allowances other than above are fully taxable under default scheme.

Retirement benefit

1. Gratuity [sec 10(10)]
2. Pension [sec 10(10A)]
3. Leave Encashment [sec 10(10AA)]
4. Retirement compensation [sec 10(10B)]
5. Voluntary retirement services [sec 10(10C)]
6. Provident Fund

1. Leave Encashment [sec 10(10AA)]

Govt employee → 100% exempt

Non-govt employee → a) Actual amount received; b) 25 lakh; c) 10 Month (×) last 10 month average salary; d) Unrealized Leave (months) (×) last 10 month average salary → whichever is less

Leave unutilized
Total leave Allowed = xxx
(-)Total leave taken = xxx

Maximum leave allowed In month
Actual or 30 days whichever is less

Salary
Basic salary
(+) DA (UTOE)
(+)Comsn % on T/O

2. Retirement compensation [sec 10(10B)]

Actual amount; ₹5,00,000; As per Industrial dispute Act,1947 → whichever is less

3. Gratuity [sec 10(10)]

Employer — After retirement gratuity → Employee

Govt employee → 100% exempt

Non-govt employee →

Covered under gratuity Act 1972
1. Actual amount received
2. ₹20,00,000
3. Half month salary on the basis of last drawn salary for each completed year or part thereof. I.e
15/26 × last drawn salary × completed year services or part thereof

→ whichever is less

Not Covered under gratuity Act 1972
1. Actual amount received
2. ₹20,00,000
3. Half month salary on the basis of last 10 month Avg salary for each completed year.i.e
15/30 × last 10 month Avg salary × completed year services

→ whichever is less

Salary	
Covered under gratuity act	Not covered under gratuity act
Basic salary (+) DA (Total)	Basic salary (+) DA (UTOE) (+)Comsn % on T/O

Important points

- Gratuity received during service are fully taxable.
- Gratuity received from 2 or more ER in same year, maximum Exemption allowed ₹20,00,000.
- Gratuity received from earlier employer or later from another employer [Exemption available =₹20,00,000 (-) Earlier Gratuity].
- Exemption also available to widow, children of any deceased employee.
- Meaning of or part thereof:- upto 6 month not count, more than 6 Month count 1 year.

4. Penson [sec 10(10A)]

Uncommuted penson → 100 % taxable in all cases whether govt or non govt employee.

Commuted penson →

Govt employee → fully exempt

Non govt employee →

if gratuity received → 1/3 of 100% commuted penson shall exempt

if gratuity not received → 1/2 of 100% commuted penson shall exempt

Computation	
Commuted penson :- Amount commuted	
(-) Amount exempt	xxx
Uncommuted penson:-	xxx
Total penson taxable	xxx

Important point

100% commuted penson shall exempt :- In question 40%, 50%, 70% of the penson is commuted, then before that it will have to be taken to 100%, then 1/3, 1/2 exemption will be available.

5.Voluntary retirement services [sec 10(10C)]

Actual amount; ₹5,00,000; Remaining period of services(in months) (×) Last drawn salary; Completed year of services (×) 3 months (×) Last drawn salary → whichever is less

Salary
Basic salary
(+) DA (UTOE)
(+)Comsn % on T/O

6. Provident fund

Public Provident Fund [PPF]
- No need of Employee-employer relationship
- Any Public can contribute under this PF and claim deduction u/s 80C
- No treatment u/h salary

Employee Provident Fund [EPF]
- Statutory provident fund[SPF]
- Recognized provident fund[RPF]
- Unrecognized provident fund[URPF]

→ Treatment u/h salary

Exhaustive diagram of provident fund

	SPF	RPF	URPF
During job 1)What will be the treatment of employee's contribution in the hands of the employee?	Taxable & eligible for deduction u/s 80C [subject to condtion] NOTE :- If you have taken the full amount of basic salary then it will not be added again	Taxable & eligible for deduction u/s 80C [subject to condtion] NOTE :- If you have taken the full amount of basic salary then it will not be added again.	Taxable & not eligible for deduction u/s 80C
2)What will be the treatment of employer's contribution in the hands of the employee?	Fully exempt	Employer contribution Upto 12% of salary of Employee → If 12% contribution is upto ₹7,50,000 → Not taxable; If 12% contribution is more than ₹7,50,000 → Excess contribution taxable More than 12% of salary of Employee → Contribhtion in Excess of 12 % is taxable Salary: Basic salary (+) DA (UTOE) (+)Comsn % on T/O	Not taxable (because treatment after retirement
3)What will be the treatment of interest earned on employee's contribution in the hands of the employee	Contribution Upto 2.5 lakh → Int accured on such contri → exempt More than 2.5 lakh → Int accured on excess contri → Now taxable	Contribution Upto ₹2,50,000 & interest upto 9.5% on such contribution → exempt More than ₹2,50,000 & interest upto 9.5% on such contribution → Int on excess contri is taxable If Int accured on contri is more than 9.5% → Excess interest taxable If only employee is contribute Than limit of 2.5 Lakh increase to 5 lakh.	Not taxable (because treatment after retirement

Provident fund :- Continue

4)What will be the treatment of interest earned on employer's contribution in the hands of the employee	Fully exempt (without any limit)	Contribution Interest upto 9.5% → Exempt Interest more than 9.5% → Excess interest taxable But if employer contribution is more than ₹7,50,000 than interest on excess contribution shall also be taxable. How to compute taxable interest Taxable portion = PC × R + (PC1 + TP1) ×R PC = contribution in excess of ₹7,50,000 R = I / F.Avg I = Interest accured during PY FAvg = (Opening bal of Fund + (+) Closing bal of Fund xxx) / 2 How to find out CL bal of Fund Op bal+ er contri+ ee contri + int = cl bal	Not taxable (because treatment after retirement
After retirement 5) Amount received on retirement	Fully exempt	Fully exempt (subject to condition) a) Job continous 5 year or more b) If he was not render 5 year service due to:- (i) ill Health of Employee (ii) Employer business discontinued (iii) reason beyond control c) Old Employer to new Employee total service rendered 5 year or more.	• Er contri Taxable • Int on Er contri taxable • Ee contri not taxable • Int on ee contri Taxable u/h OS

Section 17 : perquisites under salary

1. Gift

Employer → Employee

- Monetary form → Fully taxable
- Non monetary form
  - Upto ₹5,000 → Exempt
  - More than ₹5,000 → excess value taxable

2. Sweat equity share

Employer → Employee

- Free of cost → FMV on the date of issue of shares is chargeable to tax as perquisites.
- Concessional rate → FMV on the date of issue of shares less :- Amount paid by employee = Taxable perquisites

3. LIC Premium

VOTP :- LIC premium borne by employer on behalf of employee

4. Lunch facility

Employer → Employee

It is exempt upto ₹50 per meal. If lunch is provided in office premises or through paid voucher.

Important points

- Only allowed to optional tax regime.
- Tea ,coffee or breakfast provided in office is not taxable.
- lunch provided in remote area is not taxable.

5. Use of movable property

- Mobile, laptop, computer etc. → VOTP = NIL
- Other movable property [AC,TC etc.]
  - Owned by Employer → VOTP = 10% p.a of actual cost
  - Not Owned by Employer → VOTP = Actual charges

- If laptop,mobile is use Personal work ,VOTP = NIL (because it's nature is official)

6. Transfer of movable asset

Employer → Employee (Movable property transfer)

Computer / laptop/ moblie	Car	other any asset
Taxable value = WDV (-)consideration	Taxable value = WDV (-)consideration	Taxable value = WDV (-)consideration
Dep @ 50% on WDV method [complete year]	Dep @ 20% on WDV method [complete year]	Dep @ 10% on SLM method [complete year]

7. Sweeper,Gardner,watchmen / water, electricity, Gas etc

- Own resources → Manufacturing cost / production cost/ per unit
- Outside resources → Actual charges incurred by Employer

8. Club membership/Credit card expenditure

- Official purpose → VOTP = NIL
- Other purpose → Actual expenditure incurred by Employer

9. Interest on loan

Employer → Employee

- Free rate of interest → Rate charged by SBI on 1st day of the relevant PY is chargeable to tax as perquisites.
- Concessional rate of interest → Rate charged by SBI on 1st day of the relevant PY less:- Amount paid by employee

Important points

- If loan is taken upto ₹20,000 are non taxable,or
- loan provided for special disease I.e aids,TB,cancer,Mental disorder are non taxable.

10. Leave Travel Concession [sec 10(5)]

Scheme :- Optional only

The benefit is available to Individual citizen as well as in respect of travel Concession or assistance for him and his family.

Family

Spouse , children of individual and parents, brother, sister,of the individual wholly or partly dependent on the employee.

Limit of exemption

- Exemption in respect of 2 journey performed in a block of 4 calendar year ,
- where such LTC not availed by individual during any block of 4 calendar then one such unavailed LTC will carry forward for next block of 4 calender year [Total 3 journey].

Monetary limit[subject to shortest route]	
By air	Economy class fare exempt
By rail	First class fare exempt
By bus	delux class fare exempt

Important points

- In case of LTC is encashed without performing the journey then 100% amount received by employee would be taxable.
- The exemption shall not be available to more than 2 children of individual after 1 October 1998. This restriction shall not apply in respect of children born before 1 October 1998 and in case of multiple birth after a child.

11. Education facility

- For employee → Fully exempt
- For children
  - own Institute/tie-ups → Upto ₹1000 p.m/per child exempt excess amount taxable
  - other wise → Fully taxable
- For other relative → Fully taxable

12. Rent free accommodation/concessional(RFA)

Employer → Employee

Govt Employee
- value of URFA = license fee charged by govt.

Not a Govt Employee

Owned by Employer
- City have population upto 15,00,000 → 5% of salary
- City have population more than 15,00,000 or upto 40,00,000 → 7.5% of salary
- City have population more than 40,00,000 → 10% of salary

Not Owned by Employer
- a) Actual charges Or b) 10 % of salary → whichever is less

Value of unfurnished RFA

Add:- Value of furnishing items
- Owned by Employer = 10% p.a of actual cost
- Not Owned by Employer = Actual charges

Value of furnished RFA

Less:- Amount paid by Employee

Concessional RFA

Salary

Basic salary + DA (UTOI) + Commission (Every type) + Bonus + Taxable potion of all allowances

13. HOTEL FACILITY

Employer → Employee (Hotel facility)

- Govt employee
- Non Govt employee

24% of salary Or Actual charges → whichever is less

Salary

Basic salary + DA (UTOI) + Commission (Every type) + Bonus + Taxable potion of all allowances

Important point related to RFA & Hotel facility

1. Accommodation provided on account of his transfer from place to another, at the new place of posting while one retaining the accommodation at the other place, the value of perquisite shall be determined with reference to only one such accommodation which has the lower perqusile value for period Not exceeding 90 days and thereafter, the value of perquisite shall be charged for the both such accommodations.

Important point related to RFA & Hotel facility :- Continue

2. However, Nothing shall be taxable if accomodation is provided for not more than 15 days and transfer of one employee from one place to another place.
3. Value of Perquisite to be restricted to CII :- where the accommodation is owned or taken on lease or rent by the employer and the same accommodation is Continued to be provided to same employee for more than 1 year the value of perquisite as Calculated for more than 1 year ,the value of perquisite as Calculated for Sl No.2 above shall Not exceed the amount so Calculated for the 1 PY as Multiplied By the amount which is a Ratio of the CII for the PY which the value is calculated.
4. Employee serving on deputation: Where the accommodation is provided by the Central Government or any State Government to an employee who is serving on deputation with any body or undertaking under the control of such Government,-
   (i) the employer of such an employee shall be deemed to be that body or undertaking where the employee is serving on deputation; and
   (ii) the value of perquisite of such an accommodation shall be the amount calculated in accordance with Sl. No.2.(3) of the above point 3, as if the accommodation is owned by the emloyer.

14. Medical facility [Employee or family both]

Treatment in india

Specified hospitals → Fully exempt
- Maintained by the Employer.
- Maintained by the govt.
- Maintained by the Local authority.
- Approval by govt.
- Approval for special disease only for the treatment of special disease.

Non Specified hospitals → Fully taxable

Treatment O/S india

- Travelling expenses → With one attendant
  - If GTI is upto ₹8,00,000 → Fully exempt
  - If GTI is more than ₹8,00,000 → Fully taxable
- Accommodation → With one attendant → Upto limit Permitted by RBI → Fully exempt (Excess portion taxable)
- Medical expenses

Important points
- Family means spouse ,children whether dependent or not and parents, brother,sister only when dependent.
- Medical insurance premium paid by Employer are fully exempt in hand of Employee.
- Covid 19 expenditure incurred by Employer is fully exempt in hands of Employee.

15. Motor car facility

Car owned by	Expenditure met by	Car used for 100% Personal purpose	Car used for both official and Personal purpose
Employee	Employee	NIL	NIL
Employee	Employer	Actual expenditure incurred by Employer.	Actual exp = xxx (-)Upto 1.6 ltr cc= 1800pm (-)More than 1.6 ltr cc =2400pm (-)Driver. =900pm VOTP = xxx [If actual expenditure is more than Specified limit then actual exp may reduced (after satisfaction of AO)]
Employer	Employee	10% of actual cost or Actual running and maintenance exp(if given)	Upto 1.6 ltr cc. = 600pm More than 1.6 ltr cc =900pm (+)Driver. =900pm VOTP = xxx
Employer	Employer	10% of actual cost + actual expenditure	Upto 1.6 ltr cc. = 1800pm More than 1.6 ltr cc=2400pm (+)Driver. =900pm VOTP = xxx

Employer contribution to RPF,NPS,SAF

Employer contribution in RPF in RPF ,NPS & SAF

- Aggregate contribution upto ₹7,50,000 → Not taxable u/h salary
- Aggregate contribution more than ₹7,50,000 → Taxable u/h salary and interest accure on such excess contribution shall be taxable.

How to compute taxable perquisites

$$\text{Taxable perquisites} = \left(\frac{PC}{2} \times R\right) + (PC1+TP1) \times R$$

Here,
- PC = Amount in excess of ₹7,50,000
- R = $\frac{I}{F.Avg}$
- I = Interest accure during PY
- F.Avg = $\frac{\text{OP bal of fund + CS bal of Fund}}{2}$
- PC1 = Amount in excess of ₹7,50,000[related to last year]
- TP1 = Taxable perquisite[Computed in last year]

How to compute interest [if not given in question]

Closing balance of fund
(-) Op bal of fund
(-) Employer contribution
(-) Employee contribution
Interest Income accured



CHAPTER 3 INCOME FROM SALARY {SECTION 15 TO 17}

Basic Questions (Basic Pay + Dearness Allowance)

Question 1

Mr Hitesh is employed in XYZ Ltd getting basic pay ₹ 50,000 p.m. but it was increased to ₹ 70,000 p.m. with effect from 1st July 2025. Compute his total income and tax liability for AY 2026-27 in the following two situations:

(i) Salary is due on last day of the month

(ii) Salary is due on first of next month

Question 2

Mr Ramesh is employed in ABC Ltd since 01.07.2013 in the pay scale of 11,000-500-14,500-1,200-20,500-1,500-28,000. The employer has paid dearness allowance @ 6% of his basic pay from 01.04.2025 to 30.09.2025 & thereafter dearness allowance was allowed @ 10% of basic pay. Compute employee's tax liability for AY 2026-27.

