

Standard deduction is allowed w.e.f. the Assessment Year 2019-20.

Chart Showing Computation of Income from Salaries

	₹
1. Salary/Wages	.....
2. Advance Salary or Arrears of Salary	.....
3. Dearness Pay	.....
4. Dearness Allowance	.....
5. Bonus	.....
6. Fees	.....
7. Commission	.....
8. Allowances (Taxable part)	.....
9. Value of taxable perquisites	.....
10. Profits in lieu of or in addition to salary or wages (Amount of Compensation)	.....
11. Amount received in respect of encashment of earned leave during service	.....
12. Contribution of the employer in RPF in excess of 12% of salary	.....
13. Interest on RPF in excess of 9.5%	.....
On the retirement of Employee-add :	
14. Unrecognised Provident Fund :	
(a) Share of employer	.....
(b) Interest on share of employer	.....
15. Taxable part of gratuity	.....
16. Taxable part of encashment of earned leave	.....
17. If retrenched—taxable part of retrenchment compensation	.....
18. In case of voluntary retirement—taxable part of voluntary retirement compensation	.....
19. Pension :	
(a) Taxable part of commuted pension	.....
(b) Pension from the date of retirement till the end of the previous year	.....
Gross Salary Income	.....
<i>Less :</i>	
1. Standard Deduction—Max. ₹ 40,000	.....
2. Entertainment allowance—Max. ₹ 5,000 (In case of Govt. Employee)	.....
3. Professional Tax	.....
Taxable Salary	.....

If total income is to be computed and there is no income other than salary, the taxable salary will also be Gross Total Income and from it deductions under sections 80C to 80U will be allowed and the balance will be Total Income.

Amendments w.e.f. the Assessment Year 2019-20 :

- (1) Standard deduction shall be allowed up to ₹ 40,000.
- (2) Reimbursement of medical expenses up to ₹ 15,000 shall not be exempt.
- (3) Transport allowance to non-disabled person up to ₹ 1,600 p.m. shall not be exempt.

> Deductions

(Sec. 16)

The income chargeable under the head 'Salaries' shall be computed after making the following deductions :

- (1) Standard Deduction up to ₹ 40,000 [Sec. 16(ia)];

[Note : w.e.f. the Assessment Year 2020-21 standard deduction shall be allowed up to ₹ 50,000.]

- (2) Entertainment Allowance [Sec. 16(ii)];
- (3) Employment Tax [Sec. 16(iii)].

> Entertainment Allowance

Amount granted as entertainment allowance to an employee by his employer is included under the head 'Salaries' and then the following deduction is allowed in this connection :

- In the case of a Government employee : (i) Amount received; (ii) 1/5th of basic salary; or (iii) ₹ 5,000 (whichever is less).
- In the case of any other employee : Nil

Note : Any entertainment expenses incurred by the employee (whether government employee or non-government employee) is not taken into consideration at all.

■ Illustration 17 (Entertainment Allowance regarding Govt. Employees)

Mr. R. S. Tiwari is a Government employee. During the year 2018-19 he got ₹ 60,000 p.m. as salary, ₹ 4,000 p.m. as dearness allowance, car allowance ₹ 500 p.m. and rent-free house of the value of ₹ 1,000 p.m. He was also given entertainment allowance of ₹ 400 p.m. with effect from 1st Jan., 2014 when he was promoted and that he did not spend any amount out of this for official purposes. Calculate the amount deductible u/s 16(ii).

Solution

Since Mr. Tiwari is a government employee, he will get deduction u/s 16(ii) irrespective of the fact that he did not spend any amount out of this for official purposes. The amount of deduction allowable will be the least of the following :

- 1/5 of basic salary of ₹ 7,20,000 = ₹ 1,44,000, or
- ₹ 5,000, or
- ₹ 4,800 being the actual amount received.

The least of all the above amounts, viz., ₹ 4,800 will be allowed as deduction u/s 16(ii). No extras will be included in salary for this purpose.

> Employment Tax

Any sum paid by the assessee on account of a tax on employment, leviable by or under any law, is allowable as a deduction.

Note : If the amount of employment tax has been paid by the employer, it will be added in salary income and then the deduction will be allowed.

■ Illustration 18 (Conveyance Allowance and Employment Tax)

Smt. Kishan Pyari is drawing a monthly salary of ₹ 20,000 and entertainment allowance of ₹ 3,500 per month from a Ltd. Co. She is also getting conveyance allowance of ₹ 1,200 per month, a bonus equal to two months' salary and commission equal to one month's pay. During the previous year, she paid ₹ 2,000 as Employment Tax.

She is provided with a rent-free furnished house by the company at Jaipur. The company paying ₹ 90,000 p.a. as the rent of this house and ₹ 8,700 p.a. for furniture and fittings. The electric and water charges amounting to ₹ 18,000 are also borne by the company in respect of this house.

She is also provided with lunch by the company during working hours at work place. The cost of which is ₹ 80 per meal for 300 days during the Previous Year.

The company recovered ₹ 20 per meal from her.

From the above information calculate Smt. Kishan Pyari's taxable income from salary for the Assessment Year 2019-20.

Solution

Computation of Taxable Salary (for the Assessment Year 2019-20)

	₹
Salary	2,40,000
Bonus	40,000
Commission	20,000
Entertainment Allowance	42,000
Value of rent-free house	60,000

Electric and water charges paid by the company	18,000
Lunch—(₹ 80 – 20 – 50) × 300	3,000
	<u>4,23,000</u>
	Gross Income from Salary
	40,000
Less : (i) Standard deduction	2,000
(ii) Employment Tax	42,000
	<u>3,81,000</u>
	Taxable Salary

Note : Value of rent-free house is determined as under :

15% of salary (i.e., 15% of ₹ 2,40,000 + 40,000 + 20,000 + 42,000) or ₹ 90,000 whichever is less	51,300
Add : Actual hire paid for furniture, etc.	8,700
	<u>₹ 60,000</u>

■ Illustration 19 (Allowances)

Mr. P gets a salary of ₹ 30,000 per month. He also gets dearness allowance @ 10% of the salary, house rent allowance of ₹ 5,000 per month and proctor's allowance of ₹ 1,000 per month. During the Previous Year 2018-19, he was out of India for three months and the salary and allowances for this period were paid to him abroad. He was not paid any proctor's allowance while he remained out of India. He paid ₹ 4,000 per month as the rent of the house occupied by him for his residence. He also owned a scooter which he used for the purpose of his employment in India for which he did not get any conveyance allowance. Find out his income from salary for the Assessment Year 2019-20.

