



THIRUTHANGAL NADAR COLLEGE

(Belongs to the Chennaivazh Thiruthangal Hindu Nadar Uravinmurai Dharma Fund)

Selavayal, Chennai-51.

A Self-Financing Co-educational College of Arts & Science

Affiliated to the University of Madras

Accredited with 'B' Grade by NAAC

An ISO 9001: 2015 Certified Institution

NAME OF THE DEPARTMENT: COMMERCE BM / AF

SUBJECT : INCOME TAX LAW & PRACTICE

TOPIC : INCOME FROM SALARY

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INCOME TAX

HEADS OF INCOME

1. Computation of Income from Salaries
2. Computation of House Property
3. Computation of Income from Business or Profession
4. Computation of Capital Gain
5. Computation of Income from Other Sources

COMPUTATION OF INCOME FROM SALARIES

- **Computation of Salary Income:**

• Basic Salary	XXX
• Bonus	XXX
• Fees	XXX
• Commission	XXX
• Advance Salary	XXX
• Arrear Salary	XXX
• Dearness Allowance	XXX
• City Compensatory Allowance	XXX
• Project Allowance	XXX
• Fixed medical allowance	XXX
• Servant Allowance	XXX
• Overtime Allowance	XXX
• Marriage Allowance	XXX
• Lunch Allowance	XXX
• Entertainment Allowance	XXX
• House Rent Allowance	XXX
• Tribal Area Allowance	XXX

Computation of Income from Salaries(Continuous..2)

• Educational Allowance		XXX
• Hostel Allowance		XXX
• Travelling Allowance		XXX
• Conveyance Allowance		XXX
• Washing Allowance		XXX
• Helper Allowance		XXX
• Daily Allowance		XXX
• Uniform Allowance		XXX
• Others allowances		XXX
• Motor Car		XXX
• Rent free Accomodation		XXX
• Gratuity		XXX
• Pension		XXX
• Leave encashment		XXX
• Employers contribution to provident fund		XXX
• Gross Salary		XXX
• Deductions:		
• (i) Entertainment	XXX	
• (ii)Professional Tax	XXX	
•		<hr/>
		XXX
• Income from salary		XXX

(I) Entertainment Allowance

Some employees are required to incur expenditure on the entertainment (Tea extra) of customer claims etc., who come to meet them in connection with the official work.

Provisions

(a). For Govt. Employees

20% of Salary	XXX
Statutory Limit (Rs.5,000)	XXX
Actual amount of Entertainment allowance received	XXX

Whichever is less is exempted from tax.

(b). For Non-Govt. Employees

Fully Taxable

Ex: Mr. 'A' a Govt. employee gets Rs.80,000 per annum as basic pay. In addition he receives Rs.20,000 as EA. Calculate exempted E.A.

20% of Salary (Rs.80,000X20/100)	16,000
Statutory Limit (Rs.5,000)	5,000 ✓
Actual amount of Entertainment allowance received	20,000

Whichever is less is exempted that is Rs.5000

II) House Rent Allowance

It is allowance given to an assessee by his employer to meet the expenditure on payment of rent in respect of residential accommodation occupied by him.

Provisions

Actual amount of House Rent Allowance received		XXX
Rent paid	XXX	
Less: 10% of Salary	<u>XXX</u>	XXX
50% of Salary for MKCD (or)		
40% of Salary for Other than MKCD		XXX

Whichever is less is exempted from tax.

M= Mumbai, K= Kolkata, C=Chennai and D=Delhi

Salary = Basic Salary+ Dearness Allowance (Forming) + % of Commission on Sales achieved by employee

Note: Fully exempted for High Court and Supreme Court Judge.

Fully Taxable if an employee stays his own house

Ex: Mr.N resides in Chennai and gets Rs.10,000 per month as basic salary. Rs.8,000 per month as DA(entering service benefits), Rs.12,000 per month as HRA. He pays Rs.10,000 per month as rent. Calculate taxable HRA.

Actual amount of House Rent Allowance received (12,000X12)		1,44,000
Rent paid (10,000X12)	1,20,000	
Less: 10% of Salary (2,16,000X10/100)	<u>21,600</u>	98,400 ✓
50% of Salary for MKCD (or) (2,16,000X50/100)		1,08,000

Whichever is less is exempted from tax.

Salary:-

Basic salary (Rs.10,000X12)	1,20,000
DA (forming)(Rs.8,000X12)	<u>96,000</u>
	<u>2,16,000</u>

Taxable HRA

Actual HRA Received	Rs.1,44,000
Less: Exemption	<u>Rs. 98,400</u>
	<u>Rs. 45,600</u>

III . PROVIDENT FUND

Recognised Provident fund

It is the provident fund which is recognized by the commissioner of Income Tax.