Question 3

Mr Ratan joins PQR Ltd on 1st July 2016 in the pay scale of 20,000-500-25,000-700-30,600-1,000-37,600. The company has allowed him dearness allowance @ 5% of basic pay from 01.04.2025 upto 30.06.2025 and thereafter, dearness allowance was allowed @ 11% of basic pay upto 31.12.2025 and after that dearness allowance was allowed @ 18% of basic pay. Compute the tax liability of the employee for AY 2026-27.

Question 4

Mr Yogesh joined Indus Ltd on 01.07.2018 in the pay scale of $21{,}000 - 1{,}200 - 28{,}200 - 1{,}400 - 39{,}400 - 1{,}600 - 49{,}000$. The employer has allowed him 3 increments in advance at the time of joining. The employee's salary is due on the 1st of next month. Employee was allowed DA @ ₹ 7,000 p.m. during PY 2024-25 and @ ₹ 9,000 p.m. in PY 2025-26. Compute the tax liability of. Mr Yogesh for AY 2026-27.

Question 5

Mr Dinesh is employed in ABC Ltd, getting basic pay ₹ 20,000 p.m., dearness allowance ₹ 7,000 p.m. and half of the dearness allowance forms part of the salary for the purpose of retirement benefits. The employer has also paid bonus @ ₹ 500 p.m., commission @ 1% on the sales turnover of ₹ 20 lakhs. The employer paid him HRA of ₹ 6,000 p.m. Employee has paid rent of ₹ 7,000 p.m. and was posted at Agra. Compute his tax liability.

Question 6

Compute taxable amount of HRA in the following cases:

Name Of Employee	Mr P	Mr Q	Mr R	Mr S
Basic Pay	₹ 20,000 p.m.	₹ 20,000 p.m.	₹ 20,000 p.m.	₹ 20,000 p.m.
House Rent Allowance	₹ 5,000 p.m.	₹ 5,000 p.m.	₹ 5,000 p.m.	₹ 5,000 p.m.
Rent paid	₹ 1,500 p.m.	₹ 12,000 p.m.	₹ 14,000 p.m.	Nil
Place of Residence	Delhi	Delhi	Delhi	Delhi

Question 7

Mr Raj Kumar has received the following emoluments from his employer:

Basic Pay	**₹ 3,000 per month**
Dearness Allowance	₹ 600 per month
Commission	₹ 6,000 p.a.
Motor Car for personal use (expenditure met by the employer)	₹ 500 p.m.
House Rent Allowance	₹ 900 p.m.

Find out the amount of HRA eligible for exemption in the hands of Mr Raj Kumar assuming that he paid a rent of ₹ 1,000 per month for his accommodation at Kanpur. DA forms part of salary for retirement benefits.

Question 8

Mr Mohit is employed with XY Ltd on a basic salary of ₹ 10,000 p.m. He is also entitled to dearness allowance @ 100% of basic salary, 50% of which is included in salary as per terms of employment. The company gives him HRA of ₹ 6,000 p.m. which was increased to ₹ 7,000 p.m. wef 01.01.2026 He also got an increment of ₹ 1,000 p.m. in his basic salary with effect from 01.02.2026. Rent paid by him during PY 2025-26 is as under:

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

Compute his gross salary for AY 2026-27.

Question 9

Mr Srikant has two sons. He is in receipt of children education allowance of ₹ 150 p.m. for his elder son and ₹ 70 p.m. for his younger son. Both his sons are going to school. He also receives the following allowances:

- Transport allowance - ₹1,800 p.m. (amount spent ₹1,200 p.m.)
- Tribal area allowance - ₹ 500 p.m.

Compute his taxable allowances.

Question 10

Mr Goyal receives the following emoluments during the PY ending 31.03.2026.

Particulars	Amount (₹)
Basic Pay	40,000
Dearness Allowance	15,000
Commission	10,000
Entertainment Allowance	4,000
Medical Allowance	10,000
Professional tax paid	3,000 (₹ 2,000 was paid by his employer)

Mr Goyal contributes ₹ 5,000 towards recognized provident fund. He has no other income. Determine his income from salary for AY 2026-27, if Mr Goyal is a State Government Employee.

Question 11

In the case of Mr Hari, who turned 73 years on 28.03.2026, you are informed that the salary income as computed for PY 2025-26 is ₹ 10,20,000 and arrears of salary received is ₹ 3,45,000. Further, you are given the following details relating to the earlier years to which the arrears of salary received is attributable to:

PY	Taxable Salary (₹)	Arrears Now Received (₹)
2016 – 17	7,10,000	1,03,000
2017 – 18	8,25,000	1,17,000
2018 – 19	9,50,000	1,25,000

Compute the relief available u/s 89 and the tax payable for AY 2026-27.

Previous Year	For Resident Individuals Of The Age Of 60 Years Or More At Any Time During The PY But Less Than 80 Years		For Other Resident Individuals	
	Slabs	Rate	Slabs	Rate
2017-18	Upto ₹ 3,00,000	Nil	Upto ₹ 2,50,000	Nil
	₹ 3,00,000 - ₹ 5,00,000	10%	₹ 2,50,000 - ₹ 5,00,000	10%
	₹ 5,00,000 - ₹ 10,00,000	20%	₹ 5,00,000 - ₹ 10,00,000	20%
	Above ₹ 10,00,000	30%	Above ₹ 10,00,000	30%
2018-19	Upto ₹ 3,00,000	Nil	Upto ₹ 2,50,000	Nil
	₹ 3,00,000 - ₹ 5,00,000	5%	₹ 2,50,000 - ₹ 5,00,000	5%
	₹ 5,00,000 - ₹ 10,00,000	20%	₹ 5,00,000 - ₹ 10,00,000	20%
	Above ₹ 10,00,000	30%	Above ₹ 10,00,000	30%
2019-20	Upto ₹ 3,00,000	Nil	Upto ₹ 2,50,000	Nil
	₹ 3,00,000 - ₹ 5,00,000	5%	₹ 2,50,000 - ₹ 5,00,000	5%
	₹ 5,00,000 - ₹ 10,00,000	20%	₹ 5,00,000 - ₹ 10,00,000	20%
	Above ₹ 10,00,000	30%	Above ₹ 10,00,000	30%

Note: PEC @ 2% and SHEC @ 1% is attracted on the income tax till PY 2017-18.

Question 12

Compute the perquisite value of accommodation in the following cases:

Name of Employee	Mr. P	Mr Q	Mr R	Mr S
Basic Pay	25,000 p.m.	25,000 p.m.	25,000 p.m.	25,000 p.m.
Accommodation (Owned/Hired)	Owned	Owned	Owned	Hired
Rent paid by the employer	N.A.	N.A.	N.A.	4,000 p.m.
Population of the place	15 lakhs	40 lakhs	50 lakhs	15 lakhs
Rent recovered from employee	500 p.m.	500 p.m.	500 p.m.	500 p.m.

Question 13

Mr Chetan is a Finance Manager in ABC Ltd. The company has provided him with rent-free unfurnished accommodation in Mumbai. He gives you the following particulars in respect of his salary income:

Particulars	Amount (₹)
Basic Salary	6,000 p.m.
Advance Salary for April 2026	5,000
Dearness Allowance (30% is for retirement benefits)	2,000 p.m.
Bonus	1,500 p.m.

Even though the house was allotted to him on 01.04.2025, he occupied the same only from 01.11.2025.

(i) Calculate the taxable value of the perquisite for AY 2026-27.

(ii) Compute the value of the perquisite if Mr Chetan is required to pay a rent of ₹ 500 p.m. to the company for the use of this accommodation.

(iii) Compute the value of the perquisite if ABC Ltd has taken this accommodation on payment of lease rent of ₹ 1,200 p.m. and Mr Chetan is required to pay a rent of ₹ 500 p.m. to the company for the use of this accommodation.

(iv) Compute the value of the perquisite if ABC Ltd has provided a television whose WDV is ₹ 10,000 but actual: cost was ₹ 25,000 and two ACs for which the rent paid by the company for the ACs is ₹ 400 p.m. each. The television was provided on 01.01.2026. However, Mr Chetan is required to pay a rent of ₹ 500 p.m. to the company for the use of this furnished accommodation.

(v) Compute the value of the perquisite in case (iv) if Mr Chetan is a government employee. The licence fees determined by the Government for this accommodation was ₹ 700 p.m.

Question 14

Mr Vijay is a Central Government employee receiving basic pay of ₹ 73,000 p.m. The employer has provided him rent-free accommodation and the license fees determined as per the Government Rules is ₹ 6,000 p.m. The employer has provided him furniture whose WDV is ₹ 65,000 but actual cost was ₹ 1,00,000. The employer has also provided one AC for the months of April 2025 & May 2025 for which a rent of ₹ 1,000 p.m. is paid by the employer. Compute the tax liability of Mr Vijay for AY 2026-27.

Question 15

Mr Ratan is employed in Micromax India Ltd and is getting basic pay of ₹ 22,000 p.m. and the employee has paid professional tax of ₹ 200 p.m. The employer has provided him a motor car along with a chauffeur for official as well as personal use and its engine capacity is 1.1 litres. All expenses in relation to this motor car are met by the employer himself. Compute tax liability of Mr Ratan for AY 2026-27.

Question 16

Mr X and Mr Y are working for M/s Gama Ltd. As per salary fixation norms, the following perquisites were offered:

(i) For Mr X, who engaged a domestic servant for ₹ 500 per month, his employer reimbursed the entire salary paid to the domestic servant (ie ₹ 500 per month).

(ii) For Mr Y, he was provided with a domestic servant @ ₹ 500 p.m. as part of remuneration package.

You are required to comment on the taxability of the above in the hands of Mr X and Mr Y, who are not specified employees.

Question 17

Mr Raj is employed in Batra Ltd and is a specified employee. Compute perquisite value of educational facilities in the following situations:

(i) The employer has deputed him on one-day seminar on Industrial Finance and Corporate Taxation and has paid participation fees of ₹ 3,000.

(ii) The employer has made arrangements for the education of his three children in his own school & has incurred ₹ 1,500 p.m. per child and has recovered ₹ 300 p.m. per child from the employee.

(iii) If the employee himself has made arrangements of the education of his three children in a public school and the employer has reimbursed ₹ 1,500 per month per child.

Question 18 {ICAI Study Material}

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

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

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

Question 19

Compute the taxable value of perquisites for AY 2026-27 in the following cases:

Asset	Furniture	Microwave Oven	Motor Car	Washing Machine	Computer
Original cost	₹ 75,000	₹ 25,000	₹ 2,40,000	₹ 20,000	₹ 55,000
Date of purchase by the employer	07.03.2021	01.06.2023	10.07.2022	01.10.2015	01.01.2023
Date of putting to use	31,03,2021	01.06.2023	11.07.2022	01.11.2015	10.01.2023
Date of sale of asset to employee	01.07.2025	01.04.2025	01.07.2025	31.12.2025	09.01.2026
Amount recovered from employee	₹ 25,000	Gift to the employee	₹ 95,000	₹ 1,000	₹ 30,000

Question 20

The following benefits have been granted by Ved Software Ltd to one of its employees Mr Badri:

(i) Housing loan @ 6% p.a. Amount outstanding on 01.04.2025 is ₹ 6,00,000. Mr Badri pays ₹ 12,000 p.m. towards principal on 5^{th} of each month.

(ii) Air-conditioners purchased 4 years back for ₹ 2,00,000 have been given to Mr Badri for ₹ 90,000.

Compute the chargeable perquisite in the hands of Mr Badri for AY 2026-27. The lending rate of State Bank of India as on 01.04.2025 for housing loan may be taken as 10%.

Question 21

X Ltd provided the following perquisites to its employee Mr Y for PY 2025-26:

- Accommodation taken on lease by XLtd for ₹ 15,000 p.m. ₹ 5,000 p.m. is recovered from the salary of Mr Y.
- Furniture, for which the hire charges paid by XLtd is ₹ 3,000 p.m. No amount is recovered from the employee in respect of the same.
- A Santro Car which is owned by X Ltd. and given to Mr Y to be used both for official and personal purposes. All running and maintenance expenses are fully met by the employer. He is also provided with a chauffeur.
- A gift voucher of ₹ 10,000 on his birthday.

Compute the value of perquisites chargeable to tax for AY 2026-27, assuming his salary for perquisite valuation to be ₹ 10 lakh.

Question 22

Mr X is employed with AB Ltd on a monthly salary of ₹$25,000$ per month and an entertainment allowance and a commission of ₹ 1,000 p.m. each. Compute the income from salary of Mr X for AY 2026-27 with the help of the following information provided by him:

(1) A company owned accommodation is provided to him in Delhi. Furniture costing ₹ 2.4 L was provided on 1.8.2025.

(2) He has taken a personal loan of ₹ $5,00,000$ on 1.7.2025 on which it charges interest @ 6.75% p.a. The entire loan is still outstanding. (Assume SBI rate of interest to be 12.75% p.a.)

(3) His son is allowed to use a motor cycle belonging to the company. The company had purchased this motor cycle for ₹ 60,000 on 1.5.2022. The motor cycle was finally sold to him on 1.8.2025 for ₹ 30,000.

(4) Professional tax paid by $\mathrm{Mr}X$ is ₹ 2,000.

Question 23

Compute the taxable value of following perquisite received by Mr G from his employer during PY 25-26 (AY 26-27):

Particulars	Amount (₹)
Medical premium paid for insuring health of Mr G	7,000
Treatment of Mr G by his family doctor	5,000
Treatment of Mrs G in a Government hospital	25,000
Treatment of Mr G's grandfather in a private clinic	12,000
Treatment of Mr G's mother (68 years and dependent) by family doctor	8,000
Treatment of Mr G's sister (dependent) in a nursing home	3,000
Treatment of Mr G's brother (independent)	6,000
Treatment of Mr G's father (75 years and dependent) abroad	50,000
Expenses of staying abroad of the patient; and	30,000
Limit specified by RBI	75,000

Question 24

Ms Rakhi is an employee in a pvt company. She receives the following medical benefits during PY 2025-26:

S No	Particulars	Amount (₹)
1	Reimbursement of following medical expenses incurred by Ms Rakhi:	
	• On treatment of her self-employed daughter in a private clinic	4,000
	• On treatment of herself by family doctor	8,000
	• On treatment of her mother-in-law dependent on her in a nursing home	5,000
2	Payment of premium on mediclaim policy taken on her health	7,500

3	**Medical allowance**	**2,000 p.m.**
4	Medical expenses reimbursed on her son's treatment in a government hospital	5,000
5	Expenses incurred on treatment of her minor son abroad (₹ 1,00,000 permitted by RBI)	1,50,000
6	Expenses incurred on stay of Ms Rakhi and her son abroad (₹ 50,000 permitted by RBI)	70,000
7	Expenses incurred by company in relation to foreign travel of Ms Rakhi and her son	95,000

Discuss about the taxability of above benefits and allowances in the hands of Ms Rakhi.

Question 25

Shri Bala, employed in ABC Co Ltd as Finance Manager, gives you the list of perquisites provided by the company to him during FY 2025-26:

a) Medical facility given to his family in a hospital maintained by the company. The estimated value of benefit because of such facility is ₹ 40,000.

