



GURU NANAK COLLEGE [AUTONOMOUS]
AFFILITED TO UNIVERSITY OF MADRAS
RE-ACCREDITED AT "A" GRADE BY NAAC

Department of Corporate Secretaryship Shift – I
III B.COM (CS)

Welcome to Online Class

Subject: "INCOME TAX LAW AND PRACTICE"

INCOME TAX LAW & PRACTICE-I

UNIT- I: BASIC CONCEPTS

Income Tax Act 1961 & relevance of Finance Act – Definition of important terms – Income, Person, Assessee, Assessment Year and Previous Year – Broad features of Income

Residential status, Incidence of Tax & Basics of Charge:

Taxable entities – Classification of Residential Status of taxable entities - Residential Status – Individual, firm, AOP, HUF and Companies – Incidence of Tax.

EXEMPTED INCOMES: Classification of exempted incomes – Incomes excluded from total income – Income forming part of total income but exempted from Tax.

UNIT- II: INCOME FROM SALARIES

Different forms of salary – Provident Funds – Allowances – Perquisites – Other items included in Salary – Qualifying amount for deduction u/s 80(C).

UNIT- III: INCOME FROM HOUSE PROPERTY

Computation of Income from House Property – Let-out house – Self occupied house – Deduction allowed from house property – Unrealized rent – Loss under the head house property.

UNIT -IV: PROFITS AND GAINS OF BUSINESS AND PROFESSION

Introduction – Computation of profits and gains of business and profession – Admissible deductions – Specific Disallowances – Depreciation – Loss under the head business and profession.

UNIT- V: ADMINISTRATION OF INCOME TAX ACT

Income tax authorities – procedure for assessment – PAN (Permanent Account Number) – Types of assessment.

PRESCRIBED BOOKS:

Income Tax Theory, law and practice - T.S. Reddy & Dr. Y. Hari Prasad Reddy – Margham publications.

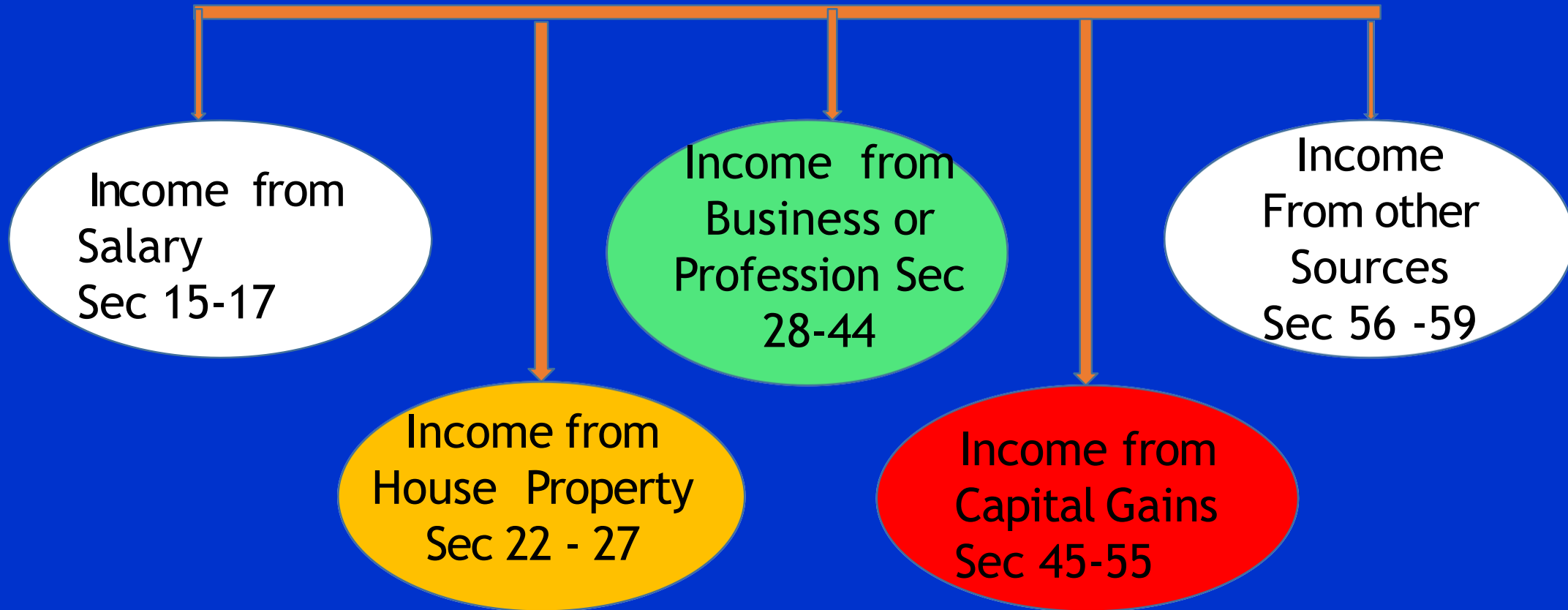
Income Tax law and practice. – V.P.Gaur&D.B.Narang.

REFERENCE BOOKS:

1.Students Guide to Income tax – Dr.VinodK.SignHania&Dr.MonicaSighania – Taxmann.

2. Income tax service tax & VAT – Dr.GirishAhuja&Dr.Ravi Gupta – Bharat law house.

HEADS OF INCOME



Statement showing Taxable Income

<u>PARTICULAR</u>	<u>Rs.</u>
Salary Income (sec 15-17)	XXX
Add: House Property (sec 22-27)	XXX
Add: Business or Profession(28-44)	XXX
Add: Capital Gains (sec 45-55)	XXX
Add: Income from other source (55-59)	<u>XXX</u>
Gross Total Income	XXX
Less:Deduction (u/s 80C to 80U)	<u>XXX</u>
Taxable Income	<u>XXX</u>



INCOME FROM SALARY

Definition of the Head – Income from Salary (Sec 15-17)

Any remuneration received by an employee in consideration of services rendered to his employer is called salary. Salary includes monetary value of those benefits and facilities provided by the employer which are taxable.

