

## **B.Com., Part-III**

### **Income Tax** Paper VII (Eng. Medium)

#### **CONTENTS**

<b>Sl. No.</b>	<b>Chapter</b>	<b>Lesson</b>	<b>Page No.</b>
1.	Introduction	1	2
2.	Agricultural Income	2	5
3.	Important Definitions	3	8
4.	Residence and Tax Liability	4	11
5.	Exemption from Tax	5	16
6.	Salaries-I	6	19
7.	Salaries-II	7	27
8.	Salaries - III	8	31
9.	Salaries- IV	9	38
10.	Income from House Property-(I)	10	45
11.	Income from House Property- (II)	11	49
12.	Income from House Property- (III)	12	53
13.	Income from Business or Profession (I)	13	60
14.	Income from Business or Profession (II)	14	67
15.	Income from Business or Profession (III)	15	74
16.	Capital Gains-(I)	16	82
17.	Capital Gains - (II)	17	89
18.	Income from other sources -I	18	97
19.	Income from other sources-II	19	103
20.	Assessment of Individuals	20	111
21.	Assessment of Firms -I	21	124
22.	Assessment of Firms -II	22	138
23.	Income-Tax Authorities and their powers-I	23	145
24.	Income-Tax Authorities and their Powers-II	24	151

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## INTRODUCTION

In the present lesson we will study the history of Income-tax in India. Income tax is an important source of revenue of the Central government.

**Brief History of Income-Tax in India** – For the first time, income-tax was introduced in India in 1860 by British rulers following the mutiny of 1857. Between 1865 and 1886 as many as 23 Acts were passed. Due to great famine in 1876-78, introduction of direct taxation became necessary in 1878, and it continued till 1886.

**Income-Tax Act of 1886**– In 1886 a new Act was passed which was a great improvement over all its predecessors and it remained into force up to 1918. Income was divided into four classes as (i) Salaries, (ii) Interest on securities, (iii) Profits of joint stock companies, and (iv) Other Incomes.

The rates of tax were upto 2% of the income. The administrative machinery was very simple. There was no penalty for non submission of returns by individual tax payers. However, Joint Stock Companies had to file compulsorily the returns.

**Income-Tax Act of 1918**– The first world war necessitated for the change of income-tax Act of 1886. Hence another income-tax Act was passed on 1918. It gave powers for provisional assessment. Powers were also given to the income-tax commissioners to refer the matter to the High Court for doubtful question of tax. But this Act was short lived and was replaced by the Income-tax Act of 1922.

**Income-Tax Act of 1922**– In 1922, new Act was passed to rectify the shortcoming of the 1918 Act. The 1922 Act was amended forty times, some important ones in 1939, 1948, 1951, 1956 and 1957. The basis for the amendment in the act between 1948 and 1951 was the recommendations of the Income-tax Investigation Commission appointed in 1947.

**Prof. Kaldor's Survey**– In 1954, the Government appointed Prof. N. Kaldor to review the personal and business taxation. He mentioned that direct tax system was inefficient and inevitable. He suggested the following :

- (i) Four more direct taxes should be introduced as
  - (1) Capital Gain tax,
  - (2) Wealth-tax,
  - (3) Gift-tax; and
  - (4) Personal expenditure tax.
- (ii) Tax vouchers should be introduced for all capital transactions.

- (iii) Code numbers should be given to every tax payer.
- (iv) Tax evasion should be punishable severely.
- (v) Marginal rate of tax should be 45%.
- (vi) Accounts of tax payers should be audited by Chartered Accountants.
- (vii) Income-tax returns should be made more comprehensive.

In 1956, the Government referred the Income-tax Act to the Law Commission, which submitted its report in 1958.

**Direct Taxes Enquiry Committee** – This Committee was appointed in 1958 under the chairmanship of Shri Mahavir Tyagi. The work entrusted to it was to suggest an integrated scheme of direct taxation, eliminating tax evasion and avoiding inconvenience to the tax payers. It recommended certain administrative and procedural changes and stressed the need for public co-operation.

**The Income-Tax Act, 1961**– On the recommendations of the Law Commission and Direct-Taxes Enquiry Committee and in consultation with the Law ministry, a new Bill was framed. This bill was referred to the select committee and was finally passed in Sept., 1961.

This act came into force from 1st April, 1962 in the whole of the country.

Income-tax Act, 1961 is a comprehensive Act consisting of 298 sections, sub-sections running into thousands, schedules, rules, by-rules, etc. and is supported by other Acts and rules. This Act has been amended on several occasions since 1961. The annual Finance Bill presented to parliament along with budget make far reaching amendments in this Act every years.

The amending Acts and annual Finance Act have completely changed the form of the Income Tax Act, 1961. The amendments are being made to simplify this Act, but it is becoming more and more complicated. It is said that the Income-tax of India is one of the most complicated laws in operation anywhere in the world.

**The Finance Bill, 1990**– The Finance Bill, 1990 has made a number of amendments in the Income-tax Act, some of which shall apply for the assessment year, 1990-91 and the rest will come into force for the assessment year 1991-92.

**Boothalingam Committee**– In 1967, Boothalingam Committee was appointed to examine the tax structure. It made the following recommendations :

- (i) Abolition of Export and Development Incentives.
- (ii) Abolition of family and parent's Allowances.
- (iii) Continuation of progressive rates of taxes.

- (iv) Raising of the exemption limit of tax.
- (v) Replacement of taxation of inter-corporate dividends by standard tax rates.
- (vi) Abolition of Dividend Tax and Surtax.

**Wanchoo Committee**— In 1971, a Direct Taxes Enquiry Committee under the Chairmanship of Shri K.N. Wanchoo was appointed. The committee made the following recommendations :

- (i) The maximum marginal rate of income-tax should be brought down to 75%.
- (ii) The accounts of such business should be audited whose turn-over is beyond a certain limit.
- (iii) In case of understatement of capital assets, the Government should be empowered to acquire them.
- (iv) The administration should be further improved.
- (v) Permanent Account Numbers should be given to the tax payers.
- (vi) Agricultural Income-tax should be administered by the Central Government.

**Choksi Committee** – In 1977, Choksi Committee was appointed to suggest measures for simplifications of the tax structure. The Committee suggested and recommended that the rates of tax should be given in a schedule of the Act. It favoured for the imposition of agricultural income-tax.

In December 1987, Direct Tax Amendment Bill was passed by both the houses of Parliament and it had brought far reaching changes in our income tax laws. The amendments came into force from the Assessment Year 1989-90.

## Questions

1. Discuss the importance of Income-tax law in India.
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## AGRICULTURAL INCOME

In the present lesson we will study the provisions of agricultural income. The Income-Tax Act 1961 does not define what agricultural income is. But it covers the income of both cultivators and land owners. Under section 2 (1) of the Act. "agricultural income" includes :

(a) Any rent or revenue derived from land which is situated in India and is used for agricultural purposes, or

(b) any income derived from such land by—

(i) agriculture, or

(ii) the performance by a cultivator or receiver of rent-in-kind, of any process ordinarily employed by a cultivator or receiver of rent in-kind to render the produce raised or received by him, but to be taken to the market, or

(iii) the sale by a cultivator or receiver of rent in kind in respect of which no process has been performed other than a process described in the above paragraph; or

(c) any income derived from any building or any land with respect of which or the produce by which process mentioned in (ii) and (iii) above is carried on provided the following two conditions are fulfilled :—

(A) The building is situated on or in the immediate vicinity of the land and is a building which the cultivator or the receiver of rent-in-kind requires as dwelling house or as a store house or other out building. The house must be needed by reason of its connection with land.

(B) The land is either assessed to land revenue in India or is subject to a local rates assessed and collected for the officers of the Govt. as such.

When the land is not so assessed to land revenue or subject to a local rate, it must not be situated :—

(i) In any area which is comprised within the jurisdiction of a municipality etc, or a cantonment board having a population of 10,000 or more as per last census; or

(ii) In any area within such distance from the local lands of municipality etc, as the central Govt. may specify in official Gazettee. This distance will not exceed eight kilometers and in determining the distance, the Govt. will be guided by the extent and scope for the urbanization of that area.

From the above definition it is evident that to constitute agricultural income there must be a direct and positive link between income, land and agricultural operations. To establish this like some

conditions must be fulfilled. Only then a particular income can be included under the definition of agricultural income.

### **Test For Agricultural Income**

There are three tests which are necessary for an agricultural income.

Hence, it is essential that all the following three test must be fulfilled.

**(a) Income derived from land**— It is essential that for any income to be termed as agricultural income land must be effective and immediate source of income and not indirect and secondary (C.I.T. vs. Kamalkhya Narayain Singh). As a result interest on arrears of land revenue dividend paid by a company out of its profits which included agricultural income also (Bacha Guzdar vs. C.I.T.) and salary paid to a manager for managing agricultural farms (Premier Construction Co. Ltd. vs. C.I.T.) are not agricultural incomes because in all these cases land is not the effective and immediate source of income.

**(b) Land is used for agricultural purpose**— Secondly, income must be a result of agricultural operations. Agriculture means performance of some basic operations— ploughing, sowing, irrigating and harvesting and some subsequent operations weedings, digging, pruning, cutting etc.

It involves employment of some human skill, labour and energy to get some income from land.

**(c) Land is situated in India**— The third test is that agriculture income must be derived from land situated in India. In case income is derived from agricultural land situated outside India or is from any non-agricultural land, it will not be exempted u/s 10 (1). It is taxable income under the head "income from other sources."

### **Types of Agriculture**

Agricultural income can be classified into the following five categories :

1. Rent or revenue derived from land.
2. Income by the performance of any process to make the produce fit to be taken to the market.
3. Income from building owned by the cultivator which is in the immediate vicinity of the land and is used as a share or dwelling-house.
4. Income derived from land by agriculture.
5. Income by the sale of produce raised as rent.