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

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

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

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

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

State the taxability of the above said perquisites and compute the total value of taxable perquisites.

Question 26

Mr Dinesh went on a holiday on 25.12.2025 to Delhi with his wife and three children (one son - age 5 years; twin daughters - age 2 years). They went by flight (economy class) and the total cost of tickets reimbursed by his employer was ₹ 60,000 (₹ 45,000 for adults and ₹ 15,000 for the three minor children).

Case 1: Compute the amount of exemption available.

Case 2: Will there be any difference if the twins were 5 years old and the son was 3 years old?

Question 27

From the following particulars of investments and payments made by Mr A (an employee of ABC Ltd) during PY 25-26, compute the deduction available to Mr A under Chapter VI-A for AY 2026-27.

- Deposited ₹ 1,20,000 in public provident fund.
- Deposited ₹ 30,000 in a five year term deposit with bank.
- Paid life insurance premium of ₹ 15,000 on a policy taken on 01.05.2020 for self (Sum assured - ₹ 1,20,000).
- Contributed ₹ 1,80,000, being 15% of his salary, to the NPS of the Central Government. A matching contribution was made by ABC Ltd.

Would your answer be different, if Mr A contributed ₹ 1,20,000 (being 10% of his salary) towards NPS of the Central Government?

Question 28

The basic salary of Mr A is ₹ 1,00,000 p.m. He is entitled to DA, which is 40% of basic salary. 50% of DA forms part of pay for retirement benefits. Both Mr A and his employer contribute 15% of basic salary to the pension scheme referred to u/s 80CCD. Explain the tax treatment in respect of such contribution in the hands of Mr A.

Question 29

Mr A retires from service on December 31, 2025 after 25 years of service. Following are the particulars of his income/investments for PY 2025-26:

Particulars	Amount (₹)
Basic pay @ ₹ 16,000 per month for 9 months	1,44,000
Dearness pay @ ₹ 8,000 p.m. for 9 months (50% forms part of the retirement benefits)	72,000
Lumpsum payment received from an Unrecognised Provident Fund (URPF)	6,00,000
Deposits in PPF account	40,000

Out of the amount received from URPF, the employer's share was ₹ 2,20,000 and the interest thereon ₹ 50,000. The employee's share was ₹ 2,70,000 and the interest thereon ₹ 60,000. What is the taxable portion of the amount received from the unrecognized provident fund in the hands of Mr A for AY 2026-27?

Will your answer be any different if the fund mentioned above was a recognised provident fund?

Question 30

Mr B is working in XYZ Ltd and has given the following details of his income for PY 2025-26. You are required to compute his gross total income from the details given below:

Particulars	Amount (₹)
Basic Pay	10,000 p.m.

Dearness Allowance (50% for retirement benefits)	**8,000 p.m.**
Commission as a percentage of turnover	1%
Turnover during the year	5,00,000
Bonus	40,000
Gratuity	25,000
His own contribution in the RPF	20,000
Employer's contribution to RPF	20% of his Basic Salary
Interest accrued in the RPF @ 13% p.a.	13,000

Question 31

Mr Shah, an accounts manager, has retired from JK Ltd on 15.01.2026, after rendering services for 30 years & 7 months. His salary is ₹ 25,000 p.m. upto 30.09.2025 and ₹ 27,000 thereafter. He also gets ₹ 2,000 p.m. as DA (55% of it is a part of salary for computing retirement benefits). He is not covered by the Payment of Gratuity Act, 1972. He has received ₹ 8 L as gratuity. Compute the gratuity taxable in the hands of Mr Shah.

Question 32

Mr Ravi retired on 15.6.2025 after completion of 26 years and 8 months of service and received gratuity of ₹ 6 L. At the time of retirement his salary was:

Basic Salary	**₹ 5,000 per month**
Dearness Allowance (60% of which is for retirement benefits)	₹ 3,000 per month
Commission (turnover in the last 12 months was ₹ 12, 00, 000)	1% of turnover
Bonus	12,000 p.a.

Compute his taxable gratuity assuming:

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

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

(c) He is a Government employee.

‘

Question 33

Mr Sagar retired on 01.10.2025 receiving ₹ 5,000 p.m. as pension. On 1.2.2026, he commuted 60% of his pension and received ₹ $3,00,000$ as commuted pension. You are required to compute his taxable pension assuming:

a) He is a government employee.

b) He is a non-government employee, receiving gratuity of ₹ $5,00,000$ at the time of retirement.

c) He is a non-government employee and is in receipt of no gratuity at the time of retirement.

Question 34

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

Basic Salary (₹ 1,000 p.m. was increased wef 01.04.2025)	**₹ 5,000 per month**
Dearness Allowance (60% of which is for retirement benefits)	₹ 3,000 per month
Commission	₹ 500 p.m.
Bonus	1,000 p.m.
Leave availed during service	480 days

He was entitled to 30 days leave every year. You are required to compute his taxable leave salary if:

(a) He is a government employee.

(b) He is a non-government employee.

Question 35

Ms Neelima, a resident of Delhi, was employed by LMN Ltd upto 15 March, 1992. At the time of leaving LMN Ltd, she was paid ₹ $3,50,000$ as leave salary out of which ₹ 59,000 was exempted from tax u/s 10(10AA).

Thereafter, she joined $CD(P)Ltd$, and received ₹$4,14,000$ as leave salary at the time of retirement on December 31, 2025. In addition, she received a gratuity of ₹ $12,00,000$ from the employer (she is not covered by the Payment of Gratuity Act, 1972). The following information is available:

Average salary received during 11 months ending on December 31, 2025:

From February 1 to July 31 (pm)	**₹ 22,600**
From August 1 to December 31 (pm)	₹ 22,900
Duration of service	14 years & 7 months

Leave entitlement for every year of service	**45 days**
Leave availed while in service	90 days
Leave at her credit at the time of retirement	18 months

She received ₹ 5,20,000 from an unrecognized provident fund of which she was a member (This constitutes employee's contribution ₹ 2,00,000; employer's contribution ₹ 2,10,000; interest on employee's contribution ₹ 60,000 ; interest on employer's contribution ₹ 50,000).

You are required to compute her total income for AY 2026-27, clearly showing all workings. (Ignore Section 115BAC provisions).

Question 36

Mr Garg received retrenchment compensation of ₹ 10,00,000 after 30 years and 4 months of service. At the time of retrenchment, he was drawing basic salary of ₹ 20,000 p.m. and DA of ₹ 5,000 p.m. Compute his taxable retrenchment compensation.

Question 37

Mr Dutta received voluntary retirement compensation of ₹ 7,00,000 after 30 years and 4 months of service. He still has 6 years of service left. At the time of voluntary retirement, he was drawing basic salary ₹ 20,000 p.m. and Dearness Allowance of ₹ 5,000 p.m. (forming part of pay). Compute taxable portion of his VRS compensation.

Question 38

Mr X is appointed as a CFO of ABC Ltd in Mumbai from 1.9.2023. His basic salary is ₹ 6,00,000 p.m. He is paid 8% as Dearness Allowance. He contributes 10% of his pay and DA towards his recognized provident fund and the company contributes the same amount. The accumulated balance in recognized provident fund as on 1.4.2024, 31.3.2025 and 31.3.2026 is ₹ 9,81,137, ₹ 27,43,048 and ₹ 46,48,555, respectively. Compute the perquisite value chargeable to tax in the hands of Mr X u/s 17(2)(vii) and 17(2)(viia) for AY 2025-26 and AY 2026-27. Prior to 1.9.2023, he was a consultant, whose professional fees was taxable u/h PGBP.

Question 39

Mr Khanna, an employee of IOL, New Delhi, a private sector company, received the following for FY 2025-26:

Particulars	Amount (₹)
Basic Pay	1,20,000
House Rent Allowance	1,00,000
Special Allowance	30,000

(i) Mr Khanna was residing at New Delhi and was paying a rent of ₹ 10,000 a month. Compute the eligible exemption u/s 10(13A) of the Income Tax Act, 1961, in respect of house rent allowance received.

(ii) If Mr Khanna opts for rent free accommodation whereby IOL would be paying a rent of ₹ 10,000 per month to the landlord and recovers a sum of ₹ 2,500 per month from Mr Khanna which was in excess of his entitlement, what will be the perquisite value in respect of such rent free accommodation?

(iii) Which of the above would be beneficial to Mr Khanna ie, house rent allowance or rent free accommodation?

Question 40

Mrs Deepali (aged 40 years), working with M/s Good Company Ltd, a manufacturer of tyres based at Mumbai, has received the following payments during FY 2025-26 from her employer:

Basic Salary	**₹ 60,000 per month**
Dearness Allowance	40% of basic salary

Her employer has taken on rent her own house on a monthly rent of ₹ 15,000 and the same has been provided for residence of Mrs Deepali. Company is recovering ₹ 2,000 per month as rent of house.

Compute taxable income and tax liability of Mrs Deepali for AY 2026-27 using the following additional details:

(i) She has paid professional tax of ₹ 6,000 during FY 2025-26.

(ii) She is owning only one house and payment of interest of ₹ 1,75,000 and principal of ₹ 1,00,000 was made for housing loan taken for purchase of house.

(iii) She has also taken a loan of ₹ 2,00,000 from her employer for study of her son. SBI rate for such loan is 10%. Her employer has recovered ₹ 10,000 as interest from her salary for such loan during the year.

Question 41

Mr Harish, aged 52 years, is the Production Manager of XYZ Ltd. From the following details, compute his taxable income for AY 2026-27.

Particulars	Amount (₹)
Basic Salary	50,000 p.m.
Dearness Allowance	40% of basic salary
Transport Allowance (for commuting between place of residence and office)	3,000 p.m.
Motor car running and maintenance charges fully paid by employer (The motor car is owned by the company and driven by employee. The engine cubic capacity is above 1.60 litres. The motor car is used for both official and personal purpose by the employee)	60,000
Expenditure on accommodation in hotels while touring on official duties met by the employer	80,000
Loan from recognised provident fund (maintained by the employer)	60,000
Cost of the lunch provided by the employer during office hours	24,000
Computer (cost ₹ 35,000) kept by the employer in the residence of Mr Harish from 1.06.2025	

Mr Harish made the following medical insurance premium payments:	
• Paid in cash	**4,800**
• Paid by account payee crossed cheque	**25,700**

Question 42

Mr Nambi, a salaried employee, furnishes the following details for FY 2025-26. You are required to compute the income chargeable under the head "salaries" for AY 2026-27:

Particulars	Amount (₹)
Basic Salary	6,00,000
Dearness Allowance	3,20,000
Commission	50,000
Entertainment Allowance	7,500
Medical expenses reimbursed by the employer	21,000
Professional tax (of this, 50% paid by employer)	7,000
Health insurance premium paid by employer	9,000
Gift voucher given by employer on his birthday	12,000
Life insurance premium of Nambi paid by employer	34,000
Laptop provided for use at home. Actual cost of Laptop to employer (Children of the assessee are also using the Laptop at home)	30,000
Employer company owns a Tata Nano car, which was provided to the assessee, both for official and personal use. 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; details of usage are not available)	2,000

Question 43

Mr X is a employee of Rama & Co, in Gurgaon. He was appointed on 1.1.2025 in the scale of 20,000-1,000-30,000. He is paid 10% DA & Bonus equivalent to one month pay based on salary of March every year. He contributes 15% of his pay and DA towards his RPF and the company contributes the same amount.

He is provided free housing facility by his employer which has been taken on rent by the employer at ₹ 10,000 per month. He is also provided the following facilities. Find out the salary chargeable to tax for AY 2026-27:

(i) Facility of laptop costing ₹ 50,000.

(ii) Company reimbursed the medical treatment bill of his brother of ₹ 25,000, who is dependent on him.

(iii) The monthly salary of ₹ 1,000 of a house keeper is reimbursed by the company.

(iv) A gift voucher of ₹ 10,000 on the occasion of his marriage anniversary.

(v) Conveyance allowance of ₹ 1,000 per month is given by the company towards actual reimbursement.

(vi) He is provided personal accident policy for which premium of ₹ 5,000 is paid by the company.

(vii) He is getting telephone allowance @ ₹ 500 per month.

(viii) Company pays medical insurance premium of his family of ₹ 10,000.

Question 44

Mr Nanda, an employee of XYZ Co Ltd at Mumbai and covered by the Payment of Gratuity Act, 1972 retires at the age of 64 years on 31.12.2025 after completing 33 years and 7 months of service. At the time of his retirement, his employer paid ₹ 20,51,640 as gratuity and ₹ 6,00,000 as accumulated balance of RPF. He is also entitled for monthly pension of ₹ 8,000. He gets 75% of pension commuted for ₹ 4,50,000 on 01.02.2026.

Determine the salary chargeable to tax for Mr Nanda for AY 2026-27 with the help of following information. Rent paid by Mr Nanda is ₹ 10,000 p.m.

Particulars	Amount (₹)
Basic Salary (₹$80,000 \times 9$)	7,20,000
Bonus	36,000
House Rent Allowance (₹ $15,000 \times 9$)	1,35,000
Employer's contribution towards Recognised Provident Fund	1,10,000
Professional tax paid by Mr Nanda	2,000

Note: Salary and Pension falls due on the last day of each month.

Question 45

Ramdin working as Manager (Sales) with Frozen Foods Ltd, provides information for the year ended 31.03.2026:

Particulars	Amount (₹)
Basic salary	15,000 p.m.
DA (50% of it is meant for retirement benefits)	12,000 p.m.
Commission as a percentage of turnover of the Company	0.5%

Turnover of the company	**50 lacs**
Bonus	50,000
Gratuity	30,000
Own contribution to RPF	30,000
Employer's contribution to RPF	20% of basic salary
Interest credited in the RPF account @ 15% p.a.	15,000

- Gold ring worth ₹ 10,000 was given by employer on his 25^{th} wedding anniversary.
- Music System purchased on 01.04.2025 by the company for ₹ 85,000 was given to him for personal use.
- Two old light goods vehicles owned by him were leased to a transport company against the fixed charges of ₹ 6,500 p.m. Books of accounts are not maintained.
- Received interest of ₹ 5,860 on bank FDRs, dividend of ₹ 1,260 from shares of Indian Companies and interest of ₹ 7,540 from the debentures of Indian Companies.
- Made payment by cheques of ₹ 15,370 towards premium of Life Insurance policies and ₹ 12,500 for Mediclaim Insurance policy.
- Invested in NSC ₹ 30,000 and in FDR (Fixed Deposit Receipt) of SBI for 5 years ₹ 50,000.
- Donations of ₹ 11,000 to an institution approved u/s 806 and of ₹ 5,100 to Prime Minister's National Relief Fund were given during the year by way of cheque.

Compute the total income and tax payable thereon for AY 2026-27.

Question 46

Mr Swaraj has provided the following particulars for the year ended 31-03-2026:

(i) He retired on 31-12-2025 at the age of 58, after putting in 25 years and 9 months of service, from a private company at Delhi.

(ii) He was paid a salary of ₹ 25,000 p.m. and house rent allowance of ₹ 6,000 p.m. He paid rent of ₹ 6,500 p.m., during his tenure of service.

(iii) On retirement, he was paid a gratuity of ₹ $3,50,000$. He was covered by the payment of Gratuity Act, 1972. He had not received any other gratuity at any point of time earlier, other than this gratuity.