Solution

Computation of Taxable Salary (for the Assessment Year 2019-20)

	₹
Salary for the year	3,60,000
Dearness Allowance	36,000
House Rent Allowance	48,000
Proctor's Allowance for 9 months	9,000
	<u>Gross Salary</u>
	4,53,000
Less : Standard deduction	40,000
	<u>Taxable Salary</u>
	4,13,000

Notes : 1. His income from salary for the Previous Year 2018-19 will be taken for full 12 months and not for nine months only.

2. House Rent allowance :

The least of the following is exempt :

(i) HRA received	₹ 60,000
(ii) Rent paid—10% of Salary (₹ 48,000 – 36,000)	12,000
(iii) 40% of Salary	1,44,000
	<u>48,000</u>

3. No deduction will be allowed regarding the scooter.

■ Illustration 20 (Value of Rent-free House)

A gets ₹ 18,000 per month as salary and dearness allowance at 10 per cent of the salary. He is getting entertainment allowance of ₹ 8,000 p.a. During the previous year ended 31st March, 2019, he received a bonus of three months' salary. He is also provided with a rent-free house (unfurnished) in a town (whose population is less than four lakh) whose fair rent is ₹ 5,000 per month. Find out his income under the head 'Salaries' for the Assessment Year relevant to the Previous Year 2018-19.

Solution

Computation of Taxable Salary (for the Assessment Year 2019-20)

	₹
Salary	2,16,000
Dearness Allowance	21,600
Bonus	54,000

Entertainment Allowance	8,000		
Value of Rent-free house	20,850		
		Gross Salary	3,20,450
<i>Less</i> : Standard deduction			40,000
		Taxable Salary	<u>2,80,450</u>

Note : Value of Rent-free house will be 7.5% of salary. Hence, 7.5% of (Salary + Bonus + Entertainment Allowance) = 7.5% of ₹ 2,78,000 = ₹ 20,850.

■ Illustration 21

Mr. X is employed in a factory (owned by an individual) on a monthly salary of ₹ 20,000. In addition to the salary, he received a bonus of two months' salary during the previous year. The factory has provided the assessee with a rent-free unfurnished accommodation. The rent paid by employer ₹ 1,400 p.m. One son of the assessee is studying in the U.S.A. and his expenses are borne by the employer, which for the accounting year amount to ₹ 14,000. He is provided with a small car by the employer which he uses partly for private purposes and partly for official purposes. All the expenses in respect of the car are paid by the factory. He is getting entertainment allowance @ ₹ 800 per month. Find out his taxable income from salary for the Assessment Year 2019-20.

Solution

Computation of Taxable Salary (for the Assessment Year 2019-20)

	₹
(i) Salary	2,40,000
(ii) Bonus for two months	40,000
(iii) Entertainment Allowance	9,600
(iv) Value of Perquisites :	
(a) Rent-free house	16,800
(b) Education expenses of the assessee's son borne by the employer	14,000
(c) Value of Car—@ ₹ 1,800 p.m.	21,600
	Gross Salary
	<u>3,42,000</u>
<i>Less</i> : Standard deduction	40,000
	Taxable Salary
	<u>3,02,000</u>

Note : Value of rent-free house will be actual rent or 15% of salary, whichever is less. The salary for this purpose will be ₹ 2,40,000 + 40,000 + 9,600 = ₹ 2,89,600.

15% of salary	43,440
Rent paid by employer	16,800
Value of Rent-free House	16,800

■ Illustration 22

X, an employee in a company in Bhopal (population exceeds 25 lakh), is drawing ₹ 40,000 p.m. as salary and dearness allowance @ 20% of his salary. He is also getting City Compensatory Allowance of ₹ 4,000, Medical Allowance of ₹ 6,000, Bonus ₹ 16,000 and Commission ₹ 4,000. He is provided with a rent-free unfurnished house owned by the employer of the fair rental value of ₹ 60,000 per annum. He is provided free of charge a sweeper and a cook whose wages are ₹ 300 and ₹ 700 p.m. respectively and a gardener whose wages are ₹ 250 p.m. He is also given free electricity for personal use for which the employer has paid ₹ 6,000 during the year to Electric Supply Company. Compute his taxable salary for the Assessment Year 2019-20.

Solution

Computation of Taxable Salary (for the Assessment Year 2019-20)

	₹
Salary	4,80,000
Dearness Allowance	96,000
City Compensatory Allowance	4,000
Medical Allowance	6,000

Bonus	16,000
Commission	4,000
Value of rent-free house	76,500
Sweeper	3,600
Gardener	3,000
Cook @ ₹ 700 p.m.	8,400
Electricity	6,000
	<u>Gross Salary</u> 7,03,500
Less : Standard deduction	40,000
	<u>Taxable Salary</u> 6,63,500

Notes : 1. Perquisites are taxable as the salary income in cash exceeds ₹ 50,000 (after allowing deduction u/s 16).

2. Value of rent-free house has been calculated as under :

$$\begin{aligned} \text{Salary for this purpose} &= ₹ 4,80,000 + 4,000 + 6,000 + 16,000 + 4,000 \\ &= ₹ 5,10,000. \end{aligned}$$

15% of Salary

76,500

■ **Illustration 23 (Allowances u/s 10(14))**

From the following information compute the taxable income under the head 'Salaries' of Shri Ashok, who is working as a driver with a transport company at Sikkim for the Assessment Year 2019-20 :

- Salary ₹ 20,000 p.m.
- Dearness Allowance ₹ 1,500 p.m.
- Bonus equal to one month's pay.
- Remote Locality Allowance ₹ 1,500 p.m.
- Allowance to meet his personal expenses while on duty ₹ 3,000 p.m.
- Children Education Allowance ₹ 195 p.m. (For three children @ ₹ 65 p.m. per child)
- One son of Shri Ashok lives in a hostel for studies and the employer pays ₹ 400 p.m. to meet hostel expenditure.
- Entertainment Allowance ₹ 450 p.m.