**Partly Agricultural and Partly Business Income**— Sometimes income comprises of both agricultural as well as non-agricultural incomes. In such a situations it becomes necessary to

disintegrate such income into two parts— Agricultural income and non-agricultural income. It is for the assessee to prove that any income or part of income is agricultural income and the wants to avail the exemption u/s 10 (1) of the Act. The court had given judgement also in the case of (C.I.T. vs. Venkatswamy Naidu) and (Baeha Gujdar vs. C.I.T.).

### **Rule 7 of Income-Tax Rules, 1962**

Under rule 7, the market value of the agricultural raised by the assessee is received as rent-in-kind and utilised. This rule is applicable in case of cotton, tobacco, sugarcane etc.

Market value means the price at which produce is being sold in the market in its raw state. If it is not sold in raw state, the cost of cultivation, land revenue paid or the rent of land and an element of profit as permitted by income tax officer, all these added together will constitute market value.

Income from manufacture of tea (Rule 8)— The income from tea plantation and tea industry is also constituted by the two elements i.e. agricultural operation involved in blending of tea. In such a case income-tax Act provides that 60% of income of a tea business will be agricultural income and 40% of income will be chargeable to tax under "profit and gains of business or profession." Rule 8 applied only in case where the assessee himself grows tea leaves and manufactures tea in India.

While computing such income the cost of planting bushes in replacement of bushes that have died will be taken into consideration and an allowance shall be made.

It is for the assessee to prove whether a particular income is agricultural income or business income. He will have to satisfy authorities in this regard.

### **Questions**

1. What is an agricultural income and how is it treated for income-tax purpose ?
2. What are the rules regarding the integration of agricultural incomes ? State the case in which it is not integrated.

## IMPORTANT DEFINITIONS

In the present lesson we will study some important definitions. These definitions are also important for the students from their examination point of view. These are laid down in income Tax Act, 1961 under section 2 and 3.

**1. Income**— Income is defined U/s 2 (24) in the following manner:

" Income includes "

(i) Profits and gains.

(ii) Dividend.

(ii-a) Any voluntary contributions received by a charitable or religious trusts or other institution (except in case where such contributions have been received with a specific direction that these sums would from part of the corpus of the trust or institution.)

(iii) the value of any prerequisite or profits in lieu of salary taxable under clause (2) and (3) of sections 17 :

(iv) Value of any benefit or amenity, whether convertible into money or not, obtained by a representative assessee or by any person on whose behalf such benefit is received by representative assessee in respect of any obligation which put for such payment would have been payable by the person on whose behalf representative assessee has made such payment (Inserted by Finance Act (2) 1980.)

(iv-a) The value of any benefits or perquisites, convertible into money or not, obtained from a company either by a Director or by a person, who has a substantial interest in the company, or by a relative of the Director or such person, and any sum paid by such company in respect of any obligation but for which, such payment would have been payable by the Director for other aforesaid.

(v) Any sum chargeable to income-tax under clause (ii) and (iii) of section 28 or section 41 or section 59;

(v-a) The value of any benefit or perquisite taxable under clause (iv) of section 28;

(vi) Any capital gains taxable under section 45;

(vii) The profits and gains of any business of insurance carried on by a mutual insurance company or by a co-operative society, computed in accordance with section 44 or any surplus, taken to be such profits and gains by virtue of provisions contained in the first schedule;

(viii) Any annuity due or comuted value or any annuity paid under the provisions of section 280 D;

(ix) Any winning from lotteries, cross-word puzzles; races including horse races, card games and other games of any sort or from gambling or betting of any form or nature whatsoever.

Any sum received by the assessee from his employer's contribution to any provident fund of superannuation fund or any fund set up under the provisions of the Employers' State Insurance Act, 1948 or any other fund for the welfare of such employees.



**(2) Assessment Year**– [Section 2 (a)]– "Assessment year's means the period of 12 months commencing on the 1st day of April every year.

In India, the Govt. accounting year is called financial year and it commences on 1st April every year and ends on 31st March next following. As such, the financial year of Government of India is the assessment year for all categories of assessee. It is year in which income of the previous year is assessed to tax-the assessee files his return of income with the income-tax department on or before a date prescribed by the act within such assessment year. The return is processed in the department and the processing is called assessment. The financial year in which income of previous year is assessed to tax is called assessment year.

**Previous Year** – [Sections 3] The term previous year is very important because it is the income earned during year which is to be assessed to tax in the Assessment year. As the word 'previous' means 'coming before' hence, it can be simply said that the previous year is the financial year preceding the assessment year e.g. for assessment year 1991-92 the previous should be the financial year ending on 31st March, 1991.

The previous year is also known as income year or accounting year. In a case Commissioner of Income-Tax vrs. Shrinivashan and Gopalan (ITR 87) Supreme Court has observed that previous year means an accounting year comprised of a full period of 12 months adopted by an assessee for maintaining his accounts.

**[4] Assessee**– [Section 2 (7)]– 'Assessee' means a person by whom any tax or any other sum of money is payable under this Act and includes–

(a) Every person in respect of whom any proceeding, under this act have been drawn for the assessment of his income of any other person in respect of which he is assessable or loss sustained by him or by such other person or of the amount of refund due to him or to such person;

(b) Every person who is deemed to be an assessee under any provisions of this Act;

(c) Every person who is deemed to be an assessee-in-default under any provisions of this Act.

From the above definition we have three types of assessee–

**(a) Assessee**– (i) Any person is an assessee of some proceeding under the income tax Act have been initiated. It is immaterial whether any tax or other amount is payable by him or not. It is not necessary that assessment proceeding can be started only if there are profits. In case a person has sustained loss and has filed a return of loss he becomes an assessee under these provisions.

(ii) Any person is an assessee of any tax or any other sum of money (interest or penalty) is payable by him under any provision of this Act.

**(b) Representative assessee**– A person may not be liable only for his own income or loss but also on the income or loss of other persons e.g. guardian of minor or lunatic, agent of a non-resident etc. In such case the persons responsible for the assessment of income of such person are called representative assessee. Such person is deemed to be an assessee.

**(c) Assessee-in-default** – A person is deemed to be an assessee-in-default if he fails to fulfill his statutory obligations. In case of an employer paying salary or a person who is paying interest it is their duty to deduct tax at source and deposit the amount of tax so collected in Government treasury. If he deducts tax but does not deposit it in the treasury, he is known as assessee-in-default.

**(5) Average Rate**— [Section 2 (10)] "Average rate of income tax means the rate arrived at by dividing the amount of income-tax calculated on the total income by such total income.

**(6) Agricultural Income**— The Income Tax Act 1961 does not define what agricultural income is? Its definition is wide and inclusive. It tells us what incomes are agricultural income. It covers the income of cultivators and land owners, both. Under section 2 (i) of Act. "agricultural income" includes:

(a) any rent or revenue derived from land which is situated in India and is used for agricultural purposes, or

(b) any income derived from such land by—

(i) agriculture ; or

(ii) the performance by a cultivator or receiver of rent-in kind, of any process ordinarily employed by a cultivator or receiver of rent-in-kind, of any process ordinarily employed by a cultivator or receiver of rent-in-kind to render the produce raised or received by him, fit to be taken to the market; or

(iii) the sale by a cultivator or receiver of rent-in-kind in respect of which no process has been performed other than a process described in the above paragraph, or

(c) any income derived from any building or any land with respect of which or the produce of which any process mentioned in (ii) and (iii) above is carried on provided the following two conditions are fulfilled :—

(1) The building is situated on or in the immediate vicinity of the land and is a building which the cultivator or the receiver of rent-in-kind requires as dwelling house or as a store house or other out building. The house must be needed by reason of its connection with land; and

(2) the land is either assessed to land revenue in India or is subject to a local rate assessed and collected by the officers of the Government. As such, where the land is not so assessed to land revenue or subejct to a local rate it must not be situated—

(i) in any area which is situated within the jurisdiction of a Municipality or a Contonment Board having a population of 10,000 or more as per last census, or

(ii) in any area within such distance from the local limits of Municipality etc. as the Central Government may specify in this behalf in the official Gazette, this distance will not exceed eight kilometers and in determining the distance, the Government will be guided by the extent and scope for the urbanisation of the area.

## Questions

1. Write notes on the following :—

(a) Income;

(b) Assessment year;

(c) Assessee; and

(d) Agricultural income.

## RESIDENCE AND TAX LIABILITY

Tax is levied on total income of assessee. Under the provisions for Income-Tax Act, 1961 the total income of each person is based upon his residential status. Section 6 of the Act divides the assessable persons into three categories –

- (i) Resident ;
- (ii) Net Ordinary Resident ; and
- (iii) Non-Resident.

The concept of resident status has nothing to do with nationality or domicile of a person. An Indian, who is a citizen of India, can be a non-resident for income tax purposes. Whereas an American who is a citizen of America can be a resident of India for income-tax purpose. Residential status of a person depends upon the territorial connections of the person with this country i.e., for how many days he has physically stayed in India.

The residential status of different type of persons is determined separately. Similarly, the residential status of the assessee is to be determined each year with reference to the "previous year". The residential status of the assessee may change from year to year. What is essential is the status during the previous year and not in the assessment year.

**Residential status of an individual**– To determine the residential status of an individual, section 6(i) prescribes two tests. An individual who fulfills any one of the following two tests is called Resident under the provisions of this Act. The tests are –

(a) If he is in India during the relevant previous year for a period amounting in all to 182 days or more.

OR

(b) If he was in India for a period or periods amounting in all to 365 days during the four years preceding the relevant previous year and he was in India for a period or periods amounting in all to 60 days or more in that relevant previous year.