(iv) He had accumulated leave of 15 days per annum during the period of his service; this was encashed by him at the time of his retirement. A sum of ₹ $3,15,000$ was received by him in this regard. Employer allowed 30 days leave per annum.

(v) The company presented him with a gift voucher of ₹ 5,000 on his retirement. His colleagues also gifted him a mobile phone worth ₹ 50,000 from their own contribution.

You are requested to compute his income from salary for AY 2026-27.

Question 47

Mr Rohan retired from M/s QRST Ltd a private sector company, on 31^{st} March, 2026 after completing 28 years and 3 months of service. He received the following sums/gifts on his retirement:

(i) Gratuity of ₹ $7,50,000$. He was covered under the Payment of Gratuity Act, 1972.

(ii) 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.

(iii) Crockery set worth ₹ 4,500 from his employer at the farewell party which was organised by the HR department a day before his retirement.

He drew a basic salary of ₹ 25,000 per month alongwith 50% of basic salary as dearness allowance (not forming part of retirement benefit) for the period from 1^{st} April, 2025 to 31^{st} March, 2026.

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 1^{st} April, 2024 at a cost of ₹ $8,00,000$. Salary of driver amounting to ₹ 10,000 per month was met by the employer only. Upon retirement, he gave the car back to the employer.

You are required to compute the taxable salary of Mr Rohan for AY 2026-27 assuming that he neither claims any relief under Section 89 nor does he opt to pay tax u/s 115BAC.

Question 48

Mr X, an employee of the Central Government is posted at New Delhi. Details of his income for PY 2025-26 are as follows:

(i) Basic salary: ₹ $3,80,000$

(ii) Dearness allowance: ₹ 1,20,000 (40% forms part of pay for retirement benefits)

(iii) Both MrX and Government contribute 20% of basic salary to the pension scheme referred to u/s 80CCD.

(iv) Gift received by X 's minor son on his birthday from friend: ₹ 70,000. (No other gift is received by him during PY 2025-26)

(v) During the year 2017-18, Mr X gifted a sum of ₹ $6,00,000$ to Mrs X. She started a business by introducing such amount as her capital. On 1^{st} April 2025, her total investments in business was ₹ 10,00,000. During PY 2025-26, she has loss from such business ₹ $1,30,000$.

(vi) Mr X deposited ₹ 70,000 in Sukanya Samridhi account on 23.01.2026. He also contributed ₹ 40,000 in an approved annuity plan of LIC to claim deduction u/s 80CCC.

(vii) He has taken an educational loan for his major son who is pursuing MBA course from Gujarat University. He has paid ₹ 15,000 as interest on such loan which includes ₹ 5,000 for FY 2025-26.

Determine the total income of Mr X for AY 2026-27.

SOLUTIONS TO SUBJECTIVE QUESTIONS:

Answer 1

(i) Salary Is Due On The Last Day Of The Month: Salary shall be taxable from April 2025 to March 2026.

Particulars	Amount (₹)
Income u/h Salary:	
- April 2025 to June 2025 (₹ $50,000 \times 3$ months)	1,50,000
- July 2025 to March 2026 (₹ $70,000 \times 9$ months)	6,30,000
Gross Salary Income	7,80,000
Net Salary Income {After Allowing Standard Deduction u/s 16(ia)}	7,30,000
Computation of Tax Liability	
Tax on ₹ 7,30,000 at slab rates	58,500
Add: Health & Education Cess @ 4%	2,340
Tax Liability	60,840

(ii) Salary Is Due On First Of Next Month: Salary shall be taxable from March 2025 to February 2026.

Particulars	Amount (₹)
Income u/h Salary:	
- March 2025 to June 2025 (₹ $50,000 \times 4$ months)	2,00,000
- July 2025 to February 2026 (₹ $70,000 \times 8$ months)	5,60,000
Gross Salary Income	7,60,000
Net Salary Income {After Allowing Standard Deduction u/s 16(ia)}	7,10,000
Computation of Tax Liability	
Tax on ₹ 7,10,000 at slab rates	54,500
Add: Health & Education Cess @ 4%	2,180
Tax Liability.	56,680

Answer 2

Computation Of Total Income Of Mr Ramesh For AY 2026-27:

Particulars	Amount (₹)
- Basic Pay {(₹ 19,300 × 3 months) + (₹ 20,500 × 9 months) [Note 1]	2,42,400
- Dearness Allowance [Note 2]	19,464
Gross Salary Income	2,61,864
Net Salary Income {After Allowing Standard Deduction u/s 16(ia)}	2,11,864
Total Income (Rounded off u/s 288A)	2,11,860

Computation Of Tax Liability Of Mr Ramesh For AY 2026-27:

Particulars	Amount (₹)
Tax on ₹ 2, 11, 860 at slab rates	Nil
Tax Liability	Nil

Note 1 - Calculation Of Basic Pay:

Particulars	Amount (₹)
01.07.2013-30.06.2014	11,000 p.m.
01.07.2014-30.06.2015	11,500 p.m.
01.07.2015-30.06.2016	12,000 p.m.
01.07.2016-30.06.2017	12,500 p.m.
01.07.2017-30.06.2018	13,000 p.m.
01.07.2018-30.06.2019	13,500 p.m.
01.07.2019-30.06.2020	14,000 p.m.
01.07.2020-30.06.2021	14,500 p.m.
01.07.2021-30.06.2022	15,700 p.m.

01.07.2022-30.06.2023	**16,900 p.m.**
01.07.2023-30.06.2024	18,100 p.m.
$01.07.2024 - 30.06.2025$	19,300 p.m.
$01.07.2025 - 30.06.2026$	20,500 p.m.

Note 2 - Calculation Of Dearness Allowance:

Particulars	Amount (₹)
From April To September: $[6\%$ **of** $\{(₹19,300 \times 3) + (₹20,500 \times 3)\}]$	7,164
From October To March: $[10\%$ **of** $(₹20,500 \times 6)]$	12,300
Total	19,464

Answer 3

Computation Of Total Income Of Mr Ratan For AY 2026-27:

Particulars	Amount (₹)
• **Basic Pay** $\{(₹24,000 \times 3$ **months)**$+(₹24,500 \times 9$ **months)**$\}$**[Note 1]**	2,92,500
• **Dearness Allowance [Note 2]**	33,000
Gross Salary Income	
Net Salary Income {After Allowing Standard Deduction u/s 16(ia)}	3,25,500

Computation Of Tax Liability Of Mr Ratan For AY 2026-27:

Particulars	Amount (₹)
Tax on ₹ 2,75,500 at slab rates	1,275
Less: Rebate u/s 87A	(1,275)
Tax Liability	Nil

Note 1 - Calculation Of Basic Pay:

Particulars	Amount (₹)
01.07.2016-30.06.2017	20,000 p.m.
01.07.2017-30.06.2018	20,500 p.m.
01.07.2018-30.06.2019	21,000 p.m.
01.07.2019-30.06.2020	21,500 p.m:
01.07.2020-30.06.2021	22,000 p.m.
01.07.2021-30.06.2022	22,500 p.m.
01.07.2022-30.06.2023	23,000 p.m.
01.07.2023-30.06.2024	23,500 p.m.
01.07.2024-30.06.2025	24,000 p.m.
01.07.2025-30.06.2026	24,500 p.m.

Note 2 - Dearness Allowance:

Particulars	Amount (₹)
From April To June: $(₹24,000 \times 3$ **months** $\times 5\%)$	3,600
From July To December: $(₹24,500 \times 6$ **months** $\times 11\%)$	16,170
From Jan To March: $(₹24{,}500 \times 3$ months $\times 18\%)$	13,230
Total	33,000

Answer 4

Computation Of Total Income Of Mr Yogesh For AY 2026-27:

Particulars	Amount (₹)
Basic Pay $[(₹32,400 \times 4$ **months)** $+(₹33,800 \times 8$ **months)]** [**Note 1**]	4,00,000
Dearness Allowance $[(₹7,000 \times 1$ **month)** $+(₹9,000 \times 11$ **months)**]	1,06,000
Gross Salary Income	5,06,000
Net Salary Income {**After Allowing Standard Deduction u/s 16(ia)**}	4,56,000

Computation Of Tax Liability Of Mr Yogesh For AY 2026-27:

Particulars	Amount (₹)
Tax on ₹ 4,56,000 at slab rates	10,300
Less: Rebate u/s 87A	(10,300)
Tax Liability	Nil

Note 1 (Basic Pay):

Particulars	Amount (₹)
01.07.2018-30.06.2019	24,600 p.m.
01.07.2019-30.06.2020	25,800 p.m.
01.07.2020-30.06.2021	27,000 p.m.
01.07.2021-30.06.2022	28,200 p.m.
01.07.2022-30.06.2023	29,600 p.m.
01.07.2023-30.06.2024	31,000 p.m.
01.07.2024-30.06.2025	32,400 p.m.
01.07.2025-30.06.2026	33,800 p.m.

House Rent Allowance - Section 10(13A)

Answer 5

Computation Of Total Income Of Mr Dinesh For AY 2026-27:

Particulars	Amount (₹)
• **Basic Pay (₹ 20,000 × 12 months)**	2,40,000
• **Dearness Allowance (₹7,000 × 12 months)**	84,000
• **Bonus (₹ 500 × 12 months)**	6,000
• **Commission (1% of ₹ 20,00,000)**	20,000

• **House Rent Allowance (₹72,000 - ₹53,800)** **Least of the following is exempt:** • **HRA Received: ₹ 72,000** • **Rent paid over 10% of RBS: ₹ 84,000 - ₹ $30,200$ = ₹$53,800$** • 40% **of retirement benefit salary** = ₹$1,20,800$ **{RBS** = **BP** $(2,40,000)$ + **DA** $(42,000)$ + **Commission** $(20,000)$ = ₹$3,02,000$**}**	**18,200**
Less: Standard Deduction of ₹ $50,000u/s16$ **(ia)**	(50,000)
Total Income	3,18,200

Computation Of Tax Liability Of Mr Dinesh For AY 2026-27:

Particulars	Amount (₹)
Tax on ₹ $3,18,200$ **at slab rates**	3,410
Less: Rebate u/s 87A	$(3,410)$
Tax Liability	Nil

Answer 6

Computation Of House Rent Allowance:

Particulars	Mr P (₹)	Mr Q (₹)	Mr R (₹)	Mr 5 (₹)
• **HRA received (₹** $5,000 \times 12$ **months)**	60,000	60,000	60,000	60,000
• **Rent paid over 10% of RBS**	Nil	1,20,000	1,44,000	Nil
• **50% of Retirement Benefit (RBS = ₹ 2,40,000)**	1,20,000	1,20,000	1,20,000	1,20,000
Exemption u/s 10(13A) (Least of the above 3 figures)	Nil	60,000	60,000	Nil
Taxable HRA (Received - Exempt)	60,000	Nil	Nil	60,000

Answer 7

HRA Received = ₹ 10,800; HRA Exempt $u/s10(13A)$ = ₹ 7,680 ; Taxable HRA = ₹ 3,120

Answer 8

Computation Of Gross Salary Of Mr Mohit For AY 2026-27:

Particulars	Amount (₹)
• **Basic Salary [(₹ $10,000 \times 10$ months) $+(₹11,000 \times 2$ months)]**	1,22,000
• **Dearness Allowance (100% of Basic Salary)**	1,22,000
• **House Rent Allowance (Note 1)**	21,300
Gross Salary	2,65,300

Note 1 - Computation Of Taxable House Rent Allowance (HRA):

Particulars	April-May	June-Oct	Nov-Dec	Jan	Feb-March
RBS p.m (₹) {ie, 150% of basic pay}	₹ 15,000	₹ 15,000	₹ 15,000	₹ 15,000	₹ 16,500
Relevant period (in months)	2	5	2	1	2
RBS for the relevant period (₹)	₹ 30,000	₹ 75,000	₹ 30,000	₹ 15,000	₹ 33,000
Rent paid for the relevant period (₹)	Nil	₹ 30,000 ($6,000 \times 5$)	₹ 16,000 ($8,000 \times 2$)	₹ 8,000 ($8,000 \times 1$)	₹ 16,000 ($8,000 \times 2$)
HRA Received During The Relevant Period $\{(A)\}$	₹ 12,000 ($6,000 \times 2$)	₹ 30,000 ($6,000 \times 5$)	₹ 12,000 ($6,000 \times 2$)	₹ 7,000 ($7,000 \times 1$)	₹ 14,000 ($7,000 \times 2$)
Exemption u/s 10(13A) - Least of the following: • **Actual HRA received** • **Rent paid over 10% of salary** • **$40\%/50\%$ of salary (40% in case of Ghaziabad, ie June 25 to Oct 25; 50% in case of Delhi, ie Nov 25 to Mar 26)**	₹ 12,000 Nil ₹ 12,000 ($40\% \times$ 30 K)	₹ 30,000 ₹ 22,500 ₹ 30,000 ($40\% \times$ 75 K)	₹ 12,000 ₹ 13,000 ₹ 15,000 ($50\% \times$ 30 K)	₹ 7,000 ₹ 6,500 ₹ 7,500 ($50\% \times$ 15 K)	₹ 14,000 ₹ 12,700 ₹ 16,500 ($50\% \times$ 33 K)
Exempt HRA {(B)}	Nil	₹ 22,500	₹ 12,000	₹ 6,500	₹ 12,700
Taxable HRA (Received - Exempt) $\{(A)-(B)\}$	₹ 12,000	₹ 7,500	Nil	₹ 500	₹ 1,300

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

Other Allowances - Section 10(14)

Answer 9

Particulars	Amount (₹)
Children Education Allowance:	
• Elder son [(₹ 150 - ₹ 100) p.m. × 12 months]	600
• Younger son [(₹70-₹70) p.m. × 12 months]	Nil
Transport Allowance: [₹1,800 p.m. × 12 months]	21,600
Tribal Area Allowance: [(₹ 500 - ₹ 200) p.m. × 12 months]	3,600
Taxable Allowances	25,800

Deductions u/s 16

Answer 10

Computation Of Salary Income Of Mr Goyal For AY 2026-27:

Particulars.	Amount (₹)
• Basic Salary	40,000
• Dearness Allowance	15,000
• Commission	10,000
• Entertainment Allowance received	4,000
• Employee's contribution to RPF (Own contribution not taxable; eligible for deduction u/s80C)	-
• Medical Allowance	10,000
• Professional tax paid by the employer	2,000
Gross Salary	81,000
Less: Deduction u/s 16(ia) (Standard deduction of ₹ 50,000)	(50,000)

Less: Deduction u/s 16(ii): Entertainment Allowance (Lower of the following three figures)	**(4,000)**
(a) Allowance received, ie ₹ 4,000 **(b) One fifth of basic salary $[1/5 \times 40,000]$, ie ₹ 8,000** **(c) Statutory amount, ie ₹ 5,000**	
Less: Deduction u/s 16(iii): Professional tax paid (whether paid by employer or employee)	(3,000)
Net Salary Income	24,000