Provisions:

Employer's contribution to provident fund	XXX	
Less: Exemption 12% of Salary	XXX	XXX
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Interest credited to RPF balance	XXX	
Less: Exempted up to 9.5% Interest	XXX	XXX
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		<hr/>
Taxable Portion		XXX
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Note : Salary as its in the case of HRA

Ex. Calculate the taxable amount of annual accretion to R.P.F. If following information is provided by assessee:

(i) Pay @ Rs.7,500

(ii) Commission received by him on the basis of turnover achieved by him Rs.6,000

(iii) Employer's contribution to R.P.F. @ 14% of Salary.

(iv) Interest credited during the year to R.P.F Balance @ 12% is Rs.24,000

Calculate of Taxable portion of annual accretion

(i) Employer's contribution to R.P.F. @ 14% of salary 96,000	13,440	
(7,500X12=90,000+6,000)		
Less: 12% of salary being exempted (96,000/12X100)	<u>11,520</u>	
Taxable portion		1,920
(ii) Interest credited to R.P.F . Balance @12%	24,000	
Less: exempted up to @ 9.5% (24,000X9.5/12)	<u>19,000</u>	
Taxable portion		5,000
Taxable portion of annual accretion		<u>6,920</u>

IV . GRATUITY

Gratuity refers to the lump sum payment made by an employer to his employee at the time of leaving job in appreciation of long and loyal services.

Provisions:

(a). Govt. Employees – Fully exempted.

(b). Payment of Gratuity Act 1972

- | | |
|--|-----|
| (i). 15 days of salary of last drawn with completed years of service | XXX |
| (ii). Notified limit Rs.10,00,000 | XXX |
| (iii). Actual amount received | XXX |

Whichever is less is exempted from tax

(c). Other Employees

- | | |
|--|-----|
| (i). Half month salary of last drawn with completed years of service | XXX |
| (ii). Notified limit Rs.10,00,000 | XXX |
| (iii). Actual amount received | XXX |

Whichever is less is exempted from tax

Salary = Basic Salary+ DA (Whether entered or not)

Ex. Mr.A an Employee of MN Ltd., received Rs.68,000 as gratuity. He is covered by the payment of gratuity Act 1972. He retired on 15th July 2017 after rendering service of 36 years and 9 months. At the time of retirement his monthly basic salary was Rs.3,200 and DA (forming part) was Rs.1,000 respectively. Calculate the exempted gratuity.

Calculation of Exempted Gratuity

(i) 15 days of salary of last drawn with completed years of service	89,654
$3,200+1,000=4,200 \times 15/26 \times 37$	
(ii). Notified limit	10,00,000
(iii). Actual amount received	68,000 ✓

Whichever is less that is Rs.68,000 is exempted from tax

(V). PENSION

It is periodical payments received by an employee after his retirement.

There are two types of pension:

(i) Commuted pension

It is lump sum amount received at the time of retirement.

(ii)Un commuted Pension :

It is periodical payments received by the employee after the date of retirement. It is the balance which he gets after commutation.

Provisions:

(i) Commuted Pension :

(a).Govt. Employee – Fully exempted

(b). Non-Govt. Employee – $1/3^{\text{rd}}$ of full pension is exempted
(If gratuity is received)

- $1/2$ of full pension is exempted
(If gratuity is not received)

(ii) UnCommuted Pension :

- Fully Taxable

Ex. Mr.R retired on 31-12-2017 and his pension was fixed at Rs.3,600 p.m. he got 3/4th of the pension commuted for which he received Rs.1,80,000 from his employer, a ltd. Co., find out the taxable amount of commuted value of pension If he gets gratuity.

Commutated value of pension received 1,80,000

Less: Exempted 1/3rd

3/4th of pension = 1,80,000

Full value of Pension $1,80,000 \times \frac{4}{3} = 2,40,000$

Exempted $2,40,000 \times \frac{1}{3}$ 80,000

1,00,000

VI RENT FREE ACCOMODATION

Free house provided by the employer to the employee

- (a) Unfurnished Accomodation
- (b) Furnished Accomodation

(a) Unfurnished Accomodation

(I) Owned by Employer

(i) Govt. Employee

The value of house rent fixed (License fee) by the Govt. is taxable.

(ii) Other Employee:

- (a) In cities the population of which is more than 25 Lakhs -15% of Salary is taxable
 - (b) In cities the population of which is exceeding 10lakhs
But not exceeding 25 lakhs - 10% of Salary is taxable
 - (c) In cities and towns the population of which is 10 lakhs
Or less then 10 lakhs -7.5% of salary is taxable
 - (d) Hotel accommodation (for more than 15 days
on transfer of employees from one place to another) - 24% of salary or actual
bill whichever is less is taxable.
- (II) Hired by Employer** - 15% of salary or actual rent
paid by employer which ever
is less is taxable in all cities

(b) Furnished Accomodation

Value of Unfurnished house	XXX
Add: 10% of cost of furniture (If furniture is owned by employer)	XXX
Add: Actual hire charges(If furniture is hired by employer)	XXX
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	XXX
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Salary = Basic salary + DA (forming) + Commission + Bonus + Fee + Value of taxable allowances+ All other monetary payment + Leave encashment of the current year.