**Explanation**– (a) In case of individual being a citizen of India who leaves India in any previous year for the purpose of employment outside India, the provisions of sub-clause, (b) as given above shall apply in relation to that year as if the words "sixty days" have been substituted by "182 days."

(b) In case of an individual being a citizen of India who being outside India comes on a visit to India in any previous year, the provisions of sub-clause (b) as given above shall apply in relation to that year as if the words '60 days' have been substituted by 90 days."

First explanation provides that in the year in which an Indian citizen leaves India, he will be resident only if he is present for 182 days or more in India during that previous year.

According to explanation– B, any Indian citizen who is rendering services outside India and comes to India in any previous year leave or vacations, he would be resident only if he was in India for 90 days or more during that previous year for application of test (b) under section 6(l). It means that all Indian citizens who are employal outside India will be able to stay in India for at least 89 days without becoming resident of India in that previous year.

**Resident Individual [Section 6 (1)]**

To become resident the following two conditions must be fulfilled.

1. Stay in India for 182 days or more– If an individual is to become resident of India during any previous year, his/her personal stay in India during that year is a must although the number of days of stay differs in the two tests. It means that if an individual does not at all stays in India in any previous year, he cannot be resident of India in that year. Stay in India means that the individual should have stayed in Indian territory and anywhere (cities, villages, forests, hills, even Indian territorial waters) for any number of days.

The period of 182 days need not be at a strech. But physical presence for an aggregate of 182 days in the relevant previous year is enough. The status of resident is not linked with any particular place or town or house.

(ii) Presence for 365 days during the four preceding previous years, a person may be a frequent visitor of India. In this case, the residential status will be determined on the basis of his presence in India for 365 days in four years immediately preceding the relevant previous year. Along with this, his presence for 60 days during the relevant previous year, is another essential conditions to be fulfilled. The purpose, object or reason of visit to and stay in India has nothing to do with the determination of residential status.

**Non-resident individual [Section 2 (30)]**

Under section 2 (30) of the Income-tax Act, 1961 an assessee who does not fulfill any of the two conditions given in section 6(1) (a) or (b) would be regarded as 'Non-resident' assessee during the relevant previous year for all purposes of this Act.

**Not Ordinarily Resident Individuals [Section 6 (6)]**

Under section 6 (6) a person is said to be "not ordinarily resident" in India in any previous year if such person is an individual who has not been resident in India in 9 out of 10 previous years preceding that year– been in India for a period of, or periods amounting in all to 730 days or more.

To claim this advantageous status (compared to resident), an assessee has to prove himself

as not ordinarily resident' he can do so, proving that he fulfills one of the two conditions mentioned in section 6 (6).

The status of not ordinarily resident is secondary part of the "resident". Every not ordinarily resident is 'resident' first but if such person proves any one of the above mentioned two conditions, he becomes 'not ordinarily resident.' By claiming the status, the person gets the advantage of having some foreign income as tax free.

Under the provisions of section 6, it is now here made essential for an individual to fulfill any other conditions except the provisions of section 6(1). An individual is 'resident' if he fulfills any of the two conditions given in section 6(1).

There are only two tests which can prove the residential status of an assessee as not ordinarily resident.

The first test is that if the assessee could show that in nine out of ten 'previous years preceeding the relevant previous year, he did not fulfill any of the two conditions, i.e., he was not resident in these years, he will be treated as not ordinarily resident.'

The second test is that if the assessee could prove that he was not in India for 730 days in all during the seven previous preceeding the relevant previous year, provided he fulfils any of the two conditions laid down by section 6 (1); he can claim the status of 'not ordinarily resident.'

An assessee came in India in April 1987 and continued to stay in India till the end of March 1988. He clearly fulfilled the condition laid down in sub-section 6 (1) (a) and as such he was resident in India during the previous year in question. If any of the conditions mentioned in clause (a) or (b) of section 6(1) of Income-tax Act, 1961 is fulfilled, the assessee will be a resident; and if he comes within the mischief of either of the two conditions mentioned in section 6 (6) (a) he will be treated as 'not ordinarily resident.'

An individual can be resident of India only if he satisfies one of the two conditions under section 6(1) and continues to satisfy one of these conditions in nine out of ten years preceding the previous year in question. It means that an individual who is newcomer to India can not become resident of India during his first nine years stay in India and during first nine years he will be having 'not ordinarily resident' status.

**Residential status of HUF, firm and other association of persons—**

To determine the residential status of these persons, above mentioned tests can not be applied. Section 6(2) of the Act provides that status of these persons shall be determined as per the test given below—

**Resident [section 6(2)]**

H.U.F. firm or other association of persons is said to be resident in every case except where

during that year the control and management of its affairs is situated wholly outside India. It means that if a H.U.F., firm or an association is controlled from India even partially it will be a resident assessee.

The control and management of affairs refers to the controlling and directing power, the head and the brain, It means that decision making power for vital affairs is situated in India. The control and management means de-facto control and management and not merely the right to control or manage.

In case of firm, it is said that the control and management of firm is situated at a place where partners meet to decide the affairs of the firm. If such place is outside India, it will be said that the control and management is situated outside India.

**Non-Resident [ Section 2 (3)]**

A H.U.F., firm or association of persons shall be non-resident of the control and management of affairs is situated wholly outside India.

**Not Ordinarily Resident [Section 6 (6) (b)]**

It is only H.U.F. besides individual which can claim the advantageous status of Not Ordinarily Resident. A H.U.F. will be Not Ordinarily Resident' if—

(i) its manager (Karta) has not been resident in India in nine out of ten previous years preceding the relevant accounting year; or

(ii) the manager has not, during the seven previous years preceding the relevant accounting year been present in India for a period or periods amounting in all to 730 days. [Section 6(6)(b)].

These two tests have to be applied in case of manager (Karta) of such H.U.F. In case the Karta has been succeeded by some other man for computing the presence in India, the length of presence in India of each succeeding Karta will be added.

While determining the residential status of firm of a H.U.F. it should be noted that residential status of partners or co-partners of a H.U.F. is of immaterial consideration : The important point is that from where the business is being controlled. There may be a situation where all the partners of a firm are resident in India but even then that firm may be non-resident if its full control and management lies outside India.

Mr. Abhijit Mukherjee is the Karta of an H.U.F, whose property is situated in Bangladesh. During the previous year 1987-88 he came to India with his family for 15 days and went back leaving his family in India.

The residential status of this H.U.F. will be non-resident for the previous year 1987-88 as the control and management of its affairs has been wholly situated outside India.

**Residential Status of a Company**– The residential status of a company is to be determined on the basis of its incorporation or registration. Section 6(b) provides the following test in this connection.

**Resident** [ Section 6 (3)]

A company is resident in India if, in relevant accounting year–

- (i) it is an Indian company, or
- (ii) during the year, control and management of its affairs is situated wholly in India.

**Non Ordinarily Resident**– A company can not have this status. It can either be resident or non-resident.

**Non-Resident** [Section 2 (30)]

A company shall be 'non-resident' if it is not resident in India during the relevant accounting year :

It means that, a company whose control and management is situated wholly or partially outside India will be non-resident company.

**Residential Status of every other person**– Every other person includes body of individuals, a local authority and an artificial judicial person. They are either 'Resident' or "Non-Resident", but they cannot be Not Ordinarily Resident. [Section 6 (4)]

The tests to be applied is the situation of control and management. If it is situated wholly outside India, the assessee will be non-resident. If the control and management is wholly or partially situated in India, the status will be that of resident.'

**Questions**

1. What are the different categories of assessee according to their residential status ? How is status determined ? How is total income computed in respect of each of them ?
2. Write short notes on–
  - (a) Resident,
  - (b) Not Ordinarily Resident,
  - (c) Non-Resident.

## EXEMPTIONS FROM TAX

Section 10 of Income Tax Act has given a long list of incomes which are totally exempted from tax and so these incomes are not included in the gross total income of the assessee. In other words, such incomes are totally tax free.

In computing the total income of any previous year of any person, any income falling within any of the following clauses shall be exempted.

(1) Agriculture Income [Section 10 (1)] (It has already been discussed in the previous lesson).

(2) Any sum received from Hindu Un-divided Family (H.U.F.) [Sec. 10 (2)] Any sum received by an individual as a member of a Hindu Undivided Family where such sum has been paid out of the income of the family, or in the case of any impartible estate, where such sum has been paid out of income of the estate belonging to the family, this is subject to the provisions of section 64 (2).

(3) Interest paid to non-resident [section. 10 (4)]. The amount of interest payable to a non-resident in the following cases shall be exempted.

- (i) Income from interest on such securities as the Central Government may specify through a notification in the Official Gazette.
- (ii) Any income from interest on bonds or premium on the redemption of bonds issued by the Central Government and the International Bank of Reconstruction and Development (I.B.R.D.) or under a loan agreement between the Central Government and the Development Loan Fund of the United States of America or by any industrial undertaking of Financial Corporation in India under a loan agreement with the above said Bank or Fund, as the case may be, which is guaranteed by the Central Govt.

(4) Interest paid to Non-Resident on Non-Resident (External) Bank Account [section 10(4A)]. In case of non-residents, any income from interest on money standing to their credit in non-resident (External) account in any bank in India in accordance with Foreign Exchange Regulation Act, 1973 and any rule made thereunder is fully exempted.

(5) Interest paid to a person of Indian origin and who is Non-Resident section [10 (4B)]

In case of an individual, being a citizen of India or a person of Indian origin, who is non-resident, any income from interest on such savings certificates issued by the Central Government, as Government may specify in this behalf by notification in Official Gazette, shall be fully exempted. This exemption shall be allowed only if the individual has subscribed to such certificates in Foreign Currency or other foreign exchange remitted from a country outside India in accordance with the provision of the Foreign Exchange Act, 1973 and any rules made thereunder.