Solution

Computation of Taxable Salary
(for the Assessment Year 2019-20)

	₹	₹
(i) Salary		2,40,000
(ii) Dearness Allowance		18,000
(iii) Bonus		20,000
(iv) Remote Locality Allowance	18,000	
Less : Exempt u/s 10(14)(ii) up to ₹ 1,300 p.m. as Sikkim falls in Area B		15,600
(v) Personal Expenses Allowance	36,000	2,400
Less : Exempt u/s 10(14)(ii) 70% of the allowance or ₹ 10,000 p.m., whichever is less		25,200
(vi) Children Education Allowance received (65 × 12 × 3)	2,340	10,800
Less : Exempt u/s 10(14)(ii) up to ₹ 100 per child for a maximum of two children (65 × 12 × 2)		1,560
(vii) Hostel Expenses	4,800	780
Less : Exempt u/s 10(14)(ii) at ₹ 300 p.m. per child for a maximum of two children		3,600
(viii) Entertainment Allowance		1,200
		<u>5,400</u>
	<u>Gross Salary</u>	2,98,580
Less : Standard deduction		40,000
	<u>Taxable Salary</u>	<u>2,58,580</u>

■ **Illustration 24 (Provident Fund)**

An individual is in receipt of a salary of ₹ 24,000 per month, 15 per cent of which he contributes to a provident fund to which his employer contributes 14 per cent. He is provided with a rent-free house by the employer in Mumbai. He also received from his employer ₹ 32,000 as a bonus. The amount of interest credited to his provident fund at 10 per cent per annum is ₹ 2,000.

Ascertain his taxable salary for the Assessment Year 2019-20 if the provident fund in question is (a) a provident fund to which the Provident Fund Act, 1925 applies, (b) a recognised provident fund.

Solution

Computation of Taxable Salary
(for the Assessment Year 2019-20)

	₹
(a) Provident Fund to which the P.F. Act, 1925 applies :	
Salary	2,88,000
Bonus	32,000
Value of rent-free house (15% of salary ₹ 3,20,000)	48,000
	Gross Salary 3,68,000
Less : Standard deduction	40,000
	Taxable Salary 3,28,000
(b) Recognised Provident Fund :	
Salary	2,88,000
Bonus	32,000
Employer's contribution in excess of 12% of salary	5,760
Interest on R.P.F. in excess of 9.5%	100
Value of rent-free house (15% of salary ₹ 3,20,000)	48,000
	Gross Salary 3,73,860
Less : Standard deduction	40,000
	Taxable Salary 3,33,860

■ **Illustration 25 (Provident Fund)**

Mrs. P is an employee getting a monthly salary of ₹ 50,000 plus a dearness pay of ₹ 5,000 p.m. She contributed 14% of her salary and dearness pay to a provident fund to which her the employer contributes an equal amount. Interest on the provident fund is determined at the rate of 12 per cent per annum which amounted to ₹ 36,000 for the previous year. She also gets a house rent allowance of ₹ 2,000 p.m. She has actually paid ₹ 6,000 p.m. as the rent of the house occupied by her for her residence. What will be her taxable salary for the Assessment Year 2019-20; if the provident fund is (a) Statutory, (b) Recognised, and (c) Unrecognised.

Solution

Computation of Taxable Salary
(for the Assessment Year 2019-20)

	₹
(a) Statutory Provident Fund :	
Salary	6,00,000
Dearness Pay	60,000
House Rent Allowance	18,000
	Gross Salary 6,78,000
Less : Standard deduction	40,000
	Taxable Salary 6,38,000
(b) Recognised Provident Fund :	
Salary	6,00,000
Dearness Pay	60,000
House Rent Allowance	18,000
Employer's Contribution to P.F. in excess of 12% of his salary including D.P.	13,200
Interest on P.F. in excess of the prescribed rate i.e. 9.5%	7,500
	Gross Salary 6,98,700
Less : Standard deduction	40,000
	Taxable Salary 6,58,700

(c) **Unrecognised Provident Fund :**

Salary		6,00,000
Dearness Pay		60,000
House Rent Allowance		18,000
	Gross Salary	6,78,000
		40,000
Less : Standard deduction	Taxable Salary	6,38,000

- Notes :** 1. The least of all the alternative sums is the excess of actual expenditure on rent over 1/10th of salary due to the assessee (72,000 – 66,000) = ₹ 6,000. Hence, out of the total house rent allowance of ₹ 24,000 received by the assessee ₹ 6,000 have been excluded from the total income and the balance of ₹ 18,000 is taxable.
2. For the purpose of recognised provident fund the term 'Salary' includes dearness pay, dearness allowance given under terms of employment and commission given at fixed percentage of turnover achieved by the employee.

■ **Illustration 26**

The following are the particulars of the income of Mr. Ramesh for the previous year ended on 31st March, 2019 :

- (i) Salary—₹ 45,000 p.m.
- (ii) Bonus equal to two months' pay.
- (iii) Dog allowance—₹ 750 p.m.
- (iv) Special allowance—₹ 600 p.m.
- (v) Employee's contribution to a recognised provident fund @ 15% of salary.
- (vi) Employer's contribution to the fund @ 15% of the salary.
- (vii) Interest credited to the provident fund @ 9.5% p.a. is ₹ 28,000.
- (viii) He is provided with free lunch in the office. The cost per meal is ₹ 30.
- (ix) The employer has given him the use of a small car which he uses for personal and official purposes. He meets the expenses for the personal purpose from out of his pocket.

Compute the income of Mr. Ramesh from salaries for the Assessment Year 2019-20.