Answer 11

Particulars	Amount (₹)	Amount (₹)
Assessment Year 2026-27:		
• Total Income (including arrears)		13,65,000
• Total Income (excluding arrears)		10,20,000
Tax on total income of ₹ $13,65,000$	2,19,500	
Add: Health & Education Cess @ 4%	8,780	
Tax On Total Income (Including Arrears) (A)		2,28,280
Tax on total income of ₹ 10,20,000	1,16,000	
Add: Health & Education Cess @ 4%	4,640	
Tax On Total Income (Excluding Arrears) (B)		1,20,640
Difference Between A & B {Tax payable on arrears in AY 2026-27}		1,07,640

Computation Of Tax Payable On Arrears Of Salary If Charged To Tax In Respective Assessment Years:

Particulars	AY 2017-18		AY 2018-19		AY 2019-20	
	Including Arrears (₹)	Excluding Arrears (₹)	Including Arrears (₹)	Excluding Arrears (₹)	Including Arrears (₹)	Excluding Arrears (₹)
Taxable salary	8,13,000	7,10,000	9,42,000	8,25,000	10,75,000	9,50,000
Tax on the above	87,600	67,000	98,400	75,000	1,32,500	1,00,000

Add: Cess @ 3%	**2,628**	**2,010**	**2,952**	**2,250**	**5,300**	**4,000**
Tax Payable	90,228	69,010	1,01,352	77,250	1,37,800	1,04,000

Computation Of Relief u/s 89:

Particulars	Amount (₹)	Amount (₹)
Tax payable on arrears in AY 2026-27		
Tax payable on arrears in respective years:		1,07,640
Tax on income including arrears (₹90,228 + ₹1,01,352 + ₹1,37,800)	3,29,380	
Less: Tax on income excluding arrears (₹ 69,010 + ₹77,250 + ₹1,04,000)	(2,50,260)	(79,120)
Relief u/s 89		28,520
{Difference b/w tax on arrears in AY 2026-27 and tax on arrears in respective years}		

Computation Of Tax Payable For AY 2026-27 After Allowing Relief u/s 89:

Particulars	Amount (₹)
Income-tax payable on total income including arrears of salary	2,28,280
Less: Relief u/s89 as computed above	(28,520)
Tax Payable (After Claiming Relief)	1,99,760
Final Amount Payable (After Relief & Rounding off u/s288B)	1,99,760

Answer 12

(a) Situation 1 (Mr P): Since the accommodation is owned by the employer and population of the area is 15 lakhs, value of unfurnished house shall be taken as 5% of RFA Salary (ie ₹ 25,000 × 5% × 12 months) = ₹15,000. An amount of ₹ 500 per month is recovered as rent from the employee. Therefore, perquisite value of accommodation at concessional rent shall come out to ₹ 9,000 {₹ 15,000 - (₹ 500 × 12 months)}.

(b) Situation 2(Mr Q): Since the accommodation is owned by the employer and population of the area is 40 lakhs, value of unfurnished house shall be taken as 7.5% of RFA Salary (ie ₹ 25,000 × 7.5% × 12 months) = ₹22,500. An amount of ₹ 500 per month is recovered as rent from the employee. Therefore, perquisite value of accommodation at concessional rent shall come out to ₹ 16,500 {₹ 22,500 - (₹ 500 × 12 months)}.

(c) Situation 3 (Mr R): Since the accommodation is owned by the employer and population of the area is 50 lakhs, value of unfurnished house shall be taken as 10% of RFA Salary (ie ₹ $25{,}000 \times 10\% \times 12$ months) = ₹30,000. An amount of ₹ 500 per month is recovered as rent from the employee. Therefore, perquisite value of accommodation at concessional rent shall come out to ₹ 24,000 {₹30,000 - (₹ 500×12 months)}.

(d) Situation 4 (Mr 5): Since the accommodation has been taken on rent by the employer, value of unfurnished RFA shall be lower of:

10% of RFA Salary = ₹ $25{,}000 \times 10\% \times 12$ months = ₹ 30,000

Rent Paid = ₹$4{,}000 \times 12$ months = ₹48,000

Therefore, the value of unfurnished house shall be taken as ₹ 30,000. Population of the area is irrelevant if the accommodation has been taken on rent by the employer. An amount of ₹ 500 per month is recovered as rent from the employee. Therefore, perquisite value of accommodation at concessional rent shall come out to ₹ 24,000 {₹ 30,000 (₹ 500×12 months)}.

Answer 13

(i) Value Of Rent-Free Accommodation: Mr Chetan occupies the house only from 1.11.2025, therefore RFA salary shall be calculated on due basis only in respect of months during which he has occupied the accommodation. Hence, salary for 5 months (from 1.11.2025 to 31.03.2026) will be considered. RFA Salary = $(6{,}000 + 30\% \text{ of } 2{,}000 + 1{,}500) \times 5$ months = ₹40,500. Since the accommodation has been provided at Mumbai and it is owned by the employer, the perquisite value of RFA shall be 10% of RFA Salary for the relevant period = 10% of ₹ $40{,}500$ = ₹4,050.

(ii) Perquisite Value of Accommodation Provided At Concessional Rent:

Particulars	Amount (₹)
Value of rent-free unfurnished accommodation	4,050
Less: Rent paid by the employee (₹ 500×5 months)	(2,500)
Perquisite Value	1,550

(iii) Perquisite Value Of Accommodation Provided At Concessional Rent:

Particulars	Amount (₹)
Value of rent-free unfurnished accommodation is lower of: **- Lease rent paid by the company for relevant period = ₹$1{,}200 \times 5$ = ₹$6{,}000$** **- 10% of salary for the relevant period (computed earlier) = ₹$4{,}050$**	4,050
Less: Rent paid by the employee (₹ 500×5 months)	(2,500)
Perquisite Value	1,550

(iv) In case furniture is owned by the employer, 10% p.a. of cost of furniture shall be taken as its perquisite value. In case furniture is taken on rent by the employer, the rent charges shall be taken as its perquisite value.

Particulars	Amount (₹)
Value of rent-free unfurnished accommodation (computed earlier)	4,050
Add: Value of furniture provided by the employer:	
- Television (₹ $25,000 \times 10\% \times 3$ months $/12$ months)	625
- AC (₹ 400 p.m. $\times$ 2ACs $\times$ 5 months)	4,000
Value of rent-free furnished accommodation	8,675
Less: Rent paid by the employee (₹ 500×5 months)	(2,500)
Perquisite Value of Furnished Accommodation Provided at Concessional Rent	6,175

(v) In case of government employees, the licence fees determined by the Government is taken into consideration for determining the value of rent-free unfurnished accommodation.

Particulars	Amount (₹)
Value of rent-free unfurnished accommodation (₹ 700×5 months)	3,500
Add: Value of furniture provided by the employer [Computed earlier]	4,625
Less: Rent paid by the employee (₹500×5 months)	(2,500)
Perquisite Value of Furnished Accommodation Provided at Concessional Rent	5,625

Answer 14

Computation Of Total Income Of Mr Vijay For AY 2026-27:

Particulars		Amount (₹)
- Basic Salary (₹ $73,000 \times 12$)		8,76,000
- Perquisite value of furnished house		84,000
Perquisite value of unfuirnished house (₹ $6,000 \times 12$ months)	72,000	
Add: 10% of cost of furniture (₹ $1,00,000 \times 10\%$)	10,000	
Add: Rent of air-conditioner (₹ $1,000 \times 2$ months)	2,000	
Less: Standard Deduction of ₹ $50,000$ u/s 16 (ia)		(50,000)
Total Income		9,10,000

Computation Of Tax Liability Of Mr Vijay For AY 2026-27:

Particulars	Amount (₹)
Tax on ₹ 9,10,000 at slab rates	94,500
Add: Health & Education Cess @ 4%	3,780
Tax Liability	98,280

Answer 15

Computation Of Total Income Of Mr Ratan For AY 2026-27:

Particulars	Amount (₹)
Basic Pay (₹ 22,000 × 12 months)	2,64,000
Motor Car {Sec 17(2)(iii) Rule 3(2)} [(₹ 1,800 + ₹ 900) × 12 months]	32,400
Gross Salary Income	2,96,400
Net Salary Income {₹ 2,96,400 - ₹ 50,000 (Std Ded) - ₹ 2,400 (Professional Tax)}	2,44,000

Computation Of Tax Liability Of Mr Ratan For AY 2026-27:

Particulars	Amount (₹)
Tax on ₹ 2,44,000 at slab rates	Nil
Tax Liability	Nil

Answer 16

In case of Mr X, it becomes an obligation which the employee would have discharged if the employer did not reimburse the same. Hence, the perquisite will be covered u/s17 (2)(iv) and will be taxable in the hands of Mr X. This is taxable in the case of all employees.

In case of Mr Y, it cannot be considered as an obligation which the employee would meet. The employee might choose not to have a domestic servant. This is taxable only in the case of specified employees covered u/s17 (2)(iii). Hence, no perquisite value shall be taxable in the hands of Mr Y.

Answer 17

(i) Perquisite Value = Nil

(ii) Perquisite Value = ₹7,200.

(iii) Perquisite Value = ₹54,000

Answer 18

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

Particulars	Amount (₹)
Fair market value of 1000 sweat equity shares @ ₹ 300 each	3,00,000
Less: Amount recovered from Sri Chand for 1000 shares @ ₹ 200 each	(2,00,000)
Perquisite Value	1,00,000

(ii) As per Section 49(2AA), the cost of acquisition of such shares shall be the fair market value which has been taken into account for perquisite valuation u/s17 (2)(vi). Therefore, in case of subsequent sale of sweat equity shares by Sri Chand, the cost of acquisition would be ₹ 3,00,000.

Answer 19

Computation Of Perquisite Value Of Furniture:

Particulars	Amount (₹)
Cost of the furniture	75,000
Less: Depreciation on SLM basis @ 10% from 31.03.2021 to 30.03.2022	(7,500)
Less: Depreciation on SLM Basis @ 10% from 31.03.2022 to 30.03.2023	(7,500)
Less: Depreciation on SLM Basis @ 10% from 31.03.2023 to 30.03.2024	(7,500)
Less: Depreciation on SLM Basis @ 10% from 31.03.2024 to 30.03.2025	(7,500)
Written Down Value	45,000
Less: Amount paid by the assesse	(25,000)
Perquisite Value of Furniture	20,000

Computation Of Perquisite Value Of Microwave Oven:

Particulars	Amount (₹)
Cost of Microwave oven	25,000
Less: Depreciation on SLM Basis @ 10% from 01.06.2023 to 31.05.2024	(2,500)
Written Down Value	22,500
Less: Gift to the employee exempt upto ₹ 5,000	(5,000)
Perquisite Value of Microwave Oven	17,500

Computation Of Perquisite Value Of Motor Car:

Particulars	Amount (₹)
Cost of the motor car	2,40,000
Less: Depreciation on WDV Basis @ 20% from 11.07.2022 to 10.07.2023	(48,000)
Written Down Value	1,92,000
Less: Depreciation on WDV Basis @ 20% from 11.07.2023 to 10.07.2024	(38,400)
Written Down Value	1,53,600
Less: Amount paid by the assessee	(95,000)
Perquisite Value of Motor Car	58,600

Computation Of Perquisite Value Of Washing Machine:

Particulars	Amount (₹)
Cost of the washing machine	20,000
Less: Depréciation on SLM Basis @ 10% from 01.11.2015 to 31.10.2025 (10 years)	(20,000)
Written Down Value	Nil
Less: Amount paid by the assessee	(1,000)
Perquisite Value of Washing Machine	Nil

Computation Of Perquisite Value Of Computer:

Particulars	Amount (₹)
Cost of the Computer	55,000
Less: Depreciation on WDV Basis @ 50% from 10.01.2023 to 09.01.2024	(27,500)
Written Down Value	27,500

Less: Depreciation on WDV Basis @ 50% from 10.01.2024 to 09.01.2025	**(13,750)**
Written Down Value	13,750
Less: Depreciation on WDV Basis @ 50% from 10.01.2025 to 09.01.2026	(6,875)
Written Down Value	6,875
Less: Amount paid by the assessee	(30,000)
Perquisite Value of Computer	Nil

Answer 20

Perquisite Value Of Housing Loan:

Month	Maximum Outstanding Balance (End of Month) (₹)	Perquisite Value @ 4% (₹)
April 2025	5,88,000	$5{,}88{,}000 \times 4\% \times 1/12 = 1{,}960$
May 2025	5,76,000	$5{,}76{,}000 \times 4\% \times 1/12 = 1{,}920$
June 2025	5,64,000	$5{,}64{,}000 \times 4\% \times 1/12 = 1{,}880$
July 2025	5,52,000	$5{,}52{,}000 \times 4\% \times 1/12 = 1{,}840$
August 2025	5,40,000	$5{,}40{,}000 \times 4\% \times 1/12 = 1{,}800$
September 2025	5,28,000	$5{,}28{,}000 \times 4\% \times 1/12 = 1{,}760$
October 2025	5,16,000	$5{,}16{,}000 \times 4\% \times 1/12 = 1{,}720$
November 2025	5,04,000	$5{,}04{,}000 \times 4\% \times 1/12 = 1{,}680$
December 2025	4,92,000	$4{,}92{,}000 \times 4\% \times 1/12 = 1{,}640$
January 2026	4,80,000	$4{,}80{,}000 \times 4\% \times 1/12 = 1{,}600$
February 2026	4,68,000	$4{,}68{,}000 \times 4\% \times 1/12 = 1{,}560$
March 2026	- 4,56,000	$4{,}56{,}000 \times 4\% \times 1/12 = 1{,}520$
Total		20,880

Perquisite Value Of Air-Conditioners:

Particulars	Amount (₹)
Original Cost	2,00,000
Less: Depreciation on SLM Basis for 4 years @ 10% (₹ 2,00,000 × 10% × 4 years)	(80,000)
Written Down Value	1,20,000
Less: Amount recovered from employee	(90,000)
Perquisite Value	30,000

Chargeable perquisite in the hands of Mr Badri = ₹20,880 + ₹30,000 = ₹50,880

Answer 21

Taxable Perquisites In The Hands Of Mr Y For AY 2026-27:

	Particulars	Amount (₹)	Amount (₹)
(1)	Value of Concessional Accommodation:		
	Lower of lease rentals paid by X Ltd (ie ₹ 1,80,000) or 10% of RFA Salary of ₹ 10L	1,00,000	
	Add: Hire charges paid by X Ltd for furniture provided for the use of Mr Y	36,000	
	Less: Rent paid by Mr Y (₹ 5,000 × 12 months)	(60,000)	76,000
(2)	Perquisite Value of Santro car [(₹ 1,800+₹900) × 12]		32,400
(3)	Value of gift voucher (₹ 10,000 - ₹ 5,000)		5,000
Value of Perquisites Chargeable to Tax			1,13,400

Answer 22

Computation Of Salary Income Of Mr X For AY 2026-27:

Particulars	Amount (₹)
• **Basic Salary (₹ 25,000 × 12 months)**	3,00,000
• **Commission (₹ 1,000 × 12 months)**	12,000
• **Entertainment Allowance (₹ 1,000 × 12 months)**	12,000
• **Value of Furnished RFA (Note 1)**	48,400

• **Interest on personal loan (Note 2)**	**22,500**
• **Use of motor cycle {₹60,000 × 10% p.a. for 4 months}**	2,000
• **Transfer of motor cycle (₹ 42,000 - ₹ 30,000) (Note 3)**	12,000
Gross Salary	4,08,900
Less: Deduction u/s 16(ia) {Standard Deduction of ₹50,000}	(50,000)
Less: Deduction u/s 16(iii) {Professional tax paid}	(2,000)
Income from Salary	3,56,900

Note 1: Value of Furnished RFA: 10% of salary for the relevant period + 10% of cost of furniture for 8 months = [{10% of (₹ 3,00,000 + ₹12,000 + ₹12,000)}+ (₹ 24,000 × 8/12)]= ₹32,400 + ₹16,000 = ₹48,400

Note 2: Value of Perquisite for Interest on Personal Loan: [₹ 5,00,000 × (12.75% − 6.75%) × 9 months] = ₹22,500

Note 3: Depreciated Value of Motor Cycle: Original cost-Depreciation @ 10% p.a. for 3 completed years

= ₹60,000 − (₹60,000 × 10% p.a. × 3 years) = ₹42,000.