For this purpose, a person shall be deemed to be a Indian origin if he or either of parents or any of his grand parents was both in India.



(6) Interest paid to Non-Resident [10 (41)]

The amount of interest payable to non-resident on such securities or bonds as the Central Govt. may, by notification in the official Gazette, specify in his behalf, including income by way of premium on the redumption of such bonds, shall exempt from tax.

(7) Interest to non-resident (External) Account [Sec. 10 (4(11))].

Any income by way of interest on money standing to his credit in a non-resident (external) Account in any bank in India shall be exempted from tax in case of an Individual who is a person resident outside India.

The person resident outside India shall have the same meaning as defined under the Foreign Exchange Regulation Act, 1973, Section 2(9).

This amendment came into force from assessment year 1989-90.

(8) Travel concession to Indian Citizen Employee [Sec. 10 (5)]

Subject to any such conditions which the Central Government may prescribe, the value of any travel concession or assistance received by or due to an individual, who is a citizen of India, from his employer for himself, his spouse and children in connection with his proceeding on leave to his home district or to any place in India is exempted. (After 1st April, 1970 this concession was extended for travel by the individual to any place in India). The above mentioned concession given to the employee by his firms employer after retirement from service or after the termination of service is also exempted from tax. From the assessment year 1975-76 tax exemption will also be available in respect of any travel concession or assistance received by the employee from his employer for his parents, brothers and sisters who were wholly or mainly dependent on him.

The travel concession for proceeding to any place in India shall in no case exceed the value of the travel concession or assistance which would have been received by him for proceeding to his home district.

(9) Leave Travel Concession [Sec. 10 (5)]

The Direct Tax Laws (Amendment) Act, 1987 has amended clause 5 and now, this exemption will also be available to non-citizens. It is also being provided that the exemption will be limited to the amount actually spent. The ceiling on the number of journey for going to home town also on the amount of exemption per head, is being provided in the rules the lines of the ceiling in case of the Government servants.

This provision came into force from the Assessment year 1989-90.

(10) Amount received as leave encashment on retirement [Sec 10 (10 AA)]

**(a) Central & State Govt. Employees**— Any payment received as the cash equivalent of the leave salary in respect of the earned leave at his credit at the time of his retirement shall be fully exempted.

**(b) Other employees**— Any payment received as the cash equivalent of the leave salary at his credit at the time of the superannuation shall be exempted upto a least of the following three amounts :—

- (a) Actual amount received ;
  - (b) Amount calculated at average salary of Ten months (average salary means average of salary drawn by employee during 10 months immediately preceding his retirement); or
  - (c) Rs. 3,00,000
  - (d) Salary for unavailed period of leave on the basis of approved period.
- (11) House Rent Allowance [Sec 10 (13A) Read with Rule 2A]
- (a) Persons leaving in rented houses. Any amount of House Rent Allowance received by the employee from his employer is exempted up to the least of the following limits :
    - (i) Excess of actual rent paid over 10% of salary;
    - (ii) an amount equal to 50% of salary where such accomodation is situated in any one of the following places, namely, Mumbai, Calcutta, Delhi and Chennai and 40% of salary in other towns ; or
    - (iii) Actual amount of House Rent Allowance received.
  - (b) persons living in their own house or not paying any rent but getting H.R.A.– Full H.R.A. received is taxable. No exemption under this provision. [Inserted by Taxation Laws (Amendment) Act 1984 w.e.f. from 1-4-76]
- (12) Allowance of M.P. /M.L.A. or M.L.C. [section 10 (17)] Any income by way of
- (i) Daily allowance received by M.P./M.L.A. or M.L.C. or any committee there of is fully exempted.
  - (ii) any allowance received by any person by reason of his membership of parliament under the members of Parliament (Constituency Allowance) Rules, 1986 is fully exempted.
  - (iii) All other allowance received by any person by reason of his membership of any state legislature or of any committee there of, which the Central Government may notify, shall be exempted upto Rs. 600 p.m. only. Excess shall be taxable.

With effect from 1-4-1981 the Government of India has empowered itself to declare income of a particular person as exempted from tax by insertion of new section 293 A in the Income-tax Act.

### Questions

1. Explain the concept of casual income under the Indian Income Tax Act.
  2. Give five examples of incomes which are totally exempt from income tax.
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## SALARIES-I

Under Section 14 of the Income -Tax Act, all incomes, for the purposes of charge of income-tax and computation of total income, have been classified under the following five heads of income:-

1. Salaries,
2. Income from House Property,
3. Profits and Gains of Business or Profession,
4. Capital Gains, and
5. Income from other Sources.

All kinds of taxable incomes of an assessee fall under any of the above heads of income. Those incomes, which do not find place under any of the first four heads and which are taxable, fall under the fifth head of income. In order to calculate the taxable income under each head, certain deductions have to be made from gross income of the head. These deductions are different for each head.

Under section 15, the following incomes are chargeable to income-tax under the head 'Salaries:-

- (a) any salary due from an employer or a former employer to an assessee in previous year whether paid or not;
- (b) any salary paid or allowed to him in the previous year by or on behalf of an employer or a former employer though not due or before it becomes due;
- (c) any arrears of salary paid or allowed to him in the previous year by or on behalf of an employer or a former employer if not charged to income-tax for any earlier previous year.

From Section 15 it is clear that the basis of charge under Income-tax Act is not only the salary paid to the employee in the previous year but also salary due whether paid or not, arrear salary and advance salary allowed to the employee in the previous year. In respect of advance salary, explanation to Section 15 states that where any salary paid in advance is included in the total of any person for any previous year, it shall not be included again in the total income of the person when the salary becomes due.

**Place of Accrual of Salary :-** If any income taxable under the head 'Salaries' is earned in India, it is deemed to accrue or arise in India. If a person employed in India goes on leave outside the country and draws his salary for the leave period there, the leave salary shall be deemed to have been earned in India. Similarly, if a person, after having served in India, retires from service and settles outside India, the pension drawn by him in the foreign country will be deemed to have been earned in India and will be treated as Indian income except in the case of persons appointed by the Secretary of State or persons appointed as Judge of the Federal Court or a High Court before 15th August, 1947.

Some important rules regarding salaries :

**(1) Employer and Employee Relationship :-**

It is necessary that the payment to fall under the head salaries, there must exist relationship of employer and employee between the payer and the payee. The employer may be a Government, a Local Authority, a Company or any other Public Body or an Association or H.U.F. or even an individual.

Payments received from persons other than employer are chargeable to tax either under the head "profits and gains of business or profession" or "income from other sources." For example, examinership fee to a lecturer is assessable under the head "Income from other sources."

The relationship of the Principal and the agent may or may not be of an employer and employee. If an agent has to work under the direct control and supervision of the principal and has no discretion of his own in the performance of his duties, he is deemed to be an employee, the remuneration payable to him in such a case is chargeable to tax under the head "Salaries". If the principal exercises only a supervisory control in respect of the work entrusted to the agent and the agent has wide discretion of his own in the execution of the policies of the principal, the presumption is that the agent is not an employee. The remuneration payable to the agent in such a case is liable to be taxed under the head "profits and gains of Business or profession."

**(2) Salary received as Member of Parliament :-**

Salary received by a Member of Parliament or State Legislature is not taxable under the head "Salaries." It is taxable as "Income from other sources". Any allowance received by them is fully exempted from tax.

**(3) Receipts from persons other than employer :-**

Perquisites or benefits or any other remuneration received from persons other than the employer would be taxable not under the head "Salaries" but under the head "Income from other sources."

**(4) Payment after the cessation of employment :-**

Payment made by an employer to his employee after the cessation of his employment is also taxable under the head 'Salaries'. It is taxable under this head because it represents remuneration for services rendered in the past.

**The term salary defined** – According to Section 17(1) salary includes the following amounts received by an employee, during the previous year :-

- (i) Wages;
- (ii) Any annuity or pension;
- (iii) Any gratuity;
- (iv) Any fees, commission, perquisites or profits in lieu or in addition to any salary or wages;
- (v) Any payment received by an employee in respect of any period of leave not availed of by him (Leave encashment or salary in lieu of leave.)

- (vi) the annual accretion to the balance at the credit of an employee participating in a recognised provident fund, to the extent to which it is chargeable to tax under Rule 6 of Part L of the fourth schedule; and
- (vii) the aggregate of all sums that are comprised in the transferred balance as referred to in sub-rule (2) of Rule 11 of part A of the fourth Schedule of an employee, participation in a recognised provident fund, to the extent to which it is chargeable to tax, under sub-rule.

(4) There i.e., taxable portion of transferred balance from unrecognised provident fund to recognised provident fund.

The chargeable amount included in annual accretion is as under–

- (a) Employers contribution in excess of 10% of the employee's salary;
- (b) Interest on provident fund in excess of 12% rate.

In other words, it means that employer's contribution to recognised provident fund upto 10% of salary and interest on provident fund upto 12% are exempted from tax.

'Transferred balance' means the balance standing to the credit of employee's unrecognised Provident Fund A/c at the time of its recognition as recognised P. F. A/c. The transferred balance is deemed to be income of the employee and hence taxable in the previous year in which recognition takes place.

**Allowances** :- Any payment in cash made by the employer to his employees monthly, other than salary, is called an allowance. It is a fixed sum of money paid regularly in addition to salary for the purpose of meeting some particular requirement connected with the services rendered by an employee or as compensation for unusual conditions of service. These are given for several purposes. There are three types of such allowances from income-tax point of view, which are as under:–

- (A) Taxable Allowances ;
- (B) Partially exempted Allowances;
- (C) Fully exempted Allowances.