**Computation of Income from Salary of X for the A.Y 2020-21.
Previous Year – 2019 -2020. Assessment Year – 2020 -2021 .**

Particulars	Rs.
Basic Salary, Bonus , Commission	XXXX
Allowances , Perquisites	XXXX
Profit in lieu of Salary (Arrears and Advance salary)	XXXX
Retirement Benefits: (Gratuity, Pension, Leave encashment.)	<u>XXXX</u>
Gross Salary	XXXX
Less: Deduction: u/s 16 (SD, EA, Professional Tax)	<u>XXXX</u>
Chargeable Gain from Business	<u>XXXX</u>

Tax implication of Provident Fund

Particulars	SPF	RPF	URPF	PPF
Employer's Contribution	Fully Exempt from tax	Exempted up to 12% of Salary	Ignore for time being	Not applicable as assessee's own contribution
Employee's Contribution	Fully Qualifies for deduction u/s 80C	Fully Qualifies for deduction u/s 80C	Fully Qualifies for deduction u/s 80C	Fully Qualifies for deduction u/s 80C
Interest on PF	Fully Exempt from tax	Exempted up to 9.5 % p.a	Ignore for time being	Fully Exempt from tax
Repayment of lump-sum amount on retirement	Fully Exempt from tax	Exempt Subject to condition	Accumulated amount Exempt from tax but interest is taxable	Fully Exempt from tax

Allowances

Fully Exempted	Fully Taxable	Partially Taxable
Allowance to Government employee, rendering services out side india.	DA, CCA, Medical allowance Lunch , overtime, Servant, Family, Tiffin allowance	HRA ,EA for Govt. Employee. Helper, Uniform allowance
House rent allowance granted to Judges of high Court and Supreme Court	Warden, Deputation, Non-Practicing, Dog allowance Marriage, Project allowance	Education allowance, Conveyance, Travelling and Transport allowance
Sumptuary allowance given to High Court and Supreme Court Judges.	Capital compensatory, Water & Electricity allowance	Academic Research allowance, special allowance
Allowance received by an employee of UNO from his employer.	Entertainment allowance for Non- Govt. Employees.	Allowance for transport employee, Daily allowance

AMOUNT OF EXEMPTION ON HRA:-

Which ever is least of the below is exempted on HRA

(a) Actual HRA received

(b) Rent Paid (MINUS) 10 % of Salary

(c) 50% of salary in Metro City & 40% of salary in other cities.

Note: Salary: Basic Pay + DA (Enter)+Commission(Fixed %)

AMOUNT OF EXEMPTION ON EA (only for Government employee)

Which ever is least of the below is exempted on EA

(a) Actual EA received

(b) Notified Limit Rs.5000

(c) 20% of Basic Salary

Perquisites – Rent Free Accommodation

A) Valuation of unfurnished Accommodation

- i) Central Government – licence fee fixed by Governmnet
- ii) Other employees:

Population of the City	Where the Accommodation is owned by employer	Where the Accommodation is not owned by employer
Population is below 10 lakhs	7.5% of Salary	Actual Rent Paid by employer or 15% of Salary (w.e.l)
Population is exceeds 10 lakhs but less than 25 lakhs	10% of Salary	Actual Rent Paid by employer or 15% of Salary (w.e.l)
Population is exceeds 25 lakhs	15% of Salary	Actual Rent Paid by employer or 15% of Salary (w.e.l)

B) Valuation of Furnished Accommodation - Add: 10% of Cost of furnishing

Retirement Benefit (Gratuity)

Gratuity Section 10(10)

Death cum retirement of gratuity

A) Government employee – Fully Exempted

B) Employee covered under the payment of gratuity act 1972

i) Actual amount of gratuity received

ii) Rs.20,00,000

iii) 15 day's of salary last drawn for every completed year of services or part there of in excess of 6 months

C) Other employees

i) Actual amount of gratuity received

ii) Rs.20,00,000

iii) Half month's of Average salary last drawn
(for each completed years of services)

Retirement Benefit (Pension)

A) Uncommuted (Monthly) Pension

Uncommuted Pension is fully taxable as salary in the hands of Government employee as well as Non-Government employee.

B) Commuted (Lump Sum) Pension

Commuted Pension is fully exempted for Government employee

Non-Government employee

- i) one third of pension is exempted if the employee receives gratuity
- ii) one half of pension is exempted if the employee does not receives gratuity

Computation of Basic Salary

1. Dr.Manikandan was appointed as manager of a private Ltd.Co. on 1-1-2017 in the grade of Rs.17,400 – 300 – 25,000 at a basic pay of Rs.17,400 p.m. Compute his salary income for the previous year 2019-20 if (a) Salary is due on 1st of every month,
(b) Salary is due on last date of every month.

Working Notes: 1. Salary fixation in the scale of Rs.17,400-300-25,000:

1-1-2017 to 31-12-2017	- Rs.17,400 p.m
1-1-2018 to 31-12-2018	- Rs.17,700 p.m
1-1-2019 to 31-12-2019	- Rs.18,000 p.m
1-1-2020 to 31-12-2020 (31-3-2020)	- Rs.18,300 p.m

(A) Salary Due on 1st of every month:

salary for 10 months Rs.18,000 p.m.