Medical Facility - Proviso to Section 17(2)

Answer 23

Computation Of Taxable Value Of Perquisite In The Hands Of Mr G:

Particulars	**Amount (₹)**	**Amount (₹)**
Medical premium paid for insuring health of Mr G		Exempt
Treatment of Mrs G in a Government hospital		Exempt
Treatment of Mr G's father (75 years and dependent) abroad	50,000	
Add: Expenses of staying abroad of the patient and attendant	30,000	
Less: Exempt upto the limit specified by RBI	(75,000)	5,000
Treatment of Mr G by his family doctor.(Fully Taxable)		5,000
Treatment of Mr G's mother (dependent) by family doctor (Fully Taxable)		8,000
Treatment of Mr G's sister (dependent) in a nursing home (Fully Taxable)		3,000
Treatment of Mr G's grandfather in a private clinic (Fully Taxable)		12,000
Treatment of Mr G's brother (independent) (Fully Taxable)		6,000
Taxable Value of Perquisite		39,000

Note: Grandfather and independent brother are not included within the meaning of family of Mr G.

Answer 24

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 a taxable perquisite.

b) The amount of ₹ 8,000 reimbursed by the employer for treatment of Ms Rakhi by family doctor is a taxable perquisite.

c) The amount of ₹ 5,000 reimbursed by her employer for treatment of her dependent mother-in-law in a nursing is a taxable perquisite.

Therefore, the aggregate sum of ₹ 17,000, specified in (a), (b) and (c) above, reimbursed by the employer is a taxable perquisite.

2. Medical premium of ₹ 7,500 paid by the employer for insuring health of Ms Rakhi shall be exempt in her hands.

3. Medical allowance of ₹$2,000$ per month (ie ₹$24,000$ p.a.) is a fully taxable allowance.

4. Reimbursement of medical expenses of ₹$5,000$ on her son's treatment in a hospital maintained by the Government is an exempt perquisite.

5. Expenditure on medical treatment of her minor son would be exempt to the extent permitted by RBI. Therefore, ₹ 50,000 shall be taxable in her hands.

6. Expenditure on stay abroad would be exempt to the extent permitted by RBI. Therefore, ₹ 20,000 shall be taxable in her hands.

7. The foreign travel expenditure of Ms Rakhi & her minor son borne by the employer would be excluded from perquisite only if her Gross Total Income, as computed before including the said expenditure, does not exceed ₹ 2 lakhs.

Answer 25

a) Medical facility provided to the family members of the employee in a hospital maintained by the employer is not a taxable perquisite. Regardless of the estimated value of benefit arising from such facility to the employee, it is exempt from tax. Therefore, the value of perquisite is Nil.

b) Domestic servant was employed by the employee and the salary of such domestic servant was paid/reimbursed by the employer. It is taxable as a monetary perquisite u/s17 (2)(iv) for all categories of employees. The taxable value of perquisite shall come out to ₹ 18,000 (₹ 1,500 per month × 12 months). 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.

c) 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, exemption of ₹ 1,000 per month per child is available.

➢Therefore, there would be no perquisite in respect of cost of free education provided to his child Arthy 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 ₹ $2,400\{(₹1,200 - ₹1,000) \times 12$ months$\}$.

d) Where the employer has provided movable assets to the employee, 10% p.a. 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 ₹ $1,10,000 = ₹11,000$.

e) 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 PY is exempt. If the gift amount exceeds ₹ 5,000, amount in excess of ₹ 5,000 shall be taxable. The taxable value of perquisite would be ₹ 5,000.

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

The total value of taxable perquisite would be ₹$36,400(18,000 + 2,400 + 11,000 + 5,000)$

Leave Travel Concession/Leave Travel Assistance - Section 10(5)

Answer 26

Case 1: Since the son's age is more than the twin daughters, Mr D can avail exemption for all his three children. The restriction of two children is not applicable to multiple births after one child. The holiday being in India and the journey being performed by air (economy class), the entire reimbursement met by the employer is fully exempt.

Case 2: Since the twins' age is more than the son, Mr D cannot avail for exemption for all his three children. LTC exemption can be availed in respect of only two children. Taxable LTC $= ₹15,000 \times 1/3 = ₹5,000$. LTC exempt is only ₹ 55,000 (ie ₹ 60,000 - ₹ 5,000).

Contribution To Notified Pension Scheme - Section 80CCD

Answer 27

(i) Deduction Available To Mr A Under Chapter VI-A For AY 2026-27:

Section	Particulars	Amount (₹)	Amount (₹)
80C	- Deposit in public provident fund	1,20,000	1,62,000
	- Five-year term deposit with bank	30,000	
	- Life insurance premium paid ₹ 15,000 (Since policy has been taken after 31.3.2012, maximum deduction is 10% of sum assured of ₹ 1.2 L)	12,000	
80CCD(1)	Employees' contribution to NPS of the Central Government {Restricted to 10% of salary} (₹ 1,80,000/15% * 10%) (Note)		1,20,000
Total			2,82,000
80CCE	Aggregate deduction u/s 80C and 80CCD(1) is restricted to 1,50,000		1,50,000
80CCD(1B)	₹ 50,000 would be eligible for deduction iro contribution to NPS of the Central Govt		50,000
80CCD(2)	Employer's contribution to NPS, restricted to 10% of salary [Note]		1,20,000
Deduction under Chapter VI-A $(1,50,000 + 50,000 + 1,20,000)$			3,20,000

Note: Deduction u/s 80CCD (1B) is not subject to overall limit of ₹ $1,50,000 u/s 80CCE$. Since deduction could not be claimed in respect of employee's contribution u/s 80CCD(1), an additional deduction of maximum ₹ 50,000 is available $u/s 80CCD(1B)$. Further, the entire employer's contribution to notified pension scheme has to be first included as income u/h salary and thereafter, deduction u/s 80CCD(2) would be allowed subject to a maximum of 10% of salary.

(ii) If contribution towards NPS is ₹ 1,20,000, it is beneficial for Mr A to first claim deduction of ₹ $50{,}000 \text{u/s} 80CCD(1\text{ B})$ and the balance ₹ 70,000 can be claimed u/s 80CCD(1). However, aggregate deduction u/s 80C & 80CCD(1) cannot exceed the limit of ₹ $1{,}50{,}000$. Total deduction under Chapter VI-A would remain the same (ie ₹ $3{,}20{,}000$).

Answer 28

Mr A's contribution to pension scheme is allowable as deduction u/s 80CCD(1). However, the deduction is restricted to 10% of salary. Salary, for this purpose, means basic pay plus dearness allowance, if it forms part of pay.

Particulars	Amount (₹)
➢ **Basic salary = ₹ 1,00,000 × 12 months**	12,00,000
➢ **DA = 40% of ₹ 12,00,000 = ₹4,80,000. 50% of DA forms part of pay.**	2,40,000
Salary For The Purpose Of Deduction u/s 80CCD	14,40,000
➢ **Deduction u/s 80CCD(1) is restricted to 10% of ₹ 14,40,000 (although the actual contribution is ₹ 1,80,000, being 15% of basic salary of ₹ 12,00,000)**	1,44,000
➢ **As per Section 80CCD(1B), a further deduction upto ₹ 50,000 is allowable. Therefore, deduction u/s 80CCD(1B) is ₹ 36,000 (₹ 1,80,000 - ₹ 1,44,000).**	36,000

Employer's contribution of ₹ 1,80,000 shall be first included in Mr A's salary. Employer's contribution to pension scheme would be allowable as deduction $\text{u/s} 80CCD(2)$, subject to a maximum of 10% of salary. Therefore, deduction u/s 80CCD(2) would also be restricted to ₹ $1{,}44{,}000$. It is assumed that the employer is other than Central/State Govt.

Total deduction u/s 80CCD would come out to ₹ $3{,}24{,}000$.

Provident Fund Related Questions

Answer 29

Taxable Portion Of The Amount Received From The URPF In The Hands Of Mr A For AY 2026-27:

Particulars	Amount (₹)
Amount Taxable u/h Salaries:	
• **Employer's share in the payment received from the URPF**	2,20,000
• **Interest on the employer's share**	50,000
Amount Taxable u/h Other Sources:	
• **Interest on employee's share**	60,000
Total Taxable Amount	3,30,000

If the fund is a recognized provident fund, the entire amount received on the maturity of the RPF will be fully exempt from tax as the maturity is taking place after a service of 25 years.

Gratuity - Section 10(10)

Answer 30

Computation Of Gross Total Income Of Mr B For AY 2026-27:

Particulars	Amount (₹)
• **Basic Salary (₹ $10,000 \times 12$ months)**	1,20,000
• **Dearness Allowance (₹ $8,000 \times 12$ months)**	96,000
• **Commission (₹ $5,00,000 \times 1\%$)**	5,000
• **Bonus**	40,000
• **Gratuity (Gratuity received during service is fully taxable)**	25,000
• **Employers contribution to RPF [20% of ₹1,20,000-12% of $(1,20,000 + 48,000 + 5,000)$]**	3,240
• **Interest accrued in the RPF in excess of 9.5% p.a.**	3,500
Less: Standard Deduction of ₹ $50,000$u/s16 (ia)	(50,000)
Gross Total Income	2,42,740
Less: Deduction u/s 80C (Employee's Contribution to RPF)	(20,000)
Total Income	2,22,740

Note: Interest on RPF is exempt upto the extent of 9.5% p.a. Interest in excess of 9.5% p.a. is taxable u/h salary.

Answer 31

Exemption u/s $10(10)$ shall be available to the extent of least of the following three figures:

➢Gratuity received $=$ ₹$8,00,000$

➢Statutory limit = ₹ 20,00,000

➢Half month's salary for every year of completed service (Note 1) $= \frac{1}{2} \times$ ₹$26,700 \times 30$ years $=$ ₹$4,00,500$

Exemption of ₹ $4,00,500$ shall be available u/s 10(10) and taxable amount of gratuity would come out to ₹ $3,99,500$.

Note 1: Average salary would mean average salary for the ten months immediately preceding the month of retirement. In the present case, the month of retirement is Jan 2026. Therefore, average salary for the months of March 2025 to December 2025 has to be considered. Basic pay is ₹ 25,000 p.m. upto 30.9.2025 and ₹ 27,000 p.m. from 1.10.2025. Further, DA forming part of retirement benefit salary shall also be considered.

Particulars	Amount (₹)
Basic Salary (March 2025 to December 2025) {(₹25,000 × 7 months)+(₹27,000 × 3 months)}	2,56,000
Dearness Allowance (₹ 2,000 × 10 months × 55%)	11,000
Total	2,67,000
Average Salary (₹ 2,67,000/10)	26,700

Answer 32

1. If Mr Ravi Is Covered By The Payment Of Gratuity Act, 1972:

Least of the following is exempt:

➢Gratuity received = ₹6,00,000

➢Statutory Limit = ₹20,00,000

➢15 days salary based on last drawn salary for each completed year of service or part thereof in excess of 6 months {15/26 × (₹5,000 + ₹3,000) × 27} = ₹1,24,615

Taxable amount of gratuity would come out to ₹ 4,75,385 (₹ 6,00,000 - ₹ 1,24,615)

2. If Mr Ravi Is Not Covered By The Payment Of Gratuity Act, 1972:

Least of the following is exempt:

➢Gratuity received = ₹6,00,000

➢Statutory Limit = ₹ 20,00,000

➢Half month's salary for each completed year of service = $\frac{1}{2}$ × ₹7,800 × 26 years = ₹1,01,400.

{Salary would mean average of RBS of the past 10 months immediately preceding the month of retirement. RBS of past 10 months is ₹ 78,000 (₹5,000 × 10) + (₹ 3,000 × 60% × 10) + (1% of ₹ 12,00,000 × 10/12)}. Average salary would come out to ₹ 7,800}

Taxable amount of gratuity would come out to ₹ 4,98,600 (₹ 6,00,000 - ₹ 1,01,400)

3. If Mr Ravi is a Government Employee: Entire amount of gratuity is exempt.

Answer 33

(a) If Mr Sagar Is A Government Employee:

Particulars	Amount (₹)
Uncommuted Pension [(₹ 5,000 × 4 months) +(₹5,000 × 40% × 2 months)]	24,000
Commuted Pension (Exempt u/s 10(10A) in case of government employees)	Exempt
Taxable Value	24,000

(b) If Mr Sagar Is A Non-Government Employee, Receiving Gratuity Of ₹ 5,00,000 At The Time Of Retirement:

Particulars	Amount (₹)
Uncommuted Pension $[(₹5,000 \times 4 \text{ months}) + (₹5,000 \times 40\% \times 2 \text{ months})]$	24,000
Commuted Pension $[₹3,00,000 - (₹3,00,000/60\% \times 1/3)]$	**1,33,333**
Taxable Value	1,57,333

(c) If Mr Sagar Is A Non-Government Employee And Is Not In Receipt Of Gratuity At The Time Of Retirement:

Particulars	Amount (₹)
Uncommuted Pension $[(₹5,000 \times 4 \text{ months}) + (₹5,000 \times 40\% \times 2 \text{ months})]$	24,000
Commuted Pension $[₹3,00,000 - (₹3,00,000/60\% \times 1/2)]$	50,000
Taxable Value	74,000

Answer 34

(a) Mr Gupta Is A Government Employee: Leave salary received by a government employee is exempt u/s 10(10AA). Therefore, the entire leave salary of ₹ 5 L is exempt in the hands of Mr Gupta.

(b) Mr Gupta Is A Non-Government Employee:

- Leave at the credit at the time of retirement $= (20 \text{ years} \times 30 \text{ days}) - 480 \text{ days} = 120 \text{ days}$
- RBS for past 10 months immediately preceding the date of retirement = BP $+60\%$ DA from Feb 2025 to Nov 2025 $= \{(₹4,000 \times 2 \text{ months}) + (₹5,000 \times 8 \text{ months}) + (₹3,000 \times 60\% \times 10 \text{ months})\} = ₹66,000$
- Average RBS for past 10 months immediately preceding the date of retirement $= ₹6,600$
- Leave salary is exempt $u/s 10(10AA)$ to the extent of least of the following four figures:

➢Statutory limit (₹ 25,00,000)

➢Leave at the credit x average salary $= 120$ days $/30$ days x$₹6,600 = ₹26,400$

➢10 months average salary $(10 \times ₹6,600) = ₹66,000$

➢Actual amount received $= ₹5,00,000$

Leave salary exempt $u/s 10(10AA)$ would come out to ₹ 26,400. Therefore, balance leave salary of ₹ 4,73,600 (₹ 5,00,000 - ₹ 26,400) would be taxable in the hands of Mr Gupta.