**(A) Taxable Allowances :-**

**Dearness Allowance and Dearness Pay**– This is a very common allowance these days on account of high prices. It is always included in the income from salary and is always taxable in full.

Sometimes it is given under the terms of employment and sometimes without this stipulation. When it is given under the terms of employment it is included in the term salary for computing it for the purpose of determining exemption limits of house rent allowance, recognised provident fund, gratuity and for determining the value of rent-free house. It is also taken into account for the purposes of retirement benefits.

Sometimes this allowance is given as Dearness Pay. Dearness pay means that it is given under the terms of employment and will be taken into account for the purpose of retirement benefits. It is always treated as part of the basic salary.

Other fully taxable allowances are :-

- (1) Fixed Medical Allowance ;
- (2) Tiffin Allowance;
- (3) Servant Allowance ;
- (4) Non-practising Allowance allowed to govt's Doctors;
- (5) Hill Allowance;
- (6) Warden Allowance and Procter Allowance;
- (7) Deputation Allowance;
- (8) Overtime Allowance;

(9) Other allowances such as family allowance, project allowance, washing allowance, marriage allowance, city compensatory allowance, rural allowance etc.

**(B) Partially Exempted Allowances :-**

**(1) House Rent Allowance :-** For the purpose of this allowance, employees are divided into three categories :-

(a) Employees living in rented houses :- Sometimes the employer does not provide rent free accomodation but instead makes a provision to pay some amount in cash, so that employee may be compensated to some extent as far as rent is concerned, the amount of cash paid is known as House Rent allowance. Out of the total H.R.A. received, an amount equal to the minimum of the following three items is exempted from tax. The three items are :-

- (i) 50% of salary in case of Mumbai, Calcutta, Delhi and Chennai and 40% of salary in case of all other cities; or
- (ii) Actual House Rent Allowance received ; or
- (iii) The amount by which the actual rent paid by the employee exceeds 10% of his salary.

'Salary' for this purpose includes D.A. if the terms of employment so provide, but excludes all other allowances and perquisites.

This exemption shall be available even if employee is living in a rented house at a place other than the place of employment.

(b) Employees living in their own houses or in such houses for which they are not paying any rent :-

House Rent allowance received is fully taxable and no portion of it is exempted.

House Rent allowance received by Judges of High Court and Supreme Court.

Any amount received by them as house rent allowance is fully exempted under High Court Judges (Conditions of service) Act 1954 and Supreme Court Judges (conditions of services) Act, 1958.

**(2) Entertainment Allowances** :— Entertainment allowance received by an employee is first added to his salary income and thereafter a deduction is allowed to him. For this purpose the salaried tax-payers have been classified into two broad categories :—

- (a) Government employee, and
- (b) any other employee.

**(a) Government Employee** :— The deduction on account of entertainment, allowances is allowed up to the least of the following :—

- (i) Actual amount of entertainment allowance received during the previous year; or
- (ii) One fifth of the Basic salary, or
- (iii) Rs. 5000.

(b) No deduction will be given in the case of non-govt. employees under section 16(ii).

**(3) Special Allowance** :— Any special allowance, not being an entertainment allowance and city compensatory allowance, specifically granted to meet expenses wholly, necessarily and exclusively incurred in the performance of the duties of an office or employment of profit is exempted from income-tax to the extent to which such expenses are actually incurred for that purpose. For example, travelling allowance and conveyance allowance are paid to the employees to meet expenses incurred by them in the performance of office duties. Such allowances are exempted to the extent these are spent in the performance of such duties. Any amount not so spent is liable to be included in the income of the assessee and taxed accordingly. Other examples of such allowances are daily allowances for stay at a place other than the normal place of duties and reimbursement of incidental expenses such as postage, stationery, telephone etc.

**(C) Fully Exempted Allowances :—**

(1) Foreign allowance is usually paid by the Govt. to an Indian citizen outside India for rendering service outside India. It is not taxable at all, but if the employer is not government, this allowance is not exempted. There may be several types of foreign allowances, e.g., overseas allowance, children education allowance, entertainment allowance etc.

(2) Allowances to High Court Judges— Allowances given to High Court Judges are fully exempted from tax.

(3) Allowance from U.N.O.— Allowance paid by U.N. Organisation to its employees is fully exempted from tax.

(4) Special Allowance which is notified under section 10 (14) (i) is fully exempted from tax.

**Perquisites** :- The term 'perquisites' means any casual emolument or benefit attached to an office or position in addition to salary or wages, perquisite denotes a personal advantage, it is something that benefits a man by going into his own pocket. It does not cover a reimbursement of expenditure. It may be given in cash or kind. If it is given in kind it should be capable of being measured in terms of money. For income-tax purposes we limit the scope of perquisites to the benefits received in kind and which are capable of being valued in terms of money. Perquisites cash are termed as allowances for income-tax purposes.

Perquisites include all benefits provided by the employer to his employees which are convertible into cash. Perquisites for income-tax purpose may be divided into three categories :-

- (1) Perquisites taxable in all cases;
- (2) Perquisites taxable in the case of specified employees only;
- (3) Tax-free perquisites.

**(1) Perquisites taxable in all cases :-** The following perquisites are taxable in all cases :-

- (i) The value of rent-free accommodation provided to the assessee by his employer.
- (ii) The value of any concession in the matter of rent regarding any accommodation provided to the assessee by his employer.
- (iii) Any sum paid by an employer in respect of any obligation which, but for such payment, would have been payable by the assessee.

**(2) Perquisites taxable in the case of specified employee only :-** The employees who fulfill any of the following three condition are called specified employees :-

- (a) A Director-employee—An employee, who is also a director in the employer-company whether full time or part-time and whether continuing as director for the whole or part of the year is a specified employee.
- (b) Employee having substantial interest in the employer-company.
- (c) Any other employee, whose income under the head salaries, including all monetary payments from one or more employers, but excluding the value of all benefits or amenities not provided for by way of monetary payment, exceeds Rs. 50,000. Monetary payments which are not taxable are not to be included in salary for this purpose, for determining the limit of Rs. 50,000 the deductions which are allowable under section 16 will be deducted and the balance only will be considered whether it exceeds Rs. 50,000 or not.

Following are some example of the prequisites which are taxable in the case of specified employees only :-



- (i) Free supply of gas, electric energy or water.
- (ii) Free boarding and lodging to Hotel employees.
- (iii) Provision of the domestic servants, sweepers, watchman or gardener.
- (iv) Free use of refrigerators, heaters and boilers, etc.
- (v) Holiday-homes at the cost of employer.
- (vi) Shares issued at a concessional rate.
- (vii) Free education to the members of the employee's family.
- (viii) Sale of assets to the employees at concessional rate.
- (ix) Free lunch.
- (x) Other benefits.

**(3) Tax-free perquisites :-** The value of the following perquisites shall not be included in the salary income of an employee :-

- (i) **Medical benefits :-** Free medical aid to the employee or his family or the reimbursement of such medical expenses provided they are actually spent and are reasonable, are exempt in full provided that this expenditure is incurred on medical treatment in a recognised public hospital in India. If the treatment is done in a dispensary or hospital run by the employer himself free of charge, the entire cost of medicines etc. will be tax-free. If the treatment is done in a private nursing home, reimbursement of medical expenses up to Rs. 15,000 is exempted in a financial year.
- (ii) **Refreshment :-** Free refreshment supplied by the employer to the employee during office hours and in the office premises, but it does not include provision of free lunch which is taxable.
- (iii) Subsidised lunch or dinner provided by the employer.
- (iv) Employer's contribution to pension or Deferred Annuity Scheme.
- (v) Employer's contribution to staff Group Insurance Scheme.
- (vi) Premium on Accident Policy.
- (vii) Scholarship to children of employees.
- (viii) Free holiday trips to non-specified employees.
- (ix) Free recreational facilities
- (x) Telephone bills.
- (xi) Transport facilities
- (xii) Provision of Refresher courses etc.
- (xiii) Goods sold by an employer to his employees at concessional rates. Other assets sold at concessional rates are not exempted.

- (xiv) Concessional or interest-free loans from employer for construction or purchase of house or any conveyance.
- (xv) In case of non-specified employees free use of furniture from employer without free or concessional house.
- (xvi) Free rations to armed personnel.
- (xvii) Family planning expenses.
- (xviii) Perquisites to government employees posted abroad.
- (xix) Rent-free house to High Court and Supreme Court Judge.
- (xx) The value of rent-free furnished residence provided to a minister, specified officers of parliament or a leader of the opposition in parliament is exempted from income-tax.
- (xxi) Leave travel concession to an employee.

We discussed in this lesson—

- (i) The meaning and rules regarding salaries under the Indian Income-Tax Act.
- (ii) Various types of allowances such as taxable allowances, partially exempted allowance and tax-exempt allowances, and
- (iii) Taxable and non-taxable perquisites.

In the next lesson we shall discuss the method of valuation of different types of taxable perquisites and standard deduction allowed to salary-earning employees.

### Questions

1. Mention the Income that are chargeable to income-tax under the head 'Salaries'.
2. What is meant by perquisites ? What are tax-free perquisites ? Discuss.
3. Write short notes on :—
  - (i) House-rent allowances;
  - (ii) Entertainment allowances;
  - (iii) Taxable perquisites.

## SALARIES-II

The previous lesson has been devoted to explain various rules regarding salaries, various types of allowances and taxable and non-taxable perquisites. In this lesson we shall discuss the methods of valuing taxable perquisites and laws regarding standard deduction and provident funds.