(March salary received on 1-4-2019 and Dec 2019

salary received on 1-1-2020) = 10 x 18,000 = 1,80,000

salary for 2 months (Feb & March)= 2 x 18,300= 36,600

(B) Salary Due on last date of every month:

Salary for 9 months Rs.18,000 p.m.(April salary received on 30-4-2019 to 30-12-2019) = 9 x 18,000 = 1,62,000

salary for 3 months (Jan & March) = 3 x 18,300 = 54,900

Computation of Basic Salary for the P.Y. 2019-20

(A) Salary	18,000 X 10 Months	Rs. 1,80,000
	18,300 x 2 Months	Rs. 36,600
	Total Basic	Rs. 2,16,600
(B) Salary	18,000 X 9 Months	Rs. 1,62,000
	18,300 X 3 Months	Rs. 54,900
	Total Basic	Rs. 2,16,900

2. Compute the taxable portion of allowances from the information furnished by Mr. Hari Haran for the A.Y. 2020-21.

- 1. Travelling allowance (Expenditure Rs.750 p.m.) - Rs.1,500 p.m.**
- 2. Helper allowance (Expenditure Rs.1,350 p.m.) - Rs.1,200 p.m.**
- 3. Tribal area allowance - Rs.2,400 p.m.**
- 4. Education allowance (per child) - Rs.300 (for 3 children)**
- 5. Hostal exp. Allowance (per child) - Rs.2,500 (for 3 children)
(Actual expenditure incurred Rs.2,500 p.m. per child)**
- 6. Transport allowance (Expenditure Rs.15,000 p.m.)- 19,000 p.m.**
- 7. Conveyance allowance (50% personal) - 1,500 p.m.**
- 8. Dog allowance - Rs.1,000 p.m.**

2. Computation taxable allowances of Mr.Hari Haran for the A.Y. 2020-21. Partially taxable allowance

Particulars	(Rs.)	Taxable amount (Rs.)
1. Travelling allowance (1500 x 12)	18,000	
Less: Exempted up to 750p.m. (750 x 12)	<u>9,000</u>	9,000
2. Helper allowance (1200 x 12)	14,400	
Less: Actual exp. is Exempted-(1,350x12)	<u>16,200</u>	----
3. Tribal area allowance – (2,400 x 12)	28,800	
Less: Exempted up to 200 p.m. (200 x12)	<u>2,400</u>	26,400
4. Education allowance (300 x12 x 3)	10,800	
Less: Exempted up to 100p.m.(Max. 2 Children)	<u>2,400</u>	8,400
5. Hostal exp. Allowance (2,500 x12 x 3)	90,000	
Less: Exempted up to 300p.m.(Max. 2 Children)	<u>7,200</u>	82,800

2. Computation taxable allowances of Mr.Hari Haran for the A.Y. 2020-21. Partially taxable allowance

Particulars	(Rs.)	Taxable amount (Rs.)
6. Transport allowance (19,000 x 12) Less: Exempted up to (70 % of such allowance or 10,000 p.m. Which ever is less if daily allowance not received) If they receipt of daily allowance, they can claim actual amount spent) (70 % of 2,28,000 = 1,59,600 or 10,000 x12 =1,20,000) which ever is less	2,28,000 <u>1,20,000</u>	 108,000
7. Conveyance allowance (1,500 X 12) Less: Exempted for official purpose (18,000 x50%)	18,000 <u>9,000</u>	 9,000
Fully taxable allowance		
8. Dog allowance – (Rs.1,000 x 12)		12,000
Taxable portion of Allowance		2,55,600

3. Mr. Sree Sugi receives the following allowances during the P.Y.2019-20

Particulars	(Rs.)
1. High cost of living allowance	20,000
2. City compensation allowance	7,500
3. Subsidised lunch allowance	2,800
4. Marriage allowance	1,200
5. Helper allowance (Expenditure Rs.1,200)	1,280
6. Medical allowance (Expenditure Rs.9,800)	8,200
7. Travelling allowance (Expenditure Rs.150)	650
8. Children Education allowance (Expenditure Rs.15,000)	12,000
9. Overtime allowance	500
10. Education allowance grand children	5,000
11. Entertainment allowance	13,800
12. Warden ship allowance	1,380
13. Basic Pay (Rs.2,500 p.m.)	30,000

State the tax treatment of the above allowances in the following cases: A. Mr. Sri Sugi is a Govt. Employee
B. Mr. Sri Sugi is a Govt Employee posted outside India. . C. Mr. Sri Sugi is Employee in public sector

3. A. Computation of Taxable allowances Mr. Sri sugi the A.Y.2020-21.

Fully Taxable Allowances: 1. High cost of living allowance		20,000
2. City compensation allowance		7,500
3. Subsidised lunch allowance		2,800
4. Marriage allowance		1,200
5. Overtime allowance		500
6. Education allowance grand children		5,000
7. Entertainment allowance		13,800
8. Warden ship allowance		1,380
9. Medical allowance		8,200
Partially Taxable Allowances: 10. Travelling allowance	650	
Less: Expenditure	<u>150</u>	500
11. Helper allowance	1,280	
Less: Expenditure	<u>1,200</u>	80
12. Education allowance	12,000	
Less: Expenditure (100 x 2x12)	<u>2,400</u>	<u>9,600</u>
Total taxable allowance		70,560

3. A. Computation of Taxable allowances Mr. Sri sugi the A.Y.2020-21.

Particulars	Rs.
Basic Salary	30,000
Taxable allowance	70,560
Gross Salary	1,00,560
Deduction U/S 16	
1. Standard deduction 16 (i)	50,000
2. Entertainment allowance 16 (ii) (Working Note)	5,000
3. Professional tax	<u>NIL</u>
Net taxable income from Salary	45,560
Entertainment allowance 16 (ii) - Govt . Employee only	
<u>Least of the following is Exempted</u>	
1. Rs.5,000	
2. 20% of Basic Salary (30,000 X 20%) = Rs.6,000	
3. Actual E.A received Rs.13,800	5,000

B. Any allowance received by Govt. Employees working outside India are fully exempted

3. C. Computation of Taxable allowances Mr. Sri sugi the A.Y.2020-21.

Fully Taxable Allowances: 1. High cost of living allowance		20,000
2. City compensation allowance		7,500
3. Subsidised lunch allowance		2,800
4. Marriage allowance		1,200
5. Overtime allowance		500
6. Education allowance grand children		5,000
7. Entertainment allowance		13,800
8. Warden ship allowance		1,380
9. Medical allowance		8,200
Partially Taxable Allowances: 10. Travelling allowance	650	
Less: Expenditure	<u>150</u>	500
11. Helper allowance	1,280	
Less: Expenditure	<u>1,200</u>	80
12. Education allowance	12,000	
Less: Expenditure (100 x 2x12)	<u>2,400</u>	<u>9,600</u>
Total taxable allowance		70,560

3. c. Computation of Taxable allowances Mr. Sri sugi the A.Y.2020-21.