Answer 35

Computation Of Total Income Of Ms Neelima For AY 2026-27:

Particulars	Amount (₹)	Amount (₹)
Income u/h Salary:		
• Basic Salary {April To July (₹ 22,600 x 4M) + August To December (₹ 22,900 x 5M)}	2,04,900	
• Taxable portion of leave encashment (₹ 4,14,000 - ₹ 2,27,500)	1,86,500	
Least of the following is exempt u/s 10(10AA):		
➢ Statutory limit (₹ 25L) - Exemption claimed earlier (₹ 59,000) - ₹ 24,41,000		
➢ Leave salary actually received = ₹ 4,14,000		
➢ 10 times x Average RBS of last 10 months (10 x ₹ 22,750) - 2,27,500		
➢ Leave at the credit x Average RBS of last 10 months (11M x ₹ 22,750) = ₹ 2,50,250		
• Taxable portion of gratuity (₹ 12,00,000 - ₹ 1,59,040)	10,40,960	
Least of the following is exempt u/s 10(10):		
➢ Gratuity received (₹ 12L)		
➢ Statutory limit (₹ 20L)		
➢ ½ month's average salary for 14 years of service (1/2 × ₹ 22,720 × 14) = ₹ 1,59,040		
• Withdrawals from URPF (ie, Unrecognised Provident Fund)		
➢ Employer's share in the payment received from the URPF	2,10,000	
➢ Interest on employer's share	50,000	
Less: Standard deduction of ₹ 50,000 u/s 16(ia)	(50,000)	
Income u/h Salary		16,42,360
Income u/h Other Sources :		
Interest on employee's share out of withdrawals from URPF	60,000	
Income u/s Other Sources		60,000
Total Income		17,02,360

Note 1: Average salary for the purposes of computing exemption for leave salary $\mathrm{u/s10(10AA)}$ = Average salary of last 10 months preceding the date of retirement for each completed year of service, ie from March to December 2025. Average salary shall be ₹ 22,750 {Sum Of (₹ $22{,}600 \times 5\mathrm{M}$) & (₹ $22{,}900 \times 5\mathrm{M}$) Divided By 10 Months}.

Note 2: Leave at the credit = 30 days leave for 14 completed years of services as reduced by 90 days of leave availed during service (420 days - 90 days). Therefore, leave at the credit shall be 330 days (ie, 11 Months).

Note 3: Average salary for the purposes of computing exemption for gratuity $\mathrm{u/s10(10)}$ = Average salary of last 10 months preceding the month of retirement for each completed year of service, ie from February to November 2025. Average salary shall be ₹ 22,720 {Sum Of (₹ $22{,}600 \times 6\mathrm{M}$) & (₹ $22{,}900 \times 4\mathrm{M}$) Divided By 10 Months}.

Answer 36

As per Section 10(10B), least of the following is available as exemption in respect of retrenchment compensation:

➢Compensation actually received (₹ 10,00,000)

➢Statutory Limit (₹ 5,00,000)

➢Amount calculated as per Section 25F of Industrial Disputes Act, 1947 (₹ 25,000 × 30 years × 15 days /26 days) = ₹ 4,32,692.

Out of total retrenchment compensation of ₹ 10 L, ₹ 4,32,692 would be exempt u/s10(10 B) and balance ₹ 5,67,308 shall be taxable.

Answer 37

As per Section 10(10C), exemption available to Mr Dutta in respect of VRS compensation will be least of the following:

➢Compensation actually received (₹ 7,00,000)

➢Statutory Limit (₹ 5,00,000)

➢Last drawn salary × 3 × completed years of service: (₹20,000 + ₹5,000) × 3 × 30 years = ₹22,50,000

➢Last drawn salary × remaining months of service: (₹ 20,000 + ₹5,000) × 6 × 12 months = ₹18,00,000

Out of total voluntary retirement compensation of ₹ 7,00,000, ₹ 5,00,000 would be exempt μ/s10(10C) and balance ₹ 2,00,000 shall be taxable.

Answer 38

Basic Pay = ₹ 72,00,000 (₹ 6,00,000 × 12 Months)

Dearness Allowance = ₹ 5,76,000 (8% of ₹ 72L)

Employer's Annual Contribution To Recognized Provident Fund = 10% of (₹ 72 L + ₹5.76 L) = ₹7,77,600

Computation Of Perquisite Value Taxable u/s 17(2)(vii) And 17(2)(viia) For PY 2024-25; AY 2025-26:

➢Perquisite value taxable u/s 17(2)(vii) = ₹ 7,77,600 - ₹ 7,50,000 = ₹27,600

➢Perquisite value taxable u/s 17(2)(viia) = Annual accretion on perquisite taxable u/s17(2)(vii)= (PC/2)*R + (PC1 + TP1)*R = {(27,600/2) × 11.10%} + 0 = ₹ 1,532

PC	**Employer's contribution in excess of ₹ 7.5 L to recognized provident fund during PY 2024-25 = ₹27,600**
PC1	Nil
TP1	Nil
R	I/Favg = 2,06,711/18,62,093 = 11,10%
I	RPF Balance (31.3.2025) - Employee's & Employer's contribution during PY 2024-25 - RPF Balance (1.4.2024) = ₹ 2,06,711 (₹ 27,43,048 - ₹ 7,77,600 - ₹ 7,77,600 - ₹ 9,81,137)
Favg	(Balance to the credit of RPF as on 1st April 2024 + Balance to the credit of RPF as on 31st March 2025)/2 = (₹ 9,81,137 + ₹ 27,43,048)/2 = ₹ 18,62,093

Note: Interest on the aggregate of following will also be chargeable to tax during PY 2024-25; AY 2025-26:

➢₹ 2,03,600 (Employee's contribution exceeding ₹ 2,50,000 during PY 2023-24)

➢₹ 5,27,600 (Employee's contribution exceeding ₹ 2,50,000 during PY 2024-25)

➢Interest accrued on ₹ 2,03,600 being excess employee's contribution of PY 2023-24

Computation Of Perquisite Value Taxable u/s 17(2)(vii) And 17(2)(viia) For PY 2025-26; AY 2026-27:

➢Perquisite value taxable u/s 17(2)(vii) = ₹ 7,77,600 - ₹ 7,50,000 = ₹27,600

➢Perquisite value taxable u/s 17(2)(viia) = Annual accretion on perquisite taxable $u/s17(2)(vii) = (PC/2)^{*}R + (PC1 + TP1)*R = \{(27,600/2) \times 9.479\%\} + \{(27,600 + 1,532) \times 9.479\%\} = ₹1,308 + ₹2,761 = ₹4,069$

PC	**Employer's contribution in excess of ₹7.5L to recognized provident fund during PY 2025-26 = ₹ 27,600**
PC1	Employer's contribution in excess of ₹ 7.5 L to recognized provident fund during PY 2024-25 = ₹ 27,600
TP1	Taxable perquisite u/s 17(2)(viia) for PY 2024-25 = ₹ 1,532
R	I/Favg = 3,50,307/36,95,802 = 9.479%
I	RPF Balance (31.3.2026) - Employee's & Employer's contribution during PY 2025-26 - RPF Balance (1.4.2025) = ₹ 3,50,307 (₹ 46,48,555-₹ 7,77,600 - ₹ 7,77,600 - ₹ 27,43,048)
Favg	(Balance to the credit of RPF as on 1st April 2025 + Balance to the credit of RPF as on 31st March 2026)/2 = (₹27,43,048 + ₹46,48,555)/2 = ₹36,95,802

Note: Interest on the aggregate of following will also be chargeable to tax during AY 2026-27:

➢₹ 2,03,600 (Employee's contribution exceeding ₹ 2,50,000 during PY 2023-24)

➢₹ 5,27,600 (Employee's contribution exceeding ₹ 2,50,000 during PY 2024-25)

➢₹ 5,27,600 (Employee's contribution exceeding ₹ 2,50,000 during PY 2025-26)

➢Interest accrued on ₹ 2,03,600 being excess employee's contribution of PY 2023-24

➢Interest accrued on ₹ 5,27,600 being excess employee's contribution of PY 2024-25

Comprehensive Questions

Answer 39

(i) The eligible exemption u/s 10(13A) in respect of HRA received would be least of the following:

Actual amount received = ₹ 1,00,000

Rent paid (-) 10% of salary for the relevant period = (₹10,000 * 12 months) - 10% of ₹ 1,20,000 = ₹1,08,000

50% of retirement benefit salary = 50% × ₹1,20,000 = ₹60,000

The HRA received by Mr Khanna would be exempt to the extent of ₹ 60,000u/s10(13 A). The balance of ₹ 40,000 is includible in his total income.

(ii) Perquisite Value In Respect Of Concessional Accommodation: The actual amount of lease rental paid or payable by the employer or 10% of salary, whichever is lower, as reduced by the rent, if any, actually paid by the employee is the value of the perquisite.

- Actual rent paid by the employer = ₹10,000 × 12 months = ₹1,20,000
- 10% of salary = 10% of basic pay plus special allowance = 10% of ₹ 1,50,000 = ₹15,000
- Lower of the above is ₹ 15,000, which should be reduced by the rent of ₹ 30,000 paid by the employee (ie, ₹ 2,500 × 12 months = ₹30,000). The perquisite value is, therefore, nil.

(iii) We have to see the cash flow from both the options to find out which is more beneficial.

Particulars	Amount (₹)	Amount (₹)
Option 1: HRA		
Cash inflows [Basic Pay + HRA + Special Allowance]		2,50,000
Less: Cash outflows:		
• Rent paid	1,20,000	
• Tax (Note 1)	Nil	(1,20,000)
Net Cash Flow		1,30,000
Option 2: Concessional Accommodation:		
Cash inflows [Basic Pay + Special Allowance]		1,50,000
Less: Cash outflows:		
• Rent recovery	30,000	
• Tax (Note 1)	Nil	(30,000)
Net Cash Flow		1,20,000

Since the net cash flow is higher in Option 1, Mr Khanna should opt for HRA as it is more beneficial to him.

Note 1 - Computation Of Tax Liability Under Both The Options:

Particulars	Option 1 - HRA (₹)	Option 2 - Concessional Accommodation (₹)
Basic Pay	1,20,000	1,20,000
Special Allowance	30,000	30,000
Taxable Portion of HRA	40,000	N.A.
Concessional Accommodation	N.A.	Nil

Less: Standard Deduction	**(50,000)**	**(50,000)**
Taxable Salary Income	1,40,000	1,00,000
Tax on Total Income	Nil	Nil

Answer 40

Computation Of Total Income And Tax Liability Of Mrs Deepali For AY 2026-27:

Particulars	Amount (₹)	Amount (₹)
Income u/h Salary:		
• Basic Salary (₹ $60,000 \times 12$ months)	7,20,000	
• Dearness Allowance (40% of Basic Salary)	2,88,000	
• Accommodation at concessional rent [Sec 17(2)(ii) Rule 3(1)]	48,000	
• Perquisite value of interest on loan [Sec 17(2)(viii) Rule 3(7)(i)]	10,000	
Gross Salary	10,66,000	
Less: Standard Deduction of ₹ $50,000 u/s 16$ (ia)	(50,000)	
Less: Professional Tax u/s 16(iii)	(6,000)	
Income under the head salary		10,10,000
Income u/h House Property:		
Gross Annual Value (₹ $15,000 \times 12$)	1,80,000	
Less: Municipal Tax	Nil	
Net Annual Value	1,80,000	
Less: 30% of NAV u/s 24(a)	(54,000)	
Less: Interest on capital borrowed u/s 24(b)	(1,75,000)	
Loss under the head House Property		(49,000)
Gross Total Income		9,61,000
Less: Deduction u/s 80C (Repayment of Housing Loan)		(1,00,000)
Total Income		8,61,000

Calculation Of Tax Liability	
Particulars	**Amount (₹)**
Tax on ₹ 8,61,000 at slab rates	84,700
Add: Health & Education Cess @ 4%	3,388
Tax Liability	88,088
Tax Liability (Rounded off $u/s288\ B$)	88,090

Note 1 - Perquisite Value Of Accommodation At Concessional Rent:

Particulars	Amount (₹)
10% of rent free accommodation salary or rent paid whichever is less ➢ **10% of RFA Salary $= 10\%$ of ₹ $7,20,000 =$ ₹$72,000$** ➢ **Rent Charges $=$ ₹$15,000 \times 12$ months $=$ ₹$1,80,000$** **(It has been assumed that dearness allowance does not form part of pay for retirement benefits)**	
Value of Unfurnished House	72,000
Less: Amount recovered from the employee (₹ 2000 × 12 months)	(24,000)
Perquisite Value Of Accommodation At Concessional Rent	48,000

Note 2: Mrs Deepali cannot claim benefit of self-occupation (ie, taking the annual value as nil and claiming a higher loss of ₹ 2,00,000) in respect of the house property owned and occupied by her, since the same has been given on rent to her employer, who has allotted the same as residence to Mrs Deepali.

Answer 41

Computation Of Taxable Salary Income Of Mr Harish For AY 2026-27:

Particulars	Amount (₹)
• **Basic Salary (₹ $50,000 \times 12$ months)**	6,00,000
• **Dearness Allowance @ 40% of Basic Salary**	2,40,000
• **Transport Allowance (₹ $3,000 \times 12$ months)**	36,000
• **Motor car owned by the employer but used by the employee for official as well as personal purposes.** **Maintenance expenses borne by the employer (₹ 2,400 × 12 months)**	28,800
• **Expenditure on accommodation while on official duty not a perquisite**	Not Taxable

• Loan from recognized provident fund (not chargeable to tax)	**Nil**
• Value of lunch provided during working hours (Note 1)	9,000
• Computer provided in the residence of employee {Exempt perquisite as per Rule 3(7)(vii)}	Nil
Less: Standard Deduction of ₹ 50,000 u/s 16(ia)	(50,000)
Gross Total Income	8,63,800
Less: Deduction u/s 80D in respect of medical insurance premium paid by cheque amounting to ₹ 25,700 but restricted to ₹ 25,000 (Note 2)	(25,000)
Total Income	8,38,800

Note 1: Lunch provided by the employer during office hours is not considered as perquisite upto ₹ 50 per meal. Since, the number of working days is not given in the question, the number of working days has been assumed to be 300 days during FY 2025-26. Therefore, ₹ 15,000 (ie 300 x ₹ 50) would be exempt and balance ₹ 9,000 (ie ₹ 24,000 - ₹ 15,000) would be taxable.

Note 2: Medical insurance premium paid in cash of ₹ 4,800 is not allowable as deduction u/s 80D. Further, deduction for medical insurance premium paid through cheque is restricted to ₹ 25,000, which is the maximum deduction allowable.