**Valuation of Perquisites :-** Central Board of Direct Taxes frames rules regarding valuation of various types of perquisites. The rules regarding valuation of different types of perquisites are as under :-

**(A) Valuation of Rent-free House-** For the purpose of determining the value of rent-free residential accommodation provided by the employer, the salaries tax-payers have been classified into two categories :-

- (i) Government employees,
- (ii) Non-Government employees

**(i) In the case of Government employees-** The value of unfurnished house is calculated as per the rules of the govt. but if it is not clear under this situation, 15% of the salary will be considered as the value of the house. If the house is furnished, 10% of the cost of furniture or hire charges will be added in the valuation of unfurnished house in order to get the value of the furnished house.

**(ii) In the case of Non-Government employees :-**

**(A) If the house is owned by the employer :** The value of the house is 15% of the salary if it is located in the town having population more than 25 lakh as per 2001 census. If it is located in the town having population exceeding 10 lakh but not more than 25 lakh the value will be 10% of salary. In the case of the house located in any other places, the value will be 7.5% of the salary. This 15% or 10% will be the value of unfurnished house but if the house is furnished 10% of the cost of furniture or hire charges will be added more in the above valuation in order to get the value of the furnished house.

**(B) If the house is provided to the employee by taking it on hire rent under this situation** the value of the house is 15% or Actual Rent whichever is less. If the house is furnished, 10% of the cost of furniture will be added in the above valuation in order to get the value of the furnished house.

Where the house is not provided free of rent, but it is provided by the employer at a concessional rent, the value of the concession to be added to the employee's salary which shall be determined as under:-

Firstly, the value of the house will be determined as if it was a rent free house provided by the employer.

Thereafter, the rent paid by the employee shall be deducted from this valuation and balance of amount shall be added to the employee's salary as the value of the concession.

In the case of hotel accommodation the value of the perquisite will be 24% of salary or actual hotel charges whichever is less.

For the purpose of calculating the value of the rent-free house or value of concession in rent, salary means that salary (excluding advance salary received) which includes the pay taxable allowances, bonus or commission payable monthly or otherwise, but does not include the following namely :—

- (i) Dearness allowance which does not enter into the computation of superannuation or retirement benefits of the employer concerned or which is not under the terms of employment ;
- (ii) Employer's contribution to the provident fund account of the assessee;
- (iii) Allowances which are exempted from payment of tax, e.g., travelling allowances for tour;
- (iv) Deductible portion of entertainment allowance.
- (v) Value of perquisites.

If the assessee receives tax-free salary, tax paid by the employer will be included in the salary.

Similarly, electricity charges gas and water bills and professional tax paid by the employer on behalf of the employee or reimbursed to the employee should be included in computing the salary for the purpose of determining value of rent-free house. Here it is important to note that electricity, gas and water bills paid by the employer are to be included in salary for the above purpose provided they are included in taxable salary i.e., in specified cases only.

For purpose of valuating rent-free accommodation, the aggregate salary due from more than one employer has to be taken into account even if the rent-free accommodation has been provided by only one of the employers.

Value of employer's obligation paid by the employer will be the amount paid by the employers to discharge the liability of the employer.

Valuation of perquisites taxable in the case of specified persons :—

The employees who fulfill any of the three following conditions are called specified employee :—

**(a) Director Employee** :— An employee who is also a Director in the employer's company, whether full-time or part-time and whether continuing as Director for the whole or part of the year is a specified employee.

**(b) Employee having substantial interest in the employer's company** :— An employee is said to have substantial interest in the employer-company if he is the beneficial owner of equity shares carrying not less than 20% of voting power. He is also termed as specified employee.

**(c) Any other employee** :— Any other employee whose income under the head salaries including all monetary payments from one or more employer but excluding the value of all benefits or amenities not provided for by way of monetary payment, exceeds Rs. 50,000. Monetary payments which are not taxable are not to be included in salary for this purpose. For determining the limit of Rs. 50,000 the deductions which are allowable under section 16 such as standard deduction will be deducted and the balance only will be considered whether it exceed Rs. 50,000 or not.

**1. Motor Car** :— Facility of Motor Car comes under the category of Fringe Benefits and is taxable only in the hands of the employer not in the hands of the employee.

**2. Gas, electric energy and water** :– The value of free use of gas, electric energy and water will be determined on the following basis :–

(i) When such supply is made from resources owned by the employer without purchasing them from any other outside agency, the value shall be taken as nil.

(ii) Where such supply is made after purchasing from an outside agency the value of the benefit to the assessee shall be determined as the sum equal to the amount paid on that account by the employer to the agency supplying the gas, electric energy and water.

\*(iii) Where the Assessing Officer is satisfied that the gas, electric energy and water supply is consumed partly for personal use and partly for the purpose of official duties, the Assessing Officer shall determine the value of the benefit to the assessee to be equal to the amount paid on that account by the employer to the agency supplying the gas, electric energy and water or 6.25% of salary of the employee whichever is less.

**3. Lodging and boarding** :– In case of providing free lodging, its value is determined in the same way as unfurnished house is provided. In case of furnished lodging 10% of the cost of furniture is also added.

Valuation in free food is to be done on the basis which the Income tax officer considers fair and reasonable.

**4. Use of refrigerators, televisions, heaters and boilers etc.**– If electrical appliances have been provided to the assessee such as refrigerators, televisions, radios, boilers etc, 10% of the cost of such appliances are included in the salary of the employee. If repair charges are being paid by employer for maintaining such appliances no addition will be made to his salary income.

**5. Shares issued at a discount** .– If shares are issued to an employee at a concessional rate, the difference between the market rate and concessional rate is taxable perquisite in the hands of the employee.

**6. Assets at concessional rate.**– If any asset is being sold to the employee at a concessional rate the difference between the market price and concessional rate would be treated as a perquisite in the hands of the employee.

**7. Provision of domestic servants, sweepers, wachman and gardener** :– Where any of these servants is appointed by the employee and the employer pays his salary, the full amount of salary will be taxed in the hands of all employees whether specified or not as it is an obligation of the employee paid by the employer.

Where these servants are appointed by the employer and their salary is paid by the employer but their services are put at the disposal of the employee, the value of the perquisite will be the actual payment made to them.

If house is owned by the employee but servants are appointed and paid by the employer the entire amount of wages paid to the employee is taxable in the hands of all employees whether specified or not as it is an obligation of the employee paid by the employer.

**8. Free education.**— If an employee is given fixed education allowance it will be exempted upto Rs. 50 per month for each child upto a maximum of two children.

But where the employer prays for the provision of free education facility for any member of the employee's household the value of the perquisite will be the amount incurred by the employer. In case educational institution is run by the employer, the value of the perquisite will be the reasonable cost of such education in a similar institution in or near the locality.

**9. Sale of assets to the employee at concessional rate:**— where the employer sells certain assets (not goods) to his employee at concessional rate or gives him as gift, the value of the perquisite will be the difference between the price charged and the market price on the day it was sold or given as gift.

**10. Free lunch.**— Its value will be either actual amount of expenses incurred by the employer or a reasonable amount thereof, as deemed reasonable by the Assessing office. It will be taxable only in the case of specified employee.

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

- (1) Entertainment Allowance,
- (2) Employment Tax

**(1) Entertainment Allowance :**— Law governing entertainment allowance has been explained in the previous lesson. Total amount of entertainment allowance is first added in the salary and then exempted amount is deducted from gross salary under section 16(ii) only in the case of govt. employees. Nothing is deducted in the case of Non-govt. employees.

**(2) Tax on employment :**— Any sum paid by the assessee on account of a tax on employment, leviable by or under any law, is allowable as deduction.

In this lesson, we have explained :—

- (i) The rules regarding the valuation of different types of perquisites; and
- (ii) The various types of deductions allowed to an assessee in computing his income from salaries.

In the next lesson we shall discuss the laws regarding provident funds and income tax laws application in solving practical problems.

### Questions

1. Discuss fully the deductions allowable under the head "Salaries".
2. How the following perquisites are valued :—
  - (a) Motor car
  - (b) Value of rent-free house
  - (c) Gas, electricity and water
  - (d) Domestic servants

## SALARIES-III

Lesson 6 and 7 have been devoted mainly to deal with income tax laws relating to income from salaries. In this lesson, we shall discuss income-tax provisions regarding various types of provident funds and application of income-tax provisions in solution of practical problems.

**Provident fund** :- To encourage saving for the social security of the employee, the government has set up various kinds of provident funds. The employee contributes a fixed percentage of his salary towards the fund and in many cases employer also contributes. The whole contributions along with interest is credited to employee's account. He gets payment out of this fund at the time of retirement and at some other occasions. If the employee dies, his heirs get the full payments. Provident funds are of four kinds :-

- (i) Statutory Provident fund,
- (ii) Recognised Provident fund
- (iii) Unrecognised Provident fund
- (iv) Public Provident fund.

**(i) Statutory Provident Fund** :- It is that Provident fund to which the Indian Provident Fund Act, 1925 applies. Generally, this Provident Fund is maintained by Government or Semi-government officers like local authorities, universities or other recognised educational institutions, statutory corporations or national banks etc.

**(ii) Recognised Provident Fund** :- As the name suggests, it is a fund to which the Commissioner of Income-tax has given the recognition as required under the Income-tax Act. Generally this fund is maintained by industrial undertakings, business houses, banks, etc.

**(iii) Unrecognised Provident Fund** :- A fund which is not recognised by the Commissioner of Income-tax is known as 'unrecognised provident fund'. Such a fund can be maintained by any institution.