Solution

Computation of Taxable Salary
(for the Assessment Year 2019-20)

Salary		₹
Bonus		5,40,000
Dog Allowance		90,000
Special Allowance		9,000
Employer's Contribution to R.P.F. in excess of 12% of Salary		7,200
Lunch—Exempt (Cost does not exceed ₹ 50 per meal)		16,200
Car @ ₹ 600 p.m.		—
		7,200
	Gross Salary	6,69,600
Less : Standard deduction		40,000
	Taxable Salary	6,29,600

■ **Illustration 27**

X, an employee of a firm, furnished the undernoted particulars of his income for the year ended 31st March, 2019 :

- | | | |
|--|---|----------|
| (i) Basic Salary | ₹ | 1,44,000 |
| (ii) Dearness Allowance | | 28,800 |
| (iii) Own contribution to recognised provident fund calculated on basic salary | | 20,160 |
| (iv) Employers' contribution to the said fund | | 20,160 |
| (v) Interest on balance in recognised provident fund (not exceeding the prescribed rate) | | 14,000 |
| (vi) Bonus | | 12,000 |
| (vii) He was provided with a small car for which the employer paid all the running and maintenance cost. The car was used for personal as well as office purposes. | | |

- (viii) X was also provided with rent-free accommodation at Kolkata for which the employer paid a rent of ₹ 1,250 per month. X was allowed the use of one refrigerator and an air-conditioner costing ₹ 8,000 and ₹ 12,000 respectively while their written-down values on 1.4.2018 were ₹ 4,500 and ₹ 7,000 respectively.
- (ix) Life Insurance Premium of ₹ 12,000 was paid by X's employer on an insurance policy for ₹ 2,40,000 on X's life.

Compute X's taxable salary for the Assessment Year 2019-20.

Solution

Computation of Taxable Salary of Mr. X (for the Assessment Year 2019-20)

Income from Salary :	₹
Salary	1,44,000
Dearness Allowance	28,800
Bonus	12,000
Employer's contribution in excess of 12% of salary	2,880
Perquisites :	
Car (₹ 1,800 × 12)	21,600
Life Insurance Premium paid by employer	12,000
Value of rent-free house	17,000
	<u>Gross Salary</u> 2,38,280
Less : Standard deduction	40,000
	<u>Taxable Salary</u> 1,98,280

Note : Value of rent-free house has been determined as under :

Rent ₹ 15,000 or	₹
15% of salary (₹ 1,44,000 + 12,000 = ₹ 1,56,000)	15,000
= ₹ 23,400, whichever is less	2,000
Add : 10% of cost of refrigerator and air-conditioner of ₹ 20,000	17,000
Value of rent-free house	<u>17,000</u>

Illustration 28

B (Age : 56 years) receives the following Incomes from ABC Limited during the year ending 31-03-2019 :

- (i) Salary @ ₹ 65,000 p.m.
- (ii) Tiffin allowance (actual total expenditure : ₹ 20,000) @ 2,000 p.m.
- (iii) Reimbursement of medical expenditure for the treatment of 'B' and his family members ₹ 15,000.
- (iv) Transport allowance @ ₹ 1,800 p.m. (actual total expenditure : ₹ 10,000)
- (v) Unfurnished flat provided at Meerut at a nominal rent of ₹ 6,000 p.m. (rent paid by the employer : ₹ 18,000 p.m.)
- (vi) Employer Company sells the following assets to 'B' on 10-01-2019 :

Assets Sold	Car	Computer	Fridge
Cost of asset to the employer	₹ 4,00,000	₹ 60,000	₹ 20,000
Date of Purchase	10-06-2016	12-07-2015	05-04-2016
(Put to use on the same day)	₹ 2,00,000	₹ 8,000	₹ 12,000
Sale price			
- (vii) On October 1, 2018 the company gives its music system to him for domestic use. Ownership is not transferred. Cost of music system (in April 2008) to the employer is ₹ 15,000.
- (viii) He has contributed 18% of his salary to recognized provident fund account to which his employer made a matching contribution : interest @ 12.5% p.a. amounting to ₹ 50,000 has been credited to the aforesaid recognized provident fund account during the previous year.

Determine the salary income of 'B' for the Assessment Year 2019-20.

Solution

Computation of Taxable Salary
(for the Assessment Year 2019-20)

		₹
1. Salary		7,80,000
2. Tiffin allowance (Fully Taxable)		24,000
3. Reimbursement of medical Expenditure (Not exempt)		15,000
4. Transport allowance (Not exempt)		21,600
5. House at Concessional rent [15% of salary i.e., 7,80,000 + 24,000 + 21,600] ₹ 1,23,840 or ₹ 2,16,000 whichever is less)	1,23,840	
Less : Rent Charged	<u>72,000</u>	51,840
6. Assets Sold :		56,000
Car		—
Computer		4,000
Fridge (See note)		—
7. Music system for domestic use (Asset used for more than ten years, hence the value of perquisite would be nil)		—
8. Contribution of the employer to RPF in excess of 12% of salary ₹ 7,80,000		46,800
9. Interest on RPF in excess of 9.5%		12,000
	Gross Salary	<u>10,11,240</u>
Less : Standard deduction		40,000
	Taxable Salary	<u><u>9,71,240</u></u>

Notes : Computation of perquisite value of Assets Sold :

(i) Car (Dep. @ 20% on WDV method) :

Cost of Car		4,00,000
Depreciation I year		80,000
	WDV	<u>3,20,000</u>
Depreciation II year		64,000
		<u>2,56,000</u>
Less : Sale Price		<u>2,00,000</u>
	Value of perquisite	<u><u>56,000</u></u>

(ii) Computer (Dep. @ 50% WDV method) :

Cost of Computer		60,000
Depreciation I year		30,000
	WDV	<u>30,000</u>
Depreciation II year		15,000
	WDV	<u>15,000</u>
Depreciation III year		7,500
	WDV	<u>7,500</u>
Less : Sale Price		<u>8,000</u>
	Value of perquisite	<u><u>Nil</u></u>

(iii) Fridge (Dep. @ 10% SLM) :

Cost of Fridge		20,000
Less : Depreciation for two years		4,000
		<u>16,000</u>
Less : Sale price		<u>12,000</u>
	Value of perquisite	<u><u>4,000</u></u>

Illustration 29

- Compute taxable income under the head salary of Mr. X for the Assessment Year 2019-20 :
- Salary ₹ 60,000 p.m.
 - D. A. ₹ 10,000 p.m.
 - Entertainment Allowance ₹ 1,000 p.m.
 - Employer's Contribution to Recognized Provident Fund ₹ 88,800. His own contribution was ₹ 88,800.
 - Interest @ 10% p.a. on Credit Balance of Recognized P.F. amounted to ₹ 50,000.
 - City Compensatory Allowance ₹ 500 p.m.
 - Medical Allowance ₹ 1,200 p.m.
 - He has been provided with a large Car for both official and personal use. Employer bears all the expenses of the car.
 - He is provided an unfurnished house by the employer in a city (population 12 lakh). The fair rental value of the house is ₹ 90,000 p.a. Employer charges ₹ 2,000 from him per month as rent.