Ex. Mr.A gets salary of Rs.12,000 p.m and is provided with rent free unfurnished accommodation at Ludhiana (population 20 Lakhs as per latest census) whose fair rental value is Rs.1,300 p.m. He gets leave encashment for the current previous year of Rs.6,000. During the year house was provided to him with effect from 1-7-2016. His salary is due on 1st day of every month. Calculate the value of rent – free accommodation and gross salary.

Computation of Gross Salary

Salary 12,000X12	-	1,44,000
Leave encashment	-	6,000
Rent free unfurnished accommodation:		
10% of salary taxable		
Salary = 1,44,000+6,000= 1,50,000		
1,50,000X10/100 = 15,000		
Reduced to 8 months = 15,000X8/12	-	10,000
(1-7-2016 to 1-3-2017)		
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Gross salary		1,60,000
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LEAVE ENCASHMENT:

An employee can convert his earned leave into cash if he has not utilized the leave.

Provision:

For Govt. Employee – Fully exempted
For non-Govt. employee:-

Actual amount received	XXX
10months Average Salary	XXX
Notified Limit	Rs.3,00,000
Cash equivalent of leave due at the time of retirement.	XXX

Whichever is less exempted

- Tribal Area Allowance : Exempted upto Rs.200 P.M.
- Flight Allowance : Rs.10,000/- Per Month or 70% of such Allowance whichever less is exempted.
- Transport Allowance : Exempted upto Rs.1,600/- P.M.
for Handicapped Employees upto Rs.3,200/-P.M.
- Children Education Allowance children : Rs.100/- P.M. per child upto a maximum of two only.
- Hostel Expenditure Allowance children : Rs.300/- P.M. per child upto a maximum of two only.
- Retrenchment Compensation : (i) Notified Limit Rs.5,00,000/-
(ii) Actual Amount Received
(iii) Amount Payable under Industrial disputes Act.

whichever is less is exempted from Tax.

MOTOR CAR

Car is owned by Employer

Fully used for office

NIL

Fully used for Personal

Actual Expenses on running and Maintenance	XXX
ADD : Salary of Driver	XXX
Normal Wear And Tear (10% of Actual Cost)	XXX
LESS : Amount Received from Employee	XXX
Taxable	XXX

Partly used for office and partly for personal

Expenses met by Employer

(i)	Upto 1.6 Litres	1800 P.M
(ii)	Above 1.6 Litres	2400 P.M

Expenses met by Employee

(i)	Upto 1.6 Litres	1800 P.M
(ii)	Above 1.6 Litres	2400 P.M

Salary of Driver 900/-P.M.

Car is owned by Employee (Expenses met by Employer)

Fully used for Office

NIL

Fully used for personal

Actual Expenditure	XXX
LESS : Amount Received from Employee	XXX
Taxable	XXX

Partly used for office and partly for personal

Actual Expenditure	XXX
LESS: 1800 for Small Car	XXX
2400 for Big Car	XXX
LESS : Amount Received from Employee	XXX
Taxable	XXX

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From the following particulars, find out the taxable salary of Mrs . A working at Coimbatore. (Population 11 Lakhs)

(a). Salary Rs.12,000 P.M

(b). D.A Rs.1,500 P.M

(C). Employer's Contribution to Employee's Recognized Provident Fund – 14% of basic salary.

(d). Rent free accomodation (unfurnished) – fair rental value is Rs.80,000 P.a. Expenses on maintainence of Garden met by employer Rs.3,000.

(e). Interest on Provident fund balance @ 13% P.a – Rs. 3,900.

(f). A Car (1.4 Ltr. Capacity) is provided by employer. All expenses are borne by employer. It is used both for performance of duties and private purposes. Car was used by employee for only 11 months during the year.

(g). She paid professional tax of Rs.200

(h). She received Rs.500 P.M as fixed medical allowance.

Computation of Salary Income of Mrs.A

Salary @ Rs.12,000 p.m		1,44,000
D.A @ Rs.1,500 pm		18,000
Employer's Contribution towards RPF	20,160	
Less: Exempted upto 12% of salary	17,280	2,880
Interest credited on R.P.F. Balance @ 13%	3,900	
Less: Exempted (3,900X9.5/13)	2,850	1,050
Fixed Medical allowance		6,000
Value of Rent Free Accommodation : Unfurnished		
Salary = Rs.1,44,000 + 6,000 = Rs.1,50,000 ; 10% of Salary		15,000
Value of Car Perquisite – Taxable @ Rs.1,800 P.M X 11 Months		19,800
Gross Salary		2,06,730
Deductions U/S 16		
Professional Tax u/s 16 (iii) Full		200
Salary Income		2,06,530