TEST 4

(Salaries + Opted out of Sec 115BAC)

Time : 30 minutes Total Marks : 20

Question 1 :

Mr. Y has taken voluntary retirement from ABC Ltd. on 31.10.2023 after serving the employer for 23 years and 2 months. The employer has paid him ₹2,10,000 in connection with voluntary retirement, a gratuity of ₹1,80,000 and leave salary of ₹1,50,000.

The employee was getting the basic pay ₹15,000 p.m. at the time of retirement. The employer has unrecognised provident fund.

After retirement the employer has paid him provident fund balance of ₹5,00,000, out of which employee's contribution is ₹2,00,000. The employer's contribution is also ₹2,00,000 and balance is the interest on employee's and employer's contribution.

The employee has taken voluntary retirement after completion of the age 50 years though he was to be retired at the age of 58.

The employer has allowed him one month leave per year of service. The employee has availed seven monthsleave throughout his service and has encashed six months leave.

Compute employee's Tax Liability for the Assessment Year 2024-25. **10 Marks**

Question 2 : Mr. Neeraj, a salaried employee, furnishes the following details for p/y 2023-24:

Particulars	₹
Basic salary	5,40,000
Dearness allowance	3,60,000
Commission	50,000
Entertainment allowance	7,500
Medical expenses reimbursed by the employer	21,000
Profession tax (of this, 50% paid by employer)	4,000
Health insurance premium paid by employer	9,000
Gift voucher given by employer on his birthday	12,000
Life insurance premium of Neeraj 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 Maruti Suzuki Swift car (Engine cubic capacity more than 1.6 litres), which was provided to the assessee, both for official and personal use. No driver was provided. All expenses are met by the employer	
Annual credit card fees paid by employer [Credit card is not exclusively used for official purposes; details of usage are not available]	5,000

You are required to compute the income chargeable under the head Salaries for the assessment year 2024-25.

10 Marks

TEST 4 SOLUTION
(Salaries)

Solution 1:

Basic Pay (15,000 x 7)	1,05,000.00
Employer's contribution to unrecognised provident fund	2,00,000.00
Interest on employer's contribution to unrecognised provident fund	50,000.00
Gratuity {Sec 10(10)}	7,500.00

Working Note:
Least of the following is exempt:
1. ₹1,80,000
2. ₹20,00,000
3. ½ x 15,000 x 23 = ₹1,72,500

Received = ₹1,80,000
Exempt = (₹1,72,500)
Taxable = ₹ 7,500

Leave Salary {Sec 10(10AA)}	Nil

Working Note:
Least of the following is exempt:
1. ₹1,50,000
2. ₹3,00,000
3. 10 x 15,000 = ₹1,50,000
4. 10 x 15,000 = ₹1,50,000

Received = ₹1,50,000
Exempt = (₹1,50,000)
Taxable = Nil

Computation of leave at the credit
Leave Entitlement = 23 months
Less: Leave availed = (7 months)
Less: Leave Encashed = (6 months)
Leave at the credit = 10 months

Voluntary Retirement {Sec 10(10C) Rule 2BA}	Nil

Working Note:
Least of the following is exempt:
1. 15,000 x 3 x 23 = ₹10,35,000
2. 15,000 x 12 x 8 = ₹14,40,000
3. ₹2,10,000

Received = ₹2,10,000
Exempt = (₹2,10,000)
Taxable = Nil

Gross Salary	3,62,500.00
Less: Standard Deduction u/s 16(ia)	(50,000.00)
Income under the head Salary	3,12,500.00
Income under the head Other Sources	50,000.00
{Interest on employee's contribution to unrecognised provident fund }	
Gross Total Income	3,62,500.00
Less: Deduction u/s 80C to 80U	Nil
Total Income	3,62,500.00
Computation of Tax Liability	
Tax on ₹3,62,500 at slab rate	5,625.00
Less: Rebate u/s 87A	(5,625.00)
Tax Liability	Nil

Solution 2 :

Computation of Income chargeable under the head salaries of Mr. Neeraj for A.Y. 2024-25

Particulars	₹
Basic Salary	5,40,000
Dearness allowance	3,60,000
Commission	50,000
Entertainment allowance	7,500
Medical expenses reimbursed by the employer is fully taxable	21,000
Professional tax paid by the employer is a taxable perquisite as per section 17(2), since it is an obligation of the employee which is paid by the employer	2,000
Health insurance premium of ₹9,000 paid by the employer is an exempt perquisite [proviso to section 17(2)]	Nil
Gift voucher given by employer on Mr. Neeraj birthday [entire amount is taxable since the perquisite value exceeds ₹ 5,000, as per Rule 3]	12,000
Life insurance premium of Mr. Neeraj paid by employer is a taxable perquisite as per section 17(2)	34,000
Laptop provided for use at home is an exempt perquisite as per Rule 3	Nil
Provision of motor car (engine cubic capacity more than 1.6 litres) owned by employer provided to employee, the perquisite value would be ₹28,800 [₹ 2,400 ×12]	28,800
Annual credit card fees paid by employer is a taxable perquisite as per Rule 3 since the credit card is not exclusively used for official purposes and details of usage are not available	5,000
Gross Salary	**10,60,300**
Less: **Deductions under section 16**	
- Standard Deduction as per section 16(ia), lower of gross salary and ₹ 50,000	50,000
- Entertainment allowance (deduction not allowable since Mr. Neeraj is not a Government employee)	Nil
- Professional tax paid allowable as deduction as per section 16(iii)	4,000
Income chargeable under the head "Salaries"	**10,06,300**

Note: As per Rule 3, the value of any gift or voucher received by the employee or by member of his household on ceremonial occasions or otherwise from the employer shall be determined as the sum equal to the amount of such gift. However, the value of any gift or voucher received by the employee or by member of his household below ₹ 5,000 in aggregate during the previous year would be exempt as per the proviso to Rule 3. In this case, the gift voucher of ₹ 12,000 was received by Mr. Neeraj from his employer on the occasion of his birthday. Since the value of the gift voucher exceeds the limit of ₹ 5,000, the entire amount of ₹ 12,000 is liable to tax as perquisite. The above solution has been worked out accordingly.

An alternate view possible is that only the sum in excess of ₹ 5,000 is taxable in view of the language of Circular No.15/2001 dated 12.12.2001, which states that such gifts upto ₹,000 in the aggregate per annum would be exempt, beyond which it would be taxed as a perquisite. As per this view, the value of perquisite would be ₹7,000. Accordingly, the gross salary and net salary would be 10,55,300 and 10,01,300, respectively