Solution

Computation of Taxable Salary
(for the Assessment Year 2019-20)

Salary	₹	
Dearness Allowance		7,20,000
Entertainment Allowance		1,20,000
Employer's Contribution to R.P.F. in excess of 12% of salary		12,000
Interest on P.F. in excess of 9.5%		2,400
City Compensatory Allowance		2,500
Medical Allowance		6,000
Car (₹ 2,400 × 12)		14,400
Concession in Rent :	₹	
Rent-free house 10% of Salary ₹ 7,52,400	75,240	
Less : Paid by the assessee	24,000	51,240
	Gross Salary	<u>9,57,340</u>
Less : Standard deduction		40,000
	Taxable Salary	<u><u>9,17,340</u></u>

Illustration 30

Sri Chowdhry is Purchase Officer in a company in Kota (population exceeds ₹ 25 lakh). He furnished the following particulars regarding his income for the Previous Year 2018-19 :

- Net basic Salary ₹ 3,20,000 which is after deducting ₹ 2,000 for income tax, ₹ 20,000 as contribution to recognised provident fund and rent of the bungalow ₹ 8,000.
- Bonus ₹ 10,000.
- Travelling allowance for official duty travelling ₹ 25,000.
- Reimbursement of medical bills ₹ 15,000 (treatment was done in a government hospital in India).
- He lived in a bungalow belonging to the company. The company has provided on this bungalow the facility of a gardener and a cook each of whom is being paid a salary of ₹ 250 per month and ₹ 800 per month respectively. The company paid in respect of this bungalow ₹ 4,800 for the electric bill and ₹ 1,200 for the water bill.
- He has been provided with a large car for official and personal use. The maintenance and running expenses of the car (including the driver) are borne by the company.
- The following amounts were deposited in his provident fund account : (a) own contribution ₹ 20,000, (b) company's contribution ₹ 20,000, and (c) interest @ 9.5% p.a. ₹ 19,000.

Compute his taxable income from salary for the Assessment Year 2019-20.

Solution**Computation of Taxable Salary***(for the Assessment Year 2019-20)*

	₹	₹
Salary	3,20,000	
Income tax deducted	2,000	
Contribution to Provident Fund	20,000	
Rent deducted	8,000	
Bonus		3,50,000
Travelling Allowance [Exempt u/s 10(14)(i)]		10,000
Electric Bill paid by employer		Nil
Water Bill paid by employer		4,800
Value of rent-free house being 15% of salary including :		1,200
Bonus (15% of ₹ 3,60,000)	54,000	
Less : Rent paid	8,000	
Concession in Rent		46,000
Gardener		3,000
Cook		9,600
Car [(₹ 2,400 + 900) × 12]		39,600
Excess of employer's contribution to R.P.F. over 12% of salary		Nil
Excess of interest over prescribed rate		Nil
	Gross Salary	4,64,200
Less : Standard deduction		40,000
	Taxable Salary	<u>4,24,200</u>

■ Illustration 31

Mr. Gupta is an employee of a Textile Company of Indore since 2005. He has submitted the following particulars of his income for the Financial Year 2018-19 :

- (i) Net basic salary ₹ 4,00,000 after deduction of contribution to recognized provident fund ₹ 72,500 and rent of bungalow @ 10% of salary.
- (ii) D.A. ₹ 1,000 per month (₹ 200 p.m. enters into retirement benefits).
- (iii) Education allowance for two children at ₹ 150 p.m. per child.
- (iv) Commission on sales @ 1% ₹ 10,000.
- (v) Entertainment allowance ₹ 700 p.m.
- (vi) Travelling allowance for his official tours ₹ 30,000. Actual expenditure on tour amounted to ₹ 22,000.
- (vii) He resides in the bungalow of the company. Its fair rent is ₹ 10,000 p.m. A watchman and cook have been provided by the company at the bungalow who were paid ₹ 4,000 p.m. each.
- (viii) He has been provided with a large motor-car for his official as well as personal use. The running and maintenance costs are borne by the company.
- (ix) Employer's contribution to R.P.F. is ₹ 47,500 and the interest credited to this fund at 10% rate amounted to ₹ 50,000.

Compute income from salaries for the Assessment Year 2019-20.

Solution**Computation of Taxable Salary***(for the Assessment Year 2019-20)*

	₹	₹
(1) Salary received	4,00,000	
Cont. to R.P.F.	72,500	
Rent deducted @ 10% of gross salary i.e., 1/9th of the total of above (viz. ₹ 4,72,500)	52,500	5,25,000

(2) Dearness Allowance (₹ 2,400 enters into retirement benefits)		12,000
(3) Education Allowance for two children exempt up to ₹ 100 per child only		1,200
(4) Commission on Sales		10,000
(5) Entertainment Allowance		8,400
(6) Travelling Allowance in excess of actual expenditure		8,000
(7) Concession in rent		30,750
(8) Watchman		48,000
(9) Cook		48,000
(10) Car (₹ 2,400 × 12)		28,800
(11) Employers' Cont. to R.P.F. in excess of 12% of salary of ₹ 5,25,000 + 2,400 + 10,000		Nil
(12) Interest on P.F. in excess of 9.5%		2,500
	Gross Salary	<u>7,22,650</u>
Less : Standard deduction		40,000
	Taxable Salary	<u>6,82,650</u>

Note : Valuation of a house at concessional rent :