Particulars	Rs.
Basic Salary	30,000
Taxable allowance	70,560
Gross Salary	1,00,560
Deduction U/S 16	
1. Standard deduction 16 (i)	50,000
2. Entertainment allowance 16 (ii)	NIL
3. Professional tax	<u>NIL</u>
Net taxable income from Salary	50,560
Entertainment allowance 16 (ii) - Govt . Employee only	
<u>Least of the following is Exempted</u>	
1. Rs.5,000	
2. 20% of Basic Salary (30,000 X 20%) = Rs.6,000	
3. Actual E.A received Rs.13,800	5,000

C. Employee working in Public Sector Companies E.A Fully taxable

4. Shri. Manoj receives the following emoluments during the previous year 2019-20.

Particulars	Rs.
Basic Salary	90,000
Commission 60% of Basic Salary	54,000
Entertainment Allowance (EA)	12,000
Dearness Allowance (DA) (Forming part of salary)	10,000
Determine the deduction of EA from salary if-	
1. Shri. Manoj is Government employee since 1974	
2. Shri. Manoj is an employee of RBI since April 1953 and received Entertainment allowance since then:	
3. He is employee of Cavin Ltd since 1952 and receiving Entertainment allowance since then.	

4. Computation of Taxable allowances Mr. Manoj the A.Y.2020-21.

Particulars	Rs.
Basic Salary	90,000
Commission 60% of Basic Salary	54,000
Entertainment Allowance (EA)	12,000
Dearness Allowance (DA) (Forming part of salary)	10,000
Gross Salary	1,66,000
Deduction U/S 16	
1. Standard deduction 16 (i)	50,000
2. Entertainment allowance 16 (ii) (W.N)	5,000
3. Professional tax	<u>NIL</u>
Net taxable income from Salary	<u>1,11,000</u>
W.N: Entertainment allowance – (E) Govt. Employee only	
<u>Least of the following is Exempted</u> 1. Rs.5,000	
2. 20% of Basic Salary (90,000 X 20%)= Rs.18,000	
3. Actual E.A received Rs.12,000	5,000

4 Computation of Taxable allowances Mr. Manoj the A.Y.2020-21.

Note:

1. In the case of B & C Non-Govt employee EA is included in Gross Salary, but (Including employees of statutory corporation like RBI, Railways and local authority) entertainment allowance is not deductible. So, as employee of RBI or of Cavin Ltd., the assessee is not eligible for deduction of E.A. from gross salary.

1. Length of service and the year from which a person is employed have no relevance at all in the context of entertainment allowance, as per the latest rules.

5. Determine the Taxable portion of HRA Mr. X the A.Y.2020-21.

Mr.X, resides in Chennai, gets Rs.3,00,000 p.a. as basic salary, D.A. Forming part of salary for service benefits Rs.40,000 and 2% Commission on turnover achieved by him. (Turnover achieved by him during the relevant period is Rs.3,00,000) He receives Rs.60,000 as H.R.A. Though he pays a rent of Rs.80,000p.a.

5.Computation of Taxable H.R.A of Mr.X of chennai for A.Y.2020-21.

Particulars		Rs.
H.R.A Received		60,000
Least of the following is exempted u/s 10		
1. Actual H.R.A Received	60,000	
2. Rent paid – 10% of Salary (80,000 – 3,46,000 x 10%)	45,400	
3. 50% of salary for Metro city or 40% of salary other than metro(3,46,000 x 50%)	<u>1,73,000</u>	45,400
Taxable H.R.A		14,600
Working Note: Calculation of Salary for HRA		
Salary = Basic pay + DA (SB)+ Commission on Turnover		
Salary = (3,00,000+40,000+6,000)		3,46,000

6. Determine the Taxable portion of HRA Mr. Y the A.Y.2020-21.

Mr.X, resides in Ajmer, gets Rs.48,000 p.a. as basic salary during the previous year 2019-20. He gets Rs.4,800 as D.A. Forming part of salary and 7% Commission on sales made by him. (Sales made by him during the relevant period is Rs.86,000) He receives Rs.6,000 as H.R.A. Though he pays a rent of Rs.5,800p.a. Determine the exempted and taxable HRA.

6.Computation of Taxable H.R.A of Mr.Y of Ajmer for A.Y.2020-21.

Particulars		Rs.
H.R.A Received		6,000
Least of the following is exempted u/s 10		
1. Actual H.R.A Received	6,000	
2. Rent paid – 10% of Salary (5,800 – 5,882) (58,820 x 10%)	NIL	
3. 50% of salary for Metro city or 40% of salary other than metro(58,820 x 40%)	<u>23,528</u>	NIL
Taxable H.R.A		6,000
Working Note: Calculation of Salary for HRA		
Salary = Basic pay + DA (SB)+ Commission on Turnover		
Salary = (48,000+4,800+6,020)		58,820

7. Determine the Taxable portion of HRA Mr. A the A.Y.2020-21.

Mr.A, resides in Salam is a government employee and gets the following emoluments in Previous year 2019-20. Basic salary - Rs.50,000 p.a. D.A - Rs.30,000 p.a., Bonus Rs.10,000 p.a. Medical allowance Rs.2,800 p.a. H.R.A - Rs.2,500 p.a He residing in a house, for which no rent is paid by him throughout the year

7. Determine the Taxable portion of HRA Mr. A the A.Y.2020-21.

H.R.A exempted is Nil, Since Mr.A, resides in Salam and stays in a house where does not pay any rent, HRA is fully taxable. Taxable H.R.A is Rs. 2,500 x 12 = Rs.30,000.

8. Determine the Taxable portion of HRA Mr.Z the A.Y.2020-21.

Mr.Z, who lives in Coimbatore with his family in his own house is employed in Pvt. Company. He gets basic salary Rs.2,000 p.m. D.A.- Rs.500p.m. (30% is not considered for retirement benefits), C.C.A.- Rs.200 p.m. H.R.A- Rs.4,500 p.m. From 1-12-2019 he lives in a rented house paying a rent of Rs.5,000 p.m.