**(iv) Public Provident Fund** :- In pursuance of section 80 c (2) (a) (iv) the Central Government has notified the Public Provident Fund established under the Public Provident Fund Scheme, 1968 with effect from 1st July, 1968. Every public man (including a salaried employee) can deposit in this fund a minimum of Rs. 100 and a maximum of Rs. 60,000 every year. A person is free to subscribe in multiples of Rs. 5 at any time in this account and in any number of instalments but not more than once in each month. In this fund only the member contributes. An account under this scheme can be opened at any branch of State Bank of India or its subsidiaries or at any Head Post Office or designated branches of other nationalised banks. At present (i.e. from 1.4.86) the rate of interest is 12

percent per annum (compound) which is totally exempted from income-tax. The deposits to this fund are also entitled to the deduction under section 88 in the same manner as in respect of Life Insurance Premium or Statutory Provident Fund up to qualifying amount of Rs. 50,000. Full withdrawal is allowed after 15 years. But in the event of death of the subscriber, full payment will be made even within this period, to his nominee or legal heirs.

Facility of partial withdrawals and loans within limits are also available. The depositor is entitled to loan in or after the third year of opening the account.

A comparative study can be made between different types of provident funds on the basis of following points :-

**(1) Amount which is included in total income :-**

If an employee is a member of Statutory Provident Fund, his own contributions to this fund are included in his total income. In the case employer's contribution and interest on provident fund are not considered at all, i.e., employer's contribution and interest on provident fund is neither included in the employee's total income nor it is taxable.

If an employee is a member of Recognised Provident Fund, his own contribution to this fund, employer's contribution in excess of 12% of the employer's salary and interest on provident fund in excess of 9.5% are included in employee's total income.

In respect of Unrecognised Provident fund, provisions are that employee's contributions to this fund are included in his total income. But the employer's contribution and interest on provident fund are not included in his total income from year to year.

If an employee is a member of Public Provident Fund, his own contribution to this fund is included in his total income. But interest on provident fund is neither included in his total income nor it is taxable. The employer does not contribute to this fund.

**(2) Maximum limit of amount qualifying for deduction under section 80 C :-**

In respect of Statutory Provident Fund Recognised Provident Fund and Public Provident Fund, provision is that employee's own contribution to this fund should not exceed Rs. 1,00,000. If contribution exceeds 1,00,000, Rs. 1,00,000 alone will qualify for deduction under section 80C.

But in respect of Unrecognised Provident Fund, provision is that employee's own contribution to this fund is not included in the amount qualifying for deduction, i.e. no deduction is allowed in respect of his own contribution.

(iv) Lump-sum received from these funds at the time of retirement from service or at the time of leaving the service :-

In case of Statutory Provident Fund- It is neither included in the employee's gross total income nor it is taxable. It is completely ignored.



In case of Recognised Provident Fund it is neither included in the employee's gross total income nor it is taxable provided that (i) he has continuously served with this employer for at least five years or (ii) if he has not continuously served with this employer for at least five years, his services have been terminated or he has left the service on account of his illness or the discontinuance or contraction of the business on account of reasons beyond his control.

In case of Unrecognised Provident Fund the balance amount left after deduction of employee's contribution and interest thereon from the lump sum received from this fund is included in his gross total income under the head salaries and is taxable.

In respect of Public Provident Fund, provision is similar to that of Statutory Provident Fund. It is neither included in the employee's gross total income nor it is taxable.

Provisions of Income-tax Act respecting salaries have been detailed in the foregoing paragraphs. They shall now be applied in solving practical problems :—

**Illustration 1. :** — Mr. Ram Gopal, an employee in a company is drawing Rs. 1800 per month as salary plus 10% of his salary as dearness pay during the financial year 2006-07. He is getting entertainment allowance of Rs. 100 per month from the date of his appointment which was 1st January, 1980. He has spent Rs. 1,000 on entertainment of the company's customers. He is provided with a rent-free unfurnished house of the fair rental value of Rs. 300 per month. The house is owned by the company. He is also provided with a car of 14 H.P. rating for his personal and official use and all the expenses of its maintenance and running are met by the company. Find out his taxable salary for the assessment year 2007-08.

**Solution :—**

Computation of Taxable Income from Salaries of Mr. Ram Gopal for the Assessment year 2007-08.

Particulars	Amount Rs.	Amount Rs.
(i) Basic pay at the rate of Rs. 1800 per month		21,600
(ii) Dearness Pay being 10% of basic pay		2,160
(iii) Entertainment Allowance at the rate of Rs. 100 per month		1,200
(iv) Value of rent free unfurnished accomodation		3,744
Gross Salary		28,704
Taxable Income from Salaries		28,704

- Hints : –** (i) For the purpose of calculating the value of rent-free unfurnished accommodation, dearness pay and entertainment allowance will be added in the basic pay because these are the only monetary payments being allowed to the assessee. The value of rent free unfurnished accommodation has been calculated as under :–

	Rs.
Basic Pay	21,600
Dearness pay	2,160
Entertainment Allowance	1,200
	<u>24,960</u>
15% of Rs. 24,960	Rs. 3,744

- (ii) The total monetary payments to the assessee are Rs. 24,960 After making standard deduction of Rs. 9152 it comes to Rs. 15,808. Hence, he does not come under the category of specified employee.
- (iii) No part of entertainment allowance will be exempt in his case because he is the Non-govt. employee.
- (iv) Dearness pay is always part of basic pay and is included in salary for the purpose of value of rent-free house. However, dearness allowances is not part of salary unless it is paid under terms of employment (i.e. it is taken into account for retirement benefits.)

**Illustration 2. : –** The following particulars are furnished by Mr. Vasanth, a citizen and resident of India : (a) Net salary received after deduction of tax at source and contribution to R.P. F. Rs. 24,000 (b) Tax deducted at sources from salaries Rs. 7,000. (c) won contribution to R.P.F. Rs. 5,000; (d) Interest credited to R.P.F. at the rate of 12% Rs. 3600; (e) House Rent Allowance (the house is at Kolar and rent paid amount to Rs. 6,000) Rs. 4,200, and (f) Unit linked Insurance Plan Contribution paid by employer Rs. 1,000.

Compute the taxable income from salary of Mr. Vasanth for the Assessment year 1991-92.

**Solution :–**

Computation of Taxable Income from Salaries of Mr. Vasanth for the Assessment Year 1991-92.

Particulars		Amount Rs.	Amount Rs.
(i)	Gross Pay :—	Rs.	
	Net Pay	24,000	
	Tax deducted at source	7,000	
	Contribution to R.P.F.	5,000	36,000
(ii)	Taxable Portion of House Rent Allowance		1,800
(iii)	Contribution to Unit-linked Insurance Plan by Employer		1,000
	Gross salaries		38,800
	Taxable Income from Salaries		38,800

**Working** :— Taxable portion of House Rent Allowance has been calculated as under :—

Least of the following will be excluded from House Rent Allowance :—

	Rs.
(i) Actual House Rent Allowance	4,200
(ii) Excess of rent paid over $\frac{1}{10}$ of salary (Rent 6,000 – $\frac{1}{10}$ of salary Rs. 3600.)	2,400
(iii) $\frac{2}{5}$ of salary $\left(\frac{2}{5} \times 36,000\right)$	14,400
Less is Rs. 2,100, hence balance (4,200– 2,400) = Rs. 1800 House Rent Allowance is taxable	

- Hints :**
- (i) It is the gross pay and not the net pay which is taxable. Hence the amounts which have been deducted at source from basic pay should be added back to the basic pay to arrive at gross pay.
  - (ii) Contribution to Unit-linked Insurance Plan is taxable because it is an obligation of an employee paid by an employer.

**Illustration 3 :-**

Shri Teja Singh has furnished the following details with regard to his income :-

- (a) Salary of Rs. 3,000 per month;
- (b) Bonus equal to six months salary;
- (c) Conveyance allowance at Rs. 300 per month;
- (d) Entertainment allowance at Rs. 250 per month;
- (e) Commission equal to four months pay.

He is also provided with free furnished quarter valued at Rs. 400 per month for rent and Rs. 100 per month for furniture and fittings. He is also provided with free lunch by the Company valued at Rs. 2 per day for 300 days, He claims :

- (i) Car maintenance expenses and depreciation on car at Rs. 500 per month;
- (ii) Cost of books and periodicals necessary for this work Rs. 1,200 in the year.

His contribution to Company's Recognised Provident Fund is Rs. 500 per month and the employer contributes an equal sum.

The interest credited to the Provident Fund Account is Rs. 2000 at the rate of 6%. Compute his taxable salary income for the assessment year 2007-08.

**Solution :-**

Computation of Taxable Income from salaries of Mr. Teja Singh for the Assessment year 2007-08

Particulars	Amount Rs.	Amount Rs.
(i) Basic pay at the rate of Rs. 3000 per month		36,000
(ii) Bonus equal to 6 months basic pay		18,000
(iii) Entertainment Allowance at the rate of Rs. 250 per month		3,000
(iv) Commission equal to 4 month's of basic pay		12,000
(v) Value of rent-free furnished accomodation		15,000

Particulars	Amount Rs.	Amount Rs.
(vi) Lunch at Rs. 2 per day for 300 days		600
(vii) Employer's contribution toward employee's recognised provident fund in excess of 12% of basic pay (Rs. 6000 – 4320)		1,680
Gross Salary		86,280
Taxable Income from Salaries		86,280

**Working :-** Value of rent-free furnished accomodation has been calculated as following :-

Salary for this purpose means :-	Rs.
(i) Basic Pay	36,000
(ii) Bonus	18,000
(iii) Commission	12,000
(iv) Entertainment Allowance	3,000
	<u>69,000</u>
15% of salary or Fair Rental Value whichever is less :-	
15% of Salary 69,000 = Rs, 10,350	10,350
Add Actual hire charge of furnitures at Rs. 100 per month	<u>1,200</u>
Value of rent-free furnished accomodation	<u>11,550</u>

- Hints :-**
- (i) Since the employee is in receipt of Conveyance Allowance, he will not be allowed a car maintenance expenses and depreciation of car, conveyance allowance is exempted from tax.
  - (ii) Cost of books and periodicals amounting to Rs. 1,200 is inadmissible deduction.
  - (iii) Employer's contribution to Recognised Provident Fund in excess of 12% of basic pay is taxable.
  - (iv) The interest credited to the Provident Fund Account up to 9.5% rate of interest is exempted from tax.