Answer 42

Computation Of Salary Income Of Mr Nambi For AY 2026-27:

Particulars	Amount (₹)
• Basic Salary	6,00,000
• Dearness Allowance	3,20,000
• Commission	50,000
• Entertainment Allowance	7,500
• Medical expenses reimbursed by the employer	21,000
• Professional tax paid by the employer {Taxable as a monetary perquisite as per Section 17(2)(iv) since it is an obligation of the employee which is met/discharged by the employer}	3,500
• Health insurance premium of ₹ 9,000 paid by the employer {Exempt as per proviso to Section 17(2)}	Nil
• Gift voucher given by employer on Mr Nambi's birthday {Gift in excess of ₹ 5,000 taxable as per Section 17(2)(viii); Rule 3(7)(iv)}	7,000
• Life insurance premium of Mr Nambi paid by employer {Taxable as per Section 17(2)(v)}	34,000

• Laptop provided for use at home {Exempt as per Section 17(2)(viii); Rule 3(7)(vii)}	Nil
• Provision of motor car (engine cubic capacity less than 1.6 litres) owned by employer to employee {Assuming that the expenses are met or reimbursed by the employer, the perquisite value would be ₹ 21,600 (₹ $1,800 \times 12$ months)}	21,600
• Annual credit card fees paid by employer {Taxable perquisite as per Rule 3(7)(v) since the credit card is not exclusively used for official purposes and details of usage are not available}	2,000
Gross Salary	10,66,600
Less: Standard Deduction of ₹ 50,000 u/s 16(ia)	(50,000)
Less: Deduction for Entertainment Allowance u/s 16(ii)	Nil
Less: Deduction for Professional Tax u/s 16(iii)	(7,000)
Net Salary (Income u/h Salary)	10,09,600

Answer 43

Computation Of Salary Income Of Mr X For AY 2026-27:

Particulars	Amount (₹)
• Basic Pay $\{(₹20,000 \times 9$ months$)+(₹21,000 \times 3$ months$)\}$	2,43,000
• Dearness Allowance (10% of Basic Pay)	24,300
• Bonus	21,000
• Employer's contribution to RPF in excess of 12% (3% of ₹2,67,300) (Note 1)	8,019
• Telephone Allowance (₹500* 12 months)	6,000
• Conveyance Allowance (Exempt since it is based on actual reimbursement for official purposes)	Exemp t
• Taxable Perquisites	
➢ Rent-free accommodation [See Note 1 & 2 below]	29,430
➢ Laptop facility (Exempt)	-
➢ Medical reimbursement	25,000
➢ Reimbursement of salary of housekeeper (₹ $1,000 \times 12$ months)	12,000
➢ Gift voucher (Gift given by employer in excess of ₹ 5,000 is taxable) (₹ 10,000 - ₹ 5,000)	5,000

➢ **Medical insurance premium of family {Payment/reimbursement of mediclaim insurance premium by an employer for a policy taken in the name of the employee or his family member is exempt in the hands of the employee as per proviso to Section 17(2)}**	**Exempt**
Less: Standard Deduction of ₹ 50,000u/s16 (ia)	(50,000)
Taxable Salary Income	3,23,749

Note 1: It has been assumed that DA forms part of salary for retirement benefits and accordingly, the perquisite value of RFA and employer's contribution to RPF have been worked out.

Note 2: RFA Salary = Basic Salary (₹ 2,43,000) + DA (₹ 24,300) + Telephone Allowance (₹ 6,000) + Bonus (₹ 21,000) = ₹ 2,94,300. Perquisite value of RFA shall be lower of the following two figures:

➢10% of RFA Salary = 10% of ₹ 2,94,300 = ₹29,430; or

➢Rent paid by the employer = ₹ 1,20,000

Note 3: Premium of ₹ 5,000 paid by the company for personal accident policy is not liable to tax.

Answer 44

Computation Of Salary Of Mr Nanda For AY 2026-27:

Particulars	Amount (₹)
• **Basic Salary (₹ 80,000 × 9 months)**	7,20,000
• **Bonus**	36,000
• **House Rent Allowance [Sec 10(13A), Rule 2A] (Note 1)**	1,17,000
• **Employer's Contribution to RPF (₹ 1,10,000 − 12% of ₹ 7,20,000)**	23,600
• **Gratuity [Sec 10(10)] (Note 2)**	4,82,409
• **Uncommuted Pension [Sec 17(1)] [₹ 8,000 + (₹ 8,000 * 25% * 2 Months)]**	12,000
• **Commuted Pension [Sec 10(10A)] [₹4,50,000 - (₹ 4,50,000/75% * 1/3)]**	2,50,000
Gross Salary	16,41,009
Less: Deduction u/s 16(ia) (Standard Deduction of ₹ 50,000)	(50,000)
Less: Deduction u/s 16(iii) (Professional Tax)	(2,000)
Income u/h Salary	15,89,009

Note 1 - Taxable HRA {Section 10(13A)}:

Particulars	Amount (₹)
Least of the following is exempt: • **Actual amount received = ₹1,35,000** • **Rent paid (-) 10% of salary for the relevant period = ₹90,000 − ₹72,000 = 18,000** • **50% of retirement benefit salary = 50% x₹ 7,20,000 = ₹3,60,000**	
HRA received	1,35,000
Less: Exempt u/s 10(13A)	(18,000)
Taxable HRA	1,17,000

Note 2 - Taxable Gratuity {Section 10(10)}:

Particulars	Amount (₹)
Least of the following is exempt: • **Gratuity received = ₹ 20,51,640** • **₹ 20,00,000** • **15/26 × ₹80,000 × 34 = ₹15,69,230.77**	
Gratuity actually received	20,51,640
Less: Exempt u/s 10(10)	(15,69,231)
Taxable Gratuity	4,82,409

Note 3: ₹ 6,00,000 accumulated balance of RPF received from employer is exempt as Mr Nanda has rendered continuous service of more than 5 years with the employer.

Answer 45

Computation Of Total Income Of Mr Ramdin For AY 2026-27:

Particulars	Amount (₹)	Amount (₹)
Income u/h Salary:		4,00,760
• **Basic Salary (₹ 15,000 × 12 months)**	1,80,000	
• **Dearness Allowance (₹ 12,000 × 12 months)**	1,44,000	
• **Commission on Turnover (0.5 % of ₹ 50 lacs)**	25,000	
• **Bonus**	50,000	

• Gratuity (Gratuity received during service is fully taxable)	**30,000**	
• Employer's contribution to RPF in excess of 12% of retirement benefits salary [20% of ₹ 1,80,000 − {12% of (1,80,000 + 72,000 + 25,000)}]	2,760	
• Interest on RPF in excess of 9.5% (₹ 15,000/15% × 5.5%) (Note 1)	5,500	
• Gift of gold ring worth ₹ 10,000 on 25th wedding anniversary by employer (Gifts upto ₹ 5,000 p.a. are exempt; amount in excess of ₹ 5,000 is taxable)	5,000	
• Perquisite value of music system given for personal use (10% of ₹ 85,000)	8,500	
Less: Standard Deduction of ₹ 50,000u/s16 (ia)	(50,000)	
Income u/h Business/Profession: Lease of 2 trucks on contract basis against fixed charges of ₹ 6,500 p.m. Presumptive tax provisions of Section 44AE will apply. Taxable income per truck per month shall be ₹ 7,500. Lower profits cannot be claimed since books of accounts have not been maintained. (₹ 7,500 × 2 × 12 months).		1,80,000
Income u/h Other Sources:		
• Interest on bank FDRs	5,860	
• Interest on Debentures	7,540	
• Dividend on shares	1,260	14,660
Gross Total Income		5,95,420
Less: Deduction u/s 80C		
• Premium on Life Insurance Policy	15,370	
• Investment in NSC	30,000	
• FDR of SBI for 5 years	50,000	
• Employee's contribution to recognized provident fund	30,000	(1,25,370)
Less: Deduction u/s 80D (Medical Insurance)		(12,500)
Less: Deduction u/s 806 (Note 2)		(10,600)
Total Income		4,46,950

Calculation Of Tax Liability Of Mr Ramdin For AY 2026-27:

Particulars	Amount (₹)
Tax on ₹ 4,46,950 at slab rates	9,847.50
Less: Rebate u/s87 A	(9,847.50)
Tax Liability	Nil

Note 1: Interest on RPF is exempt upto the extent of 9.5% p.a. Interest in excess of 9.5% p.a. is taxable u/h salary.

Note 2: Deduction u/s 806 is computed as under:

Particulars	Amount (₹)
- Deduction to PM National Relief Fund (100%)	5,100
- Donation to institution approved u/s80G(50% of Qualifying Amount of ₹ 11,000) ➢ **{Qualifying Amount = Amount contributed (ie ₹ 11,000) or 10% of Adjusted GTI (ie ₹ 45,755), whichever is lower}** ➢ **Adjusted GTI = GTI - Deductions u/s 80C and 80D=₹5,95,420-₹ 1,37,870 = ₹4,57,550**	5,500
Total Deduction	10,600

Answer 46

Computation Of Income u/h "Salaries" Of Mr Swaraj For AY 2026-27:

Particulars	(₹)	(₹)
Basic Salary [₹25,000 × 9 months]		2,25,000
House Rent Allowance [₹ 6,000 × 9 months]	54,000	18,000
Less: Least of the following exempt u/s10(13 A) : • **House rent allowance actually received (₹ 6,000 × 9 = ₹54,000)** • **Rent paid (-) 10% of salary for the relevant period {(₹6,500 × 9)(−)(10% of ₹ 2,25,000)} = ₹ 36,000}** • **50% of salary for the relevant period (50% of ₹ 2,25,000 = ₹1,12,500)**	(36,000)	
Gratuity	3,50,000	Nil

Less: Least of the following exempt $u/s 10(10)$: **• Actual gratuity received (₹ $3,50,000$)** **• 15 days salary for every year of completed service $\{(15/26 \times ₹25,000 \times 26) = ₹3,75,000\}$** **• Notified limit (₹ 20,00,000)**	**(3,50,000)**	
Leave encashment	3,15,000	65,000
Less: Least of the following exempt u/s 10(10AA) **• ₹ 25,00,000** **• Leave salary actually received (₹ $3,15,000$)**	(2,50,000)	
• ₹ 2,50,000 (₹ $25,000 \times 10$ months) **• Cash equivalent of leave standing at the credit of the employee based on the average salary of last 10 months for every year of actual service rendered for the employer from whose service he has retired $\{(375/30 \times ₹25,000) = ₹3,12,500\}$;** **(Leave due $= 15$ days per year $\times 25$ year $= 375$ days)**		
Gift Voucher {As per Rule 3(7)(iv), any gift received by an employee or by member of his household not exceeding ₹ 5,000 in aggregate during the previous year is exempt}		Exempt
Mobile phone received as gift from colleagues {Neither taxable u/h "Salaries" nor "Income from other sources", since taxability provisions $u/s 56(2)(x)$ are not attracted in respect of mobile phone received from colleagues, as mobile phone is not included in the definition of "property" thereunder}		Nil
Gross Salary		3,08,000
Less: Standard deduction u/s 16(ia)		(50,000)
Net Salary		2,68,000

Answer 47

Computation Of Total Income Of Mr Rohan For AY 2026-27:

Particulars	Amount (₹)
Income u/h Salary:	
• Basic Salary (₹ 25,000 $\times$ 12 months)	3,00,000
• Dearness Allowance (50% of Basic Pay)	1,50,000

• **Perquisite Value In Respect Of Motor Car {Section 17(2)(iii) & Rule 3(2)}** **{Since the monetary income u/h salary of Mr Rohan exceeds ₹50,000, Mr Rohan qualifies as a specified employee and therefore, Section 17(2)(iii) is applicable in his case. Since the car is used by the employee for personal purposes only, 10% p.a. of actual cost of motor car and driver's salary paid by the employer shall be taxable in the hands of the employee} {10% of ₹ 8,00,000(+)₹10,000 × 12 Months}**	**2,00,000**
• **Crockery Set Received As Gift From Employer On Farewell Party** **{Gifts received in kind from employer are exempt upto ₹ 5,000 as per Section 17(2)(viii) & Rule 3(7)(iv)}**	Exempt
• **Gratuity (₹ 7,50,000 • ₹ 6,05,769)**	1,44,231
Least of the following is exempt u/s10(10) : ➢ **Gratuity received (ie ₹ 7,50,000)** ➢ **₹ 20,00,000** ➢ **15/26 × Last-Drawn BP & Full DA (37,500) × No Of Completed Years Of Service Or Part Thereof Excess Of 6 Months (28) = ₹ 6,05,769**	
• **Leave Encashment (₹3,25,000 • ₹1,75,000)**	1,50,000
Least of the following is exempt u/s10(10AA) : ➢ **Statutory limit = ₹ 25,00,000** ➢ **Leave at the credit × Average RBS of last 10 months = 210 days /30 days × ₹25,000 = ₹1,75,000** ➢ **10 Times x Average RBS of last 10 months (10x ₹ 25,000) = ₹2,50,000** ➢ **Actual amount received = ₹3,25,000**	
Less: Standard Deduction of ₹ 50,000u/s16 (ia)	(50,000)
Income u/h Salary	8,94,231

Answer 48

Computation Of Total Income Of Mr X For AY 2026-27:

Particulars	Amount (₹)	Amount (₹)
Salaries:		
• **Basic Salary**	3,80,000	
• **Dearness Allowance**	1,20,000	
• **Employer contribution to NPS = 20% of ₹ 3,80,000**	76,000	

Gross Salary	**5,76,000**	
Less: Standard deduction u/s 16(ia)	(50,000)	
Net Salary		5,26,000
Profits And Gains Of Business Or Profession: **Where the amount gifted by Mr X (₹ 6 lakhs, in this case) is invested by Mrs X in a business as her capital, proportionate share of profit or loss, as the case may be, computed by taking into account the value of the investment as on 1.4.2025 to the total investment in the business (ie,**		
₹ 10 lakhs) would be included in the income of Mr X (Loss of ₹ 1,30,000 × 6/10)	(78,000)	Nil
Income From Other Sources:		Nil
All income of the minor son would be included in the income of the parent Mr X, since his income is higher than the income of Mrs X (loss of ₹ 52,000, based on the information given in the question). Accordingly, ₹ 70,000, being the amount of gift received by minor son during PY		
2025-26, would be included in the income of Mr X as the amount of gift exceeds ₹ 50,000.	70,000	
Less: Exemption in respect of income of minor child included in Mr X's income	(1,500)	
	68,500	
Less: Business loss of ₹ 78,000 set-off to the extent of ₹ 68,500 (Balance business loss of ₹ 9,500 to be c/f to the next year, since the same cannot be set-off against salary income)	(68,500)	
Gross Total Income		5,26,000
Less: Deduction u/s 80C {Deposit in Sukanya Samridhi Account)	70,000	
Less: Deduction u/s 80CCC {Contribution to LIC Annuity Plan)	40,000	
Less: Deduction u/s 80CCD(1) {Employee's contribution to NPS, subject to ₹ 42,800, being 10% of salary (₹ 3,80,000 + ₹ 48,000). However, since ₹ 1,10,000 has been already claimed as deduction u/s 80C & 80CCC, only ₹ 40,000 deduction would be available u/s 80CCD(1)}	40,000	

Less: Deduction u/s 80CCD(1B) {₹ 76,000 - ₹ 40,000 already allowed u/s 80CCD(1)}	**36,000**	
Less: Deduction u/s 80CCD(2) {Employer's contribution to NPS restricted to 14% of basic salary & DA forming part of pay, since employer is CG = 14% x (₹ 3,80,000 + ₹ 48,000)}	59,920	
Less: Deduction u/s 80E {Interest paid on loan taken for higher education}	15,000	(2,60,920)
Total Income		2,65,080