8.Computation of Taxable H.R.A of Mr.Zx of Coimbtore for A.Y.2020-21

Particulars		Rs.
H.R.A Received (4,500 x 4)		18,000
Least of the following is exempted u/s 10		
1. Actual H.R.A Received	18,000	
2. Rent paid – 10% of Salary		
(5,000x4) – (9,400 x 10%)	19,060	
3. 50% of salary for Metro city or 40% of salary other than metro(9,400 x 40%)	<u>3,760</u>	3,760
Taxable H.R.A		14,240
Working Note: Calculation of Salary for HRA		
Salary = Basic pay + DA (SB)+ Commission on Turnover		
Salary = (2,000+350 x 4)		9,400

9. Determine the Taxable portion of HRA Mr.R the A.Y.2020-21.

Mr.R, who lives in Trichy, receives Rs.1,00,000 p.a. as Basic salary, and Rs.30,000 p.a. as D.A. (2/3rds of is forming part of salary), and he also receives commission Rs.1,000p.m., Bonous Rs. 15,000 p.a and H.R.A. – Rs.24,000 p.a. (Rent paid in Trichy – Rs.30,000)

**Note: Commission on purchases @ 1% (Purchases Rs.40,000)
Commission on Profits 2% (Profit Rs.50,000).**

9.Computation of Taxable H.R.A of Mr.R of Trichy for A.Y.2020-21.

Particulars		Rs.
H.R.A Received		24,000
Least of the following is exempted u/s 10		
1. Actual H.R.A Received	24,000	
2. Rent paid – 10% of Salary		
(30,000 – 12,000) (1,20,000 x 10%)	18,000	
3. 50% of salary for Metro city or 40% of salary other than metro(1,20,000 x 40%)	<u>48,000</u>	<u>18,000</u>
Taxable H.R.A		6,000
Working Note: Calculation of Salary for HRA		
Salary = Basic pay + DA (SB)+ Commission on Turnover		
Salary = (1,00,000+20,000)		1,20,000

10. Determine the Gross salary if

- a) Statutory Provident Fund**
- b) Recognised Provident Fund**
- c) Unrecognised Provident Fund**

Smitha is an employee of a partnership firm. She submits the following information. Basic salary Rs. 30,000 p.m. DA Rs.8,000 p.m. (1/4 of which is part of salary for retirement benefits) Employer's Contribution to provident fund Rs.4,000 p.m.(Smitha makes an equal contribution) Interest credited at the rate of 15% is Rs.30,000. Commission received Rs.10,000 based on turnover. Fixed commission Rs.3,000 p.m. Bonus Rs.5,000. Children hostel expenditure allowance received for 3 of her children Rs.15,000.

Case: (A) SPF & (C) URPF**10. Computation of Gross salary of Mrs. Smitha for the A.Y.2020-21**

Particulars	Rs.	Rs.
Basic Salary		3,60,000
DA (for service benefits) (8,000 x1/4 x12)	24,000	
DA (for other) (8,000 x3/4 x12)	<u>72,000</u>	96,000
Employer's Contribution to P.F. (4,000 X 12)	48,000	
Exempted	<u>48,000</u>	NIL
Interest credited to P.F	Exempt	
Commission on Turnover		10,000
Fixed Commission (3,000 x 12)		36,000
Bonus		5,000
Hostel Expenditure Allowance	15,000	
Less: Exempted (300 x 12 x 2)	<u>7,200</u>	7,800
Gross Salary		5,14,800

Case: (B) RPF 10. Computation of Gross salary of Mrs. Smitha for the A.Y.2020-21

Particulars	Rs.	Rs.
Basic Salary		3,60,000
DA (for service benefits) (8,000 x1/4 x12)	24,000	
DA (for other) (8,000 x3/4 x12)	<u>72,000</u>	96,000
Employer's Contribution to P.F. (4,000 X 12)	48,000	
Exempted (3,60,000+24,000+10,000 X 12/100)	<u>47,280</u>	720
Interest on RPF balance at 15% is	30,000	
Exempted (30,000 x9.5 /15)	<u>19,000</u>	11,000
Commission on Turnover		10,000
Fixed Commission (3,000 x 12)		36,000
Bonus		5,000
Hostel Expenditure Allowance	15,000	
Less: Exempted (300 x 12 x 2)	<u>7,200</u>	7,800
Gross Salary		5,26,520

11. Compute the Gross salary for A.Y.2020-21

**How will you treat Income tax purpose, If the contribution was to
a) SPF b) RPF c) URPF**

Mr. Rathinam left from service after 15 years and received a refund of Rs.6,00,000 from provident fund on 1-8-2019. It consist of his own contribution plus an equal contribution by his employer. Interest is Rs.75,000.

11. Compute the Gross salary for A.Y.2020-21

(a) SPF and (b) RPF In case Rathinam was contributing to SPF or RPF, the full amount of Rs.6,00,000 received is exempted

(c) In case of URPF : Employers contribution plus interest on that part is taxable under the head Salary and Employee contribution – interest is taxable under the head “Income from other sources”

Working note 1: Taxable amount of “Salary”	Rs.
Employer’s Contribution (6,00,000 - 75,000 /2)	2,62,500
Interest on Employer’s Contribution	<u>37,500</u>
Total amount taxable under the head “ Salaries”	<u>3,00,000</u>
Working note 2: Taxable amount of “IOS”	Rs.
Employee Contribution (6,00,000 - 75,000 /2)	2,62,500
Total amount taxable under the head “ Salaries” (Does not qualify for deduction u/s 80C)	2,62,500
Interest on Employee Contribution	<u>37,500</u>
Total amount taxable under the head “ IOS”	<u>37,500</u>

Retirement Benefit (Gratuity)

Gratuity Section 10(10)