Salary = ₹ 5,25,000 + 2,400 + 1,200 + 10,000 + 8,400 + 8,000 = ₹ 5,55,000		₹
15% of Salary		83,250
Less : Rent deducted from Salary		<u>52,500</u>
		<u>30,750</u>

■ **Illustration 32**

Shri Kali Charan Sharma is employed in Mumbai. He is in the grade of ₹ 36,000-1,000-44,000-2,000-60,000 since 1st January, 2010. He is paid 20% of salary as dearness allowance and ₹ 10,000 per month as house rent allowance. He has hired accommodation on a monthly rent of ₹ 13,000. He contributes 17% of his salary and dearness allowance to the Recognised Provident Fund towards which the employer contributes an equal amount. He has been given a small car which is used by him for his personal purposes also. All the expenses relating to the official use of the car are incurred by the employer. He has the amenity of free electric and water from factory cost ₹ 4,000. He has been provided the Gas and Telephone, the Bills ₹ 1,200 and ₹ 2,000 respectively have been paid by the employer. Compute his Income from Salary for the Assessment Year 2019-20.

Solution

Computation of Taxable Salary
(for the Assessment Year 2019-20)

	₹	
Salary (44,000 × 9)	3,96,000	
(46,000 × 3)	<u>1,38,000</u>	5,34,000
D.A. 20%		1,06,800
H.R.A.		28,080
Employer's Contribution in R.P.F. in excess of 12% of Salary		32,040
Car (600 × 12)		7,200
Electricity and Water		4,000
Gas		1,200
Telephone—Exempt		—
	Gross Salary	<u>7,13,320</u>
Less : Standard deduction		40,000
	Taxable Salary	<u>6,73,320</u>

Notes : 1. Computation of taxable H.R.A. :

The least of the following is exempt :		₹
(i) H.R.A. received		1,20,000
(ii) Rent paid —10% of salary (₹ 1,56,000 – 64,080)		91,920
(iii) 50% of Salary		3,20,400
	Taxable H.R.A. (₹ 1,20,000 – 91,920)	<u>28,080</u>

2. The perquisite, telephone, is exempt in case of all employees.

■ Illustration 33

Sri Manoj Kumar is getting ₹ 15,000 p.m. as basic pay, ₹ 1,500 p.m. as dearness pay and ₹ 500 p.m. as dearness allowance. During the previous year he received the following allowances also :

- (1) ₹ 60,000 as an allowance for reimbursement of personal expenditure while on duty during the running of a truck.
- (2) ₹ 120 p.m. per son as education allowance for the education of his two sons.
- (3) Both these sons are living in a hostel on whom Sri Manoj Kumar is spending ₹ 500 p.m. per son. He is getting ₹ 350 p.m. per son as Hostel Allowance for meeting this expenditure.
- (4) ₹ 350 p.m. as Tribal Area Allowance.
- (5) ₹ 100 p.m. as Conveyance Allowance which is used by him for private purposes.
- (6) ₹ 3,000 p.m. House Rent Allowance.

Sri Manoj Kumar has taken a house for his residence at Bilaspur at ₹ 4,000 per month as rent. He contributes 12% of his basic pay and dearness pay to his Recognised Provident Fund and the employer also contributes a similar amount.

Compute the taxable salary of Sri Manoj Kumar for the Assessment Year 2019-20.

Solution

Computation of Taxable Salary (for the Assessment Year 2019-20)

Income from Salary :

	₹	
Basic Pay		1,80,000
Dearness Pay		18,000
Dearness Allowance	₹	6,000
Running Allowance	60,000	
Less : Exempt (70% of ₹ 60,000)	42,000	18,000
Education Allowance (₹ 120 × 12 × 2)	2,880	
Less : Exempt (₹ 100 × 12 × 2)	2,400	480
Hostel Allowance (₹ 350 × 12 × 2)	8,400	
Less : Exempt (₹ 300 × 12 × 2)	7,200	1,200
Tribal Area Allowance	4,200	
Less : Exempt (₹ 200 × 12)	2,400	1,800
Conveyance Allowance for private purposes		1,200
House Rent Allowance		7,800
	Gross Salary	2,34,480
Less : Standard deduction		40,000
	Taxable Salary	1,94,480

Note : The least of the following three alternatives is exempt regarding House Rent Allowance:

- (1) Actual amount of H.R.A. 36,000
 - (2) Excess of rent paid by the employee over
10% of salary (₹ 48,000 – 10% of ₹ 1,98,000) 28,200
Salary for this purpose being (₹ 1,80,000 + 18,000) = ₹ 1,98,000
 - (3) 2/5th of Salary of ₹ 1,98,000 79,200
- The least of all the above alternatives is ₹ 28,200 which would be exempt and the balance of H.R.A., i.e., ₹ 7,800 would be taxable.

■ Illustration 34

Mr. X, an Indian citizen, is employed in the Foreign Ministry of the Government of India. On 1st August, 2018 he was transferred to the Indian Embassy in Italy. On 1st October, 2018 he was called back to India for an urgent official work. On 1st January, 2019 he was again sent back to Italy. The particulars of his income for the year ended 31st March, 2019 are as under :

- (i) Salary at ₹ 60,000 p.m.
- (ii) Dearness Allowance @ 20% of the salary of X paid in India.

- (iii) Rent-free house in Delhi while in India and in Rome while in Italy was provided to him. The rent of the house in Delhi was ₹ 2,000 p.m. as per government rules and the rent of the house in Rome was ₹ 80,000 p.m. The house in Delhi was unfurnished; but furniture costing ₹ 4,00,000 was provided in the house at Rome.
- (iv) He has been provided with a large car both in Delhi and in Rome, which is being used for personal as well as official purposes. The car is driven by Mr. X himself.
- (v) He got entertainment allowance in Italy at ₹ 10,000 p.m.
- (vi) He was getting overseas allowance @ ₹ 20,000 per month.
- (vii) The Government of India reimbursed ₹ 15,000 medical expenses incurred on the treatment of himself and his family in Italy.

Find out the taxable income under the head Salaries for the Assessment Year 2019-20. Salary is due on the last day of the month.

