

## Income From Salaries :-

Salary is taxable on basis of due or receipts, whichever is earlier.

Arrears in salary is on receipt basis.

### Broad Heads under Salary :-

1) Basic      2) Allowances      3) Perquisites      4) Retirement Benefits.

Eg of Perquisites :- Accomodations, Telephone, Vehicles, Gym  
Eg of Allowances :- Leave, Travel, HRA etc.

### Exemptions :-

1) Gratuity :- [Section 10(10)]

a) Government Employees → Fully Exempted.

b) Employees covered under Payment of Gratuity Act :-  
Least of:

- i) Amount Received
- ii) Statutory limit → Rs. 10,00,000
- iii)  $(15/26) \times$  Last drawn Salary  $\times$  no. of years  
(Rounded off)

c) Employees Not covered Under Payment of Gratuity Act:  
Least of :-

- i) Amount Received
- ii) Statutory limit → Rs. 10,00,000
- iii) Formula :-  $\frac{1}{2} \times$  Average salary of last 10 months  $\times$  No. of months (ignoring fractions)

where :-

Salary = Basic + DA to the extent it forms part of Retirement Benefits + Commission as a % of Sales.

2) HRA : [Section 10(13A)]

- The person should not be the owner of the house.
- Should be on Rent.

i) Metro Cities :

Least of :- a) Amount Received

b) Rent - 10% of salary.

c) 50% of salary for relevant period.

ii) Non-Metro :

Least of :- a) Amount Received.

b) Rent - 10% of salary.

c) 40% of salary.

where :-

Salary = Basic + DA to the extent it forms part of retirement benefits. + Commission as percentage of sales/turnover.

Example :-

Mr. A has following receipts from his employer :

Basic → 3000 p.m.

DA → 600 p.m.

Commission → 6000 p.a.

Motor car → 500 p.m.

HRA → 900 p.m.

Find out taxable salary assuming Mr. A paid a rent of Rs. 1000 p.m. for his accommodation at

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Kanpur. DA forms part of salary for retirement benefits.

Sol:-

Basic				36000
D. A.				7200
Commission				6000
Motor car				6000
HRA				
Amount Received			10800	
Less: Exemptions u/s 10(13A)				
i) Amount Recd.	10800			
ii) Rent - 10% of salary	7680			
iii) 40% of salary	17280	7680	3120	
Total Income				<u>58320</u>

Working Notes:-

$$\begin{aligned} \text{Rent} - 10\% \text{ of salary} &= 12,000 - [10\% \text{ of } (36000 + 7200)] \\ &= 12000 - 4320 \\ &= \text{Rs. } 7680 \end{aligned}$$

$$\begin{aligned} 40\% \text{ of salary} &= 40\% \text{ of } (36000 + 7200) \\ &= \text{Rs. } 17280. \end{aligned}$$

## Tax Paid by Employer on Behalf of Employee.

Eg: Salary  $\rightarrow$  12,00,000  
Less: TDS  $\rightarrow$  2,00,000  
10,00,000

$\therefore$  Taxable Income 12,00,000  
Tax on above 2,00,000  
Less: TDS - 2,00,000  
 $\therefore$  Taxable Income NIL.

For a foreign CEO:-

Salary  $\rightarrow$  1,00,00,000  
Tax by Employer  $\rightarrow$  30,00,000

$\therefore$  Taxable Amount  $\rightarrow$  1,00,00,000  
Tax 30,00,000  
 $\therefore$  Tax paid by Employer  $\rightarrow$  30,00,000  
NIL

u/s 10(10C)

## Deductions:-

1) Entertainment Tax { only for Govt. Employee }

Least of :-  
a) Amount Received  
b) Limit  $\rightarrow$  Rs. 5000  
c) 20% of salary (Basic + DA)

$\Rightarrow$

Eg: Amount Recd. 20,000.

∴ Least of :-  
 a) Amt. Recd → 20,000  
 b) limit → 5000  
 c) 20% of salary → 10,000

$$\begin{aligned} \therefore \text{Taxable Income} &= 20,000 - 5000 \\ &= \underline{15,000} \end{aligned}$$

LECTURE # 3      Date :- 10/07/2015.

Provident Fund:-

Employer's contribution = 12%.

If 15,000 has been paid by employer and it is 15%, then taxable income = Rs. 3000; since 12% = 12000 ∴ Balance is taxable.

Problem on salary :-

For Government Employee.

1	Basic Salary		2,40,000
2	Dearness Allowance		1,20,000
3	Bonus [Earlier Year]		5000
4	Arrears		2500
5	Adv. Salary		3000
6	Loan		-
7	Overtime		1000
8	Commission		2000
9	Travelling Expenses [Spent 2000]	3500	
	Less: Spent	2000	1500

22. Expenses by Employer for Training		-	
23. Telephone Reimbursement		-	
24. Gratuity on Retirement	2,00,000		
Less: Exempt (u/s 10(10))	2,00,000	-	534300
Less: Deductions:			
Entertainment Allowance	4500		
Add: Professional Tax	2500	(7000)	(7000)
Total Taxable Income from Salaries			<u>527300</u>

### Working Notes:-

#### 1) Entertainment Allowance

Least of:

- 1) Amount Recd. 4500
- 2) Limit 5000
- 3) 20% of salary 7200 { 20% of (240000 + 120000)

#### 2) Gratuity [ Only for private company emp's. Fully exempt for govt ]

Least of:

- 1) Amount Received 2,00,000
- 2) Limit 10,00,000
- 3)  $\frac{1}{2} \times 30000 \times 20$  3,00,000

{ Assuming 20 years of service. }

\* For an employee of private company, Entertainment Allowance will not be considered as deduction.

$$\begin{aligned} \therefore \text{Taxable Income} &= \quad \quad \quad + 2500 \quad 4500 \\ &= \boxed{531,800} \end{aligned}$$

(B)