Death cum retirement of gratuity

A) Government employee – Fully Exempted

B) Employee covered under the payment of gratuity act 1972

i) Actual amount of gratuity received

ii) Rs.20,00,000

iii) 15 day's of salary last drawn for every completed year of services or part there of in excess of 6 months

C) Other employees

i) Actual amount of gratuity received

ii) Rs.20,00,000

iii) Half month's of Average salary last drawn
(for each completed years of services)

12. Tax Treatment of Gratuity

- a) Shri. Selvam, a Government employee, receives Rs.2,00,000 as gratuity at the time of retirement on May 30, 2019.**
- b) Shri. Rajendran, an employee of Audco Ltd., receives Rs.3,00,000 as gratuity. He is covered by the payment of gratuity act, 1972. He retires on Nov.15,2019, after rendering service of 32 years and 7 months. At the time of retirement his monthly basic salary and DA were Rs.3,000 and 1,000 respectively.**
- c) Sathya priya, who is not covered by the payment of gratuity act, 1972. retires on December 25, 2019, from Harita Ltd. And receives Rs.5,00,000 as gratuity after service of 36 years and 9 months. Her salary is Rs.6,000 per month up to June 30,2019 and Rs.7,000 per month from July,2019. Besides, she gets D.A. Rs.1,000 p.m. (70% of which is considered for service benefits).**

12. Tax Treatment of Gratuity

- a) Gratuity received by Shri. Selvam, a Govt. Employee, is fully exempt from Tax.
- b) Gratuity received by Shri. Rajendran, an employee covered by the payment of gratuity act, 1972 is exempted up to the least of the following:
- A) Gratuity actually received Rs.3,00,000
 - B) Rs.20,00,000, being Maximum allowed as exempt
 - C) 15 days of average salary for every year of completed service
Salary = Basic pay + DA $(4,000 \times 15/26 \times 33) = \text{Rs.76,154}$
- Least of the A,B & C is exempt from tax and balance of Rs.2,23,846 (Rs.3,00,000 – Rs.76,154).

12. Tax Treatment of Gratuity

C) Gratuity received by Sathya priya who is not covered by the payment of gratuity act, 1972 is exempted up to the least of the following:

A) Gratuity actually received Rs.5,00,000

B) Rs.20,00,000, being Maximum allowed as exempt

C) Half month average salary for every year of completed service

Salary = Basic pay $(7,200/2 \times 36) = \text{Rs.1,29,600}$

Least of the A,B & C is exempt from tax and balance of Rs.3,70,400 (Rs.5,00,000 – Rs.1,29,600).

Working Note: Computation of average salary

Salary of 10 months preceding retirement	Rs.
Basic salary from (Feb to NOV 30, 2019)(6,000x5+7,000x5)	65,000
D.A (SB) 700 X 10	<u>7,000</u>
Total	<u>72,000</u>

Average = $72,000 / 10 \text{ months} = 7,200$

13. Tax Treatment of Gratuity

Mr.A, a Government employee, receives Rs.78,600 as gratuity at the time of retirement on 30-9-2019 under new pension code. Compute the exempted gratuity.

Gratuity received by Government employees is exempt from tax

14. Tax Treatment of Gratuity

Mr.B, an employee of ABC Ltd., receives Rs.2,05,000 as gratuity. He is covered by the payment of gratuity act, 1972. He retires on Sep.10, 2019, after rendering service of 35 years and 7 months. At the time of retirement his monthly basic salary Rs.2,700pm. Calculate the amount of gratuity chargeable to tax.

Gratuity received by Mr.B, an employee covered by the payment of gratuity act, 1972 is exempted up to the least of the following:

- A) Gratuity actually received Rs.2,05,000**
- B) Rs.20,00,000, being Maximum allowed as exempt**
- C) 15 days of average salary for every year of completed service**

$$\text{Salary} = \text{Basic pay} + \text{DA} \quad (2,700 \times 15/26 \times 36) = \text{Rs.56,077}$$

Least of the A,B & C is exempt from tax = Rs56,077.

Chargeable to tax Rs. 1,48,923 (Rs.2,05,000 – Rs.56,077).

15. Tax Treatment of Gratuity

Mr. Abdullah, an employee of PQR Ltd., receives Rs.68,000 as gratuity. He is covered by the payment of gratuity act, 1972. He retires on July 15th 2019, after rendering service of 36 years and 9 months. At the time of retirement his monthly basic salary Rs.3,200pm and DA (forming part) was Rs.1,000. Calculate the amount of gratuity chargeable to tax.

Gratuity received by Mr. Abdullah, an employee covered by the payment of gratuity act, 1972 is exempted up to the least of the following:

- A) Gratuity actually received Rs.68,000
- B) Rs.20,00,000, being Maximum allowed as exempt
- C) 15 days of average salary for every year of completed service
Salary = Basic pay + DA $(4,200 \times 15/26 \times 37) = \text{Rs.}89,654$

Least of the A, B & C is exempt from tax = **Rs.68000.**

Chargeable to tax is NIL (68,000 – 68,000).

16. Tax Treatment of Gratuity

Mr.A, who retired from a private concern in June 2019 after rendering service of 25 years, 10 months and 20 days, received gratuity Rs.1,55,000. His ten month average salary was Rs.10,000. calculate taxable portion of gratuity.

Gratuity received by Mr.A, an employee does not covered by the payment of gratuity act, 1972 is exempted up to the least of the following:

- A) Gratuity actually received Rs.1,55,000
- B) Rs.20,00,000, being Maximum allowed as exempt
- C) Half of average salary for every year of completed service
Salary = Basic pay + DA $(10,000 \times 1/2 \times 25) = \text{Rs.1,25,000}$

Least of the A,B & C is exempt from tax = **Rs.1,25,000.**

Chargeable to tax is Rs.30,000 (1,55,000 - 1,25,000).

17. Tax Treatment of Gratuity

Arun an employee of ABC Ltd. Received Rs.96,000 as gratuity and not covered by the payment of gratuity act, 1972. He retires from services on 31-01-2020 after 28 years and 9 months service Ltd. At the time of retirement his salary was Rs.6,300 p.m. Find out taxable gratuity.

Gratuity received by Mr.Arun, an employee does not covered by the payment of gratuity act, 1972 is exempted up to the least of the following:

- A) Gratuity actually received Rs.96,000**
- B) Rs.20,00,000, being Maximum allowed as exempt**
- C) Half of average salary for every year of completed service**
Salary = Basic pay + DA (6,300 X 1/2 X 28) = Rs.88,200
Least of the A,B & C is exempt from tax = Rs.88,200.

Chargeable to tax is Rs.7,800 (96,000 - 88,200).

18. Tax Treatment of Gratuity

Ajay working as a Manager in XYZ Ltd he retired from services on 31-12-2019 after putting 38 years of services. He Received Rs.50,000 as his gratuity and his salary is fixed at Rs.2,520 p.m. Find out taxable gratuity.

Gratuity received by Ajay, an employee does not covered by the payment of gratuity act, 1972 is exempted up to the least of the following:

- A) Gratuity actually received Rs.50,000**
- B) Rs.20,00,000, being Maximum allowed as exempt**
- C) Half month average salary for every year of completed service**

Salary = Basic pay + DA $(2,520 \times 1/2 \times 38) = \text{Rs.}47,880$

Least of the A,B & C is exempt from tax = **Rs.47,880.**

Chargeable to tax is **Rs.2,120 (50,000 - 47,880).**

Retirement Benefit (Pension)

A) Uncommuted (Monthly) Pension

Uncommuted Pension is fully taxable as salary in the hands of Government employee as well as Non-Government employee.

B) Commuted (Lump Sum) Pension

Commuted Pension is fully exempted for Government employee

Non-Government employee

- i) one third of pension is exempted if the employee receives gratuity
- ii) one half of pension is exempted if the employee does not receives gratuity

19. Compute the Gross salary for A.Y.2020-21 if

a) He is a Govt. employee

b) He is a non govt. Employee entitled to gratuity

c) He is a non govt. Employee entitled to gratuity

Vivek retired on 31st October,2019. He was entitled to a pension of Rs.4,000p.m. At the time of retirement he got $\frac{3}{4}$ of the pension commuted and received Rs.4,00,000. He was in receipt of basic salary of Rs.10,000p.m. D.A Rs.5,000 p.m. Entertainment allowance (EA) Rs.1,000p.m.

19.Computation of Gross Salary of Mr.Vivek for A.Y.2020-21.

Particulars		Rs.Govt. Employee	Rs. Non-Govt. Employee Entitled to Gratuity	Non-Govt. Employee not Entitled to Gratuity Rs.
B.Pay (April to Oct.)	10,000 x 7	70,000	70,000	70,000
D.A (April to Oct.2019)	5,000 x 7	35,000	35,000	35,000
E.A (April to Oct.2019)	1,000 x 7	7,000	7,000	7,000
Monthly Pension (Nov to March 2020)	(Rs. 4,000 x 1/4 X 5)	5,000	5,000	5,000
Computed Pension		Exempted	2,22,222	1,33,333
Gross Salary		1,17,000	3,39,222	2,50,333

Treatment of Pension and commuted pension

20. Mr. A retires from XYZ Ltd on 30-4-2019. He receives Rs.12,000 p.m. during the year 2019-20. Compute the taxable pension.

**Since Mr. A retires on 30-04-2019 pension is calculated for 11 months, (from 30-4-2019 to 31-3-2000) = 11 x 12,000
Rs.1,32,000**

23. Compute taxable amount of commuted value of pension. if
a) He is gets Gratuity b) He is does not gets Gratuity
c) He is a Government Employee

Mr. Saravanan retired on 31st Dec, 2019 and his pension is fixed at Rs.3,600p.m. He got 3/4th of pension commuted for which he received Rs. 1,80,000 from his employers.

a) Mr. Saravanan is the non-government employee receives gratuity along with pension, only 1/3 of Commuted value is exempt.

Exempted Value $(1,80,000 \times 4/3 = 2,40,000 \times 1/3 = 80,000)$

Taxable value of commuted pension

= Rs.1,80,000-80,000 = Rs.1,00,000

Monthly pension received is taxable. Monthly Pension from 1-1-2020 to 31-3-2020. Taxable monthly pension is $(3,600 \times 1/4 \times 3)$ Rs.2,700

23. Compute taxable amount of commuted value of pension. if
a) He is gets Gratuity b) He is does not gets Gratuity
c) He is a Government Employee

Mr. Saravanan retired on 31st Dec, 2019 and his pension is fixed at Rs.3,600p.m. He got 3/4th of pension commuted for which he received Rs. 1,80,000 from his employers.

b) Mr. Saravanan is the non-government employee does not receives gratuity along with pension, only 1/2 of Commuted value is exempt.

Exempted Value $(1,80,000 \times \frac{4}{3} = 2,40,000 \times \frac{1}{3} = 80,000)$

Taxable value of commuted pension

= Rs.1,80,000-80,000 = Rs.1,00,000

Monthly pension received is taxable. Monthly Pension from 1-1-2020 to 31-3-2020. Taxable monthly pension is $(3,600 \times \frac{1}{4} \times 3)$ Rs.2,700

23. Compute taxable amount of commuted value of pension. if
a) He is gets Gratuity b) He is does not gets Gratuity
c) He is a Government Employee

Mr. Saravanan retired on 31st Dec, 2019 and his pension is fixed at Rs.3,600p.m. He got 3/4th of pension commuted for which he received Rs. 1,80,000 from his employers.

Mr. Saravanan is the Government employee, Commuted value is fully exempted.

Monthly pension received is taxable. Monthly Pension from 1-1-2020 to 31-3-2020. Taxable monthly pension is $(3,600 \times 1/4 \times 3)$ Rs.2,700

24. Compute taxable amount of commuted value of pension. if
a) He is a Government Employee b) He is gets Gratuity
c) He is does not gets Gratuity

Mr. Hemakumar retired on 31st Oct, 2019. He was entitled to a pension of Rs.4,000p.m. At the time of retirement 3/4th of pension was commuted and received Rs.4,00,00. He was receipt of basic salary Rs.10,000p.m., D.A Rs.5,000p.m.,E.A. Rs.1,000pm.

a) Mr. Hemakumar is the Government employee - Commuted value of pension is exempt from tax.