Solution

Computation of Taxable Income from Salary

(for the Assessment Year 2019-20)

	₹
Salary for full year	7,20,000
Dearness Allowance for 7 months while he was in India	84,000
Value of rent-free house in Delhi	14,000
Car provided in Delhi for 7 months—₹ 2,400 p.m.	16,800
	8,34,800
Less : Standard deduction	40,000
	7,94,800

- Notes :**
- All allowances or perquisites given to a Government employee in foreign country are exempt from tax.
 - Salary is taxable for full year as it is deemed to accrue or arise in India even if it has become due and paid in a foreign country.
 - As per government rules rent at ₹ 2,000 p.m. for 7 months will be ₹ 14,000.

Illustration 35

Mr. D. Shri Nivasan is a Government officer. During the Previous Year 2018-19 his emoluments were as under :

- Basic Salary ₹ 12,000 per month, Dearness allowance 150% of salary (under the terms of employment), City compensatory allowance ₹ 200 per month. From 1st January, 2019 his salary has been revised at ₹ 36,000 per month. 5% D.A. and ₹ 500 per month city compensatory allowance are payable. On 1st March, 2019 he gets ₹ 17,500 as arrears on account of salary revision.
- Tour allowance ₹ 4,000.
- Overtime allowance ₹ 3,000.
- Special allowance for duty performance ₹ 1,500.
- Rent-free furnished house rent of which is ₹ 300 per month according to government rules, fair rent of such house is ₹ 1,500 per month. Cost of furniture ₹ 40,000.
- His contribution to statutory provident fund is 8.33%.
- Employer's contribution to group insurance scheme ₹ 400.
- Professional Tax ₹ 500 and Income tax ₹ 6,200 paid by the employee.
- Entertainment allowance ₹ 500 p.m.

Compute Income from salary for the Assessment Year 2019-20. The salary becomes due on 1st day of next month.

Solution

Computation of Taxable Salary

(for the Assessment Year 2019-20)

	₹	₹
Salary : ₹ 12,000 × 10	1,20,000	
₹ 36,000 × 2	72,000	1,92,000
D. A. : ₹ 1,20,000 × 150 ÷ 100	1,80,000	
₹ 72,000 × 5 ÷ 100	3,600	1,83,600

C. C. A : ₹ 200 × 10	2,000	
₹ 500 × 2	<u>1,000</u>	3,000
Arrears		17,500
Tour Allowance		—
— Exempt u/s 10(14)(i)		—
Overtime allowance		3,000
Special Allowance for duty		—
Exempt u/s 10(14) (i)		—
Rent-free house (₹ 300 × 12)	3,600	
Furniture (10% of ₹ 40,000)	<u>4,000</u>	7,600
Contribution to Gr. Insurance—Exempt		—
Entertainment Allowance		<u>6,000</u>
	Gross Salary	4,12,700
Less : (i) Standard deduction	40,000	
(ii) Entertainment Allowance (Government Employee)	5,000	
(iii) Professional tax	<u>500</u>	45,500
	Taxable Salary	<u>3,67,200</u>

■ Illustration 36

The following particulars relate to the income of Sri Rajeev Mehta for the Previous Year 2018-19 :

He is employed in a cotton textile mill at Bengaluru on a monthly salary of ₹ 25,000. He is also entitled to a commission @ 1% of sales effected by him. The sale effected by him during the previous year amounted to ₹ 40,00,000. He received the following allowances and perquisites during the previous year :

- (i) Dearness pay @ ₹ 6,000 per month.
 - (ii) Bonus @ two months basic salary.
 - (iii) Entertainment allowance @ ₹ 2,000 per month.
 - (iv) House Rent Allowance @ ₹ 5,000 per month.
 - (v) The employer paid ₹ 10,000 towards the income-tax liability of Sri Rajeev Mehta.
 - (vi) The employer provided him L.T.C. of ₹ 35,000 for going to Simla.
 - (vii) He has also been provided with gas, electricity and water facility and employer spent ₹ 15,000 on these.
 - (viii) The employer gave him cotton worth ₹ 1,000 free of cost.
 - (ix) He and his employer both contributed 15% of his salary to his recognised provident fund and interest credited to this fund @ 9% amounted to ₹ 30,000 during the previous year.
 - (x) He spent ₹ 6,000 per month as the rent of the house occupied by him in Bengaluru.
- Compute his taxable income under the head 'Salaries' for the Assessment Year 2019-20.

Solution

Computation of Taxable Salary

(for the Assessment Year 2019-20)

	₹
1. Salary	3,00,000
2. Commission on sales	40,000
3. Dearness pay	72,000
4. Bonus	50,000
5. Entertainment allowance	24,000
6. House Rent Allowance	29,200
7. Income Tax	10,000
8. L.T.C. (Assumed as per rules, hence exempt)	—
9. Gas, electricity and water	15,000
10. Cotton	1,000

11. R.P.F. contribution excess over 12% on ₹ 4,12,000 i.e., @ 3%		12,360
12. Interest on R.P.F. in excess of 9.5%		Nil
	Gross Salary	5,53,560
Less : Standard deduction		40,000
	Taxable Salary	5,13,560

Notes : 1. House rent allowance :

Exempt least of the following :

H.R.A. received

₹
60,000

H.R. paid – 10% of Salary ₹ 4,12,000

(₹ 72,000 – 41,200)

30,800

40% of ₹ 4,12,000

1,64,800

Taxable H.R.A. (₹ 60,000 – 30,800) = 29,200

2. If item No. 8 is treated as gift, it will be exempt up to ₹ 5,000.

■ Illustration 37

Compute income from salary of Shri Yashwant for the previous year ending 31st March, 2019 from the following details :

- Salary ₹ 27,500 per month and dearness allowance 60% of salary.
- The employer provided him a small motor car for official and personal use. Expenses are borne by the employer. This facility is provided to him from 1st August, 2018. Prior he used the car for commuting between residence and office and official works.
- Unfurnished rent-free house at Bhopal fair rent ₹ 36,000 annually and the employer is owner.
- His contribution to R.P.F. 15%, the employer's contribution is also 15%. ₹ 5,600 interest was credited to the fund at the rate of 14%.
- The employer provided him free telephone facility at his residence and bills paid by the employer during the previous year ₹ 3,600.
- He is provided free meal, such a facility is given for 248 days during the previous year. The cost per meal is ₹ 65.
- Free use of health club facility provided by the company and cost of such facility is ₹ 600 P.M. This facility is available for each employee of the company.
- The employer deducted ₹ 15,000 as income tax and ₹ 2,500 professional tax from his salary.