## SALARIES-IV

Various aspects concerning the income from salaries have been discussed in the preceding three lessons. They must have given you enough insight to be able to solve even difficult questions on salaries. Some simple questions from salaries have been solved in the previous lesson. In this lesson, we shall solve some difficult and advanced questions on salaries.

### Illustration -1.

Shri Hari Mohan is the principal of a College in Delhi. He is in the grade of Rs. 4,500-200-7500, since 1st January, 1989. He gets Rs. 750 per month as dearness allowance and Rs. 100 as C.C.A. per month. He has been provided with a furnished accomodation by the College. The college is not the owner of the house. The rental value of the house is Rs.3,000 per month and furniture costing Rs. 4,000 has also been provided by the College. He has been given 14 H.P. car which is in addition to college work, is used by him for his private purposes also. The driver's remuneration and all the expenses relating to the use of the car are borne by the College.

He has been provided with the facility of a gardener, a watchman and a servant who are paid by the College at the rate of Rs. 80 per month, Rs. 150 per month and Rs. 150 per month respectively. He contributes 10% of his pay to the statutory provident fund, towards which the College contributes 8%. He purchased books of his subject for Rs. 1,000 and paid employment tax Rs. 500 during the financial year 2006-07.

Assuming that the salary becomes due on the first of the next month, determine his taxable income under the head, 'salaries' for the assessment year 2007-08 .

### Solution -

Computation of Taxable Income from Salaries of Shri Hari Mohan of the Assessment Year 2007-08.

Particulars	Amount Rs.	Amount Rs.
(i) Basic pay		56,800
(ii) Dearness Allowance at the rate of Rs. 750 per month		9,000
(iii) City Compensatory Allowance at the rate of Rs. 100 per month		1,200
(iv) Value of rent-free furnished accomodation		12,000
(v) Value of free use of car		exempt
(vi) Value of free services of		

## Salaries – IV

Particulars	Amount Rs.	Amount Rs.
(a) Gardener at the rate of Rs. 80 per month		960
(b) watchman at the rate of Rs. 150 per month		1,800
(c) Domestic servant at the rate of Rs. 150 per month		1,800
Gross Salary		83,560
(ii) Employment Tax		500
Taxable Income from salaries		83,060

**Working –**

(i) Value of rent free furnished accomodation has been calculated as under–

	Rs.
Basic Pay	56,800
City Compensatory Allowance,	1,200
	<u>58,000</u>
Valuation restricted to 15% of 58,000	8,700
Add 10% of cost of furnishing = Rs. 4,000	400
Value of rent-free furnished accomodation	<u>9,100</u>

Dearness Allowance will not be included in salary for the purpose of valuing rent-free furnished accomodation because it does not enter into the computation of retirement benefits.

Salary becomes due on the first of the next month means that the assessee is taxable for his salary from March 2006 to February 2007.

His scale of pay has been calculated as under –

	Basic pay Rs.
1-1-2005	4,500
1-1-2006	4,700
1-3-2006 to 31-12-06	4,700
1-1-07 to 28-2-07	4,900
Basic pay from 1-3-06 to 31-12-06	
Rs. 4,700 × 10 = Rs. 47,000	
Basic pay from 1-1-07 to 28-2-07	
Rs. 4900 × 2 = Rs. 9,800	
Total Rs. 47,000 + 9,800 = Rs. 56,800	

- Hints –**
- (i) Gardener and watchman's salaries paid by the employer are fully taxable as house has been taken on by the employer. Servants salary paid by the employer is always fully taxable.
  - (ii) Here gardener's salary will not be included in the fair rental value of the house as the house is not owned by the employer.
  - (iii) Purchase of books for Rs. 1,000 is not an admissible deduction.

### Illustration – 2

Shri Hari Om was a manager in a factory in Delhi. He got Rs. 3,000 p.m. as basic pay, Rs. 4000 per month as dearness allowance and Rs. 250 per month as house rent allowance. He resides in his own house. He got Rs. 4,000 travelling allowance for tour.

He retired on 1st January, 2007 and got Rs. 40,000 as gratuity and Rs. 50,000 as accumulated balance in his unrecognised provident fund. His own contribution and that of the factory to this fund was equal. He also received Rs. 34,000 being the amount of salary including dearness allowance for 10 months earned leave to his credit at the time of retirement. Leave accrued at 3 days per year of actual service.

He was allowed to get pension of Rs. 1,000 per month, three-fourth of which was commuted for Rs. 30,000. He commenced service of this factory on 1st August 1959 and his average salary during the ten months immediately preceding his retirement was Rs. 2900.

Compute the taxable income from salary of Shri Hari Om for the assessment year 2007-08.

### Solution –

Computation of Taxable Income from salaries of Shri Hari Om for assessment year 2007-08.

Particulars	Amount Rs.	Amount Rs.
(i) Basic salary for 9 months		27,000
(ii) Pension for 3 months at the rate of Rs. 250 per month		750
(iii) Dearness Allowance for 9 months		3,600
(iv) House-rent Allowance for 9 months		2,250
(v) 1/2 of lump-sum received from unrecognised Provident fund		25,000
(vi) Gratuity		Nil
(vii) Commuted value of pension		16,667
(viii) Encashment of Earned Leave		10,800
Gross Salary		86,067
Tareable income from salaries		86,067



- Hints–**
- (i) House Rent Allowance is fully taxable as the assessee is living in his own house.
  - (ii) One-half of lump-sum received from unrecognised provident fund is taxable as employer's contribution and interest thereon. Employee's contribution to unrecognised provident fund is included year by year in his total income. Interest on employee's contribution to U.R.F. is included in the total income of employee year by year and is termed as "Income from other sources."
  - (iii) The least of the following amounts of gratuity is exempted–
    - (a)  $1\frac{1}{2}$  months salary for every completed year of service (salary being based on the average drawn during the ten months immediately preceding the retirement), or
    - (b) Rs. 3,50,000
    - (c) Actual amount of gratuity received.

The service of the employee is for 31 year and 5 months, hence service will be taken for 31 completed years. Here the average salary drawn during the ten months immediately preceding the retirement is Rs. 2,900. Hence  $1\frac{1}{2}$  month salary for 31 year will be  $1450 \times 31 = \text{Rs. } 44,950$  the total amount of actual gratuity received Rs. 40,000 is exempt from tax.

- (d) As the assessee is in receipt of gratuity, the commutation of pension will be exempted to the extent of commutation value of  $\frac{1}{3}$ rd of the normal pension only i.e.  $30000 \times \frac{4}{3} \times \frac{1}{3} = \text{Rs. } 13,333$ . Hence, taxable point of commutation value = Rs. 30,000 – 13,333 = Rs. 16,667.
- (e) As the employee has commuted  $\frac{3}{4}$  of his pension, he will now get pension at the rate of Rs. 250 per month only.
- (f) Travelling Allowance for tour is exempted from tax.
- (g) The least of the following amounts will be exempted regarding encashment of earned leave–
  - (i) 8 months salary on the basis of the average salary for last 10 months, i.e.  $\text{Rs. } 2,900 \times 8 = \text{Rs. } 23,200$  ; or
  - (ii) Salary for approved period of earned leave not availed off, i.e.  $\text{Rs. } 2,900 \times 10 = \text{Rs. } 29,000$
  - (iii) Actual amount received Rs. 34,000 ; or
  - (iv) Maximum limit Rs. 79,920

Here, the least amount is Rs. 23,200 hence Rs. 34000– 23200 = Rs. 10,800 will be taxable.

### Illustration – 3

Shri Pramod Bihari is employed in Bombay in the grade of Rs. 2400–100– 3400 since 1st January, 2003. he gets Rs. 360 per month as Dearness Allowance and 8% of the basic pay as Medical Allowance. He has been provided with a furnished accomodation by the employer owned by

him of the estimated rental value of Rs. 1,400 per month. Furniture costing Rs. 13,000 has also been provided by the employee. He has been given a car of 16 H.P. which is used by him for his personal purpose also. The driver's remuneration and all the expenses relating to the official use of the car are borne by the employer. He has been provided with the facility of a gardener, a watchman and a servant who are paid by the employer at the rate of Rs. 100 per month, and Rs. 120 per month respectively. He contributes 15% of his pay and Dearness allowance to the recognised provident fund towards which the employer contribution an equal amount. Interest amounting to Rs. 1,980 has been credited on the balance of Rs. 18,000 standing to the credit of his Provident Fund Account. Assuming that the salary becomes due on the first day of the next month, determine his salary income for the assessment year 2007-08.

**Solution :-**

Computation of Taxable Income from salaries of Shri Pramod Bihari for the assessment year 2007-08.

Particulars	Amount Rs.	Amount Rs.
(i) Basic Pay		
From 1-3-06 to 31-12-06 = for ten months at the rate of Rs. 2,700 per month	27,000	
From 1-1-07 to 28-2-07 = for 2 months at the rate of Rs. 2,800 per month	5,600	32,600
(ii) Dearness Allowance at the rate of Rs. 360 per month		4,320
(iii) Medical Allowance being 8% of basic pay		2,608
(iv) Value of rent-free furnished accomodation		7,228
(v) Employer's contribution to Recognised Provident Fund		1,846
(vi) Value of free-service of watchman		600
(vii) Value of free-service of domestic servant		1,440
Gross Salary–		50,642
Taxable Income for Salaries		50,642

**Working –**

(i) For the purpose of calculating value of rent-free furnished accomodation, salary will mean–