Monthly pension received is taxable. Monthly Pension from 1-11-2019 to 31-3-2020. Taxable monthly pension is $(4,000 \times 1/4 \times 5)$ Rs. 5,000

24. Compute taxable amount of commuted value of pension. if
a) He is a Government Employee b) He is gets Gratuity
c) He is does not gets Gratuity

Mr. Hemakumar retired on 31st Oct, 2019. He was entitled to a pension of Rs.4,000p.m. At the time of retirement 3/4th of pension was commuted and received Rs.4,00,00. He was receipt of basic salary Rs.10,000p.m., D.A Rs.5,000p.m.,E.A. Rs.1,000pm.

a) Mr. Hemakumar is the non-government employee receives gratuity along with pension, only 1/3 of Commuted value is exempt.

Exempted Value $(4,00,000 \times 4/3 = 5,33,333 \times 1/3 = 1,77,778)$

Taxable value of commuted pension

= Rs.4,00,000-1,77,778 = Rs.2,22,222

Monthly pension received is taxable. Monthly Pension from 1-11-2019 to 31-3-2020. Taxable monthly pension is $(4,000 \times 1/4 \times 5)$ Rs.5,000

24. Compute taxable amount of commuted value of pension. if
a) He is a Government Employee b) He is gets Gratuity
c) He is does not gets Gratuity

Mr. Hemakumar retired on 31st Oct, 2019. He was entitled to a pension of Rs.4,000p.m. At the time of retirement 3/4th of pension was commuted and received Rs.4,00,00. He was receipt of basic salary Rs.10,000p.m., D.A Rs.5,000p.m.,E.A. Rs.1,000pm.

b) Mr. Hemakumar is the non-government employee receives gratuity along with pension, only 1/3 of Commuted value is exempt.

Exempted Value $(4,00,000 \times \frac{4}{3} = 5,33,333 \times \frac{1}{3} = 1,77,778)$

Taxable value of commuted pension

= Rs.4,00,000-1,77,778 = Rs.2,22,222

Monthly pension received is taxable. Monthly Pension from 1-4-2019 to 31-10-2020 = 7 x16,000 = Rs.1,12,000 + (4,000 1/4 x 5 =Rs.5,000)

Taxable monthly pension is Rs.1,17,0000

24. Compute taxable amount of commuted value of pension. if
a) He is a Government Employee b) He is gets Gratuity
c) He is does not gets Gratuity

Mr. Hemakumar retired on 31st Oct, 2019. He was entitled to a pension of Rs.4,000p.m. At the time of retirement 3/4th of pension was commuted and received Rs.4,00,00. He was receipt of basic salary Rs.10,000p.m., D.A Rs.5,000p.m.,E.A. Rs.1,000pm.

c) Mr. Hemakumar is the non-government employee receives gratuity along with pension, only 1/3 of Commuted value is exempt.

Exempted Value $(4,00,000 \times \frac{4}{3} = 5,33,333 \times \frac{1}{2} = 2,66,667)$

Taxable value of commuted pension

= Rs.4,00,000-2,66,667 = Rs.1,33,333

Monthly pension received is taxable. Monthly Pension from 1-4-2019 to 31-10-2020 = 7 x16,000 = Rs.1,12,000 + (4,000 1/4 x 5 =Rs.5,000)

Taxable monthly pension is Rs.1,17,0000

25. Mr. Reddy retired from his private company service on 30st Nov, 2019 after rendering 31 years of service. He received Rs.2,00,000 as his gratuity. His pension was fixed at Rs.1,600p.m. of which 1/2 of the amount commuted for Rs.1,00,000. Compute taxable gratuity and pension (His salary at the time of retirement was Rs.8,500 p.m.)

Computation of taxable gratuity

Gratuity received by Mr.Reddy, an employee does not covered by the payment of gratuity act, 1972 is exempted up to the least of the following:

- A) Gratuity actually received Rs.2,00,000
- B) Rs.20,00,000, being Maximum allowed as exempt
- C) Half of average salary for every year of completed service
Salary = Basic pay + DA $(8,500 \times 1/2 \times 31) = \text{Rs.1,31,750}$
Least of the A,B & C is exempt from tax = **Rs.1,31,750.**
Taxable gratuity is Rs.68,250 (2,00,000 - 1,31,750).

25. Mr. Reddy retired from his private company service on 30st Nov, 2019 after rendering 31 years of service. He received Rs.2,00,000 as his gratuity. His pension was fixed at Rs.1,600p.m. of which 1/2 of the amount commuted for Rs.1,00,000. Compute taxable gratuity and pension (His salary at the time of retirement was Rs.8,500 p.m.)

Computation of taxable Pension

Mr.Reddy is the non-government employee receives gratuity along with pension, **only 1/3 of Commuted value is exempt.**

Exempted Value $(1,00,000 \times 2/1 = 2,00,000 \times 1/3 = \text{Rs.}66,667)$

Taxable value of commuted pension

$$= \text{Rs.}1,00,000 - 66,667 = \text{Rs.}33,333$$

Monthly pension received is taxable. Monthly Pension from 1-12-2019 to 31-3-2020 = $1,600 \times 1/2 \times 4\text{months} = \text{Rs.}3,200$

Taxable monthly pension is Rs.3,200

26. Medical Reimbursement

Compute the taxable value of perquisite in respect of medical facilities availed by Miss Ramya an employee of Sham Ltd. For the A.y.2020-21.

- 1. Treatment of family members of Miss Ramya an employee in a hospital owned by the Company cost of the employer is Rs.50,000.**
- 2. Treatment of Ramya in a Govt. Hospital, expenditure to the employer Rs.40,000.**
- 3. Treatment of Ramya's mother in a hospital (approved), cost to the employer