Solution

Computation of Income from Taxable Salary

(for the Assessment Year 2019-20)

		₹
1. Salary		3,30,000
2. D.A.		1,98,000
3. Car (₹ 1,800 × 8)		14,400
4. House 15% of ₹ 3,30,000 (Assumed population more than 25 lakh)		49,500
5. Employer's contribution to RPF excess over 12%		9,900
6. Interest on RPF excess over 9.5%		1,800
7. Telephone (Exempt)		3,720
8. Free meal [(₹ 65 – 50) × 248]		—
9. Health Club (Exempt)		—
	Gross Salary	6,07,320
		40,000
Less : (i) Standard deduction		2,500
(ii) Professional tax		42,500
	Income from Taxable Salary	5,64,820

■ Illustration 38

The following particulars are of Mr. Manoj's income :

- Salary (after deducting ₹ 28,000 for income tax at source) ₹ 3,80,000 p.a.
- Dearness allowance (Under the terms of employment) ₹ 42,000 p.a.
- Education allowance (for 3 children) ₹ 15,700 p.a.

- (iv) Medical allowance (actual medical expenditure ₹ 14,000) ₹ 37,200 p.a.
 (v) Rent-free house (in Jaipur) the company paid ₹ 8,000 per month as rent. The house is furnished and the rent of the furniture is ₹ 25,050 p.a.
 (vi) A domestic servant, a sweeper and a watchman were paid by the company @ ₹ 1,250 per month each.
 (vii) The company spent ₹ 8,000 on his refresher course.
 (viii) His contribution to R.P.F ₹ 31,000 and employer's contribution ₹ 36,000.
 (ix) The company has provided a free telephone at Mr. Manoj's residence and paid bill amounting to ₹ 8,000.
 (x) Professional tax ₹ 7,000 paid by Mr. Manoj.
- Compute taxable income from Salary for the Assessment Year 2019-20.

Solution**Computation of Taxable Income from Salary***(for the Assessment Year 2019-20)*

		₹	
1. Salary (₹ 3,80,000 + 28,000)			4,08,000
2. D.A. (under terms of employment)		₹	42,000
3. Education allowance		15,700	
<i>Lees : Exempt ₹ 100 p.m. for two children</i>		<u>2,400</u>	13,300
4. Medical allowance (fully taxable)			37,200
5. Rent-free House			1,00,125
6. Servants (₹ 3,750 × 12)			45,000
7. Refresher course—Exempt			—
8. Contribution to R.P.F. ₹ 36,000			—
Does not exceed 12% of Salary ₹ 4,50,000			—
9. Telephone—Exempt			—
			<u>6,45,625</u>
<i>Less : (i) Standard deduction</i>		40,000	
(ii) Professional tax		<u>7,000</u>	47,000
			<u>5,98,625</u>
			Taxable Income from Salary

Notes :

- Rent-free house—₹ 96,000 or 15% of ₹ 4,08,000 + 42,000 + 13,300 + 37,200, whichever is less 75,075
Add : Rent of furniture 25,050 1,00,125
- Employer's contribution in RPF cannot exceed the contribution of employee. [Schedule IV, Rule 4(C)]

■ Illustration 39

From the following information compute taxable income under the head 'Salaries' of Shri Mahesh for the Assessment Year 2019-20 :

- Basic salary ₹ 50,000 p.m.,
- Dearness allowance 30% of basic salary,
- Telephone allowance ₹ 500 p.m.,
- Medical insurance premium paid by the employer on the health of employee ₹ 4,000,
- Employer provided the facility of laptop costing ₹ 60,000 and computer costing ₹ 40,000 for personal use,
- Salary of house-keeper reimbursed by employer ₹ 24,000,
- Shri Mahesh paid employment tax ₹ 2,000.

Solution

Computation of Taxable Salary
(for the Assessment Year 2019-20)

1. Basic salary		₹	
2. D. A.			6,00,000
3. Telephone allowance			1,80,000
4. Medical insurance premium paid on the health of employee (Exempt)			6,000
5. Facility of laptop and computer (Tax-free perquisite)			—
6. Salary of house-keeper			24,000
	Gross Salary		<u>8,10,000</u>
Less : (i) Standard deduction			40,000
(ii) Employment tax			2,000
	Taxable Salary		<u>7,68,000</u>

■ **Illustration 40 (Package)**

A company appointed Ram in Mumbai at a package of ₹ 10,00,000 p.a. The company bifurcated ₹ 10,00,000 as under for the payment of salary :

1. Basic salary		₹	
2. Special allowance			4,80,000
3. Transport allowance			2,64,000
4. Telephone facility			19,200
5. House rent allowance			4,800
6. Contribution in Approved Superannuation Fund			1,20,000
7. Refreshment			1,00,000
			12,000
			<u>10,00,000</u>

Ram paid house rent ₹ 15,000 p.m.

Compute taxable income from salary.

Solution

Computation of Taxable Salary
(for the Assessment Year 2019-20)

1. Basic salary		₹	
2. Special allowance			4,80,000
3. Transport allowance (Not exempt)			2,64,000
4. Telephone facility (Exempted perquisite)			19,200
5. House rent allowance			—
6. Contribution in Approved Superannuation Fund (Tax-free up to ₹ 1,50,000)			—
7. Refreshment—Tax-free			—
	Gross Salary		<u>7,63,200</u>
Less : Standard deduction			40,000
	Taxable Salary		<u>7,23,200</u>

Note : Computation of exempted H.R.A. :

Least of the following is exempt :

(a) H.R.A received		₹	
(b) Rent paid -10% of salary (₹ 1,80,000 - 48,000)			1,20,000
(c) 50% salary ₹ 4,80,000 Exempted H.R.A.			1,32,000
			2,40,000
			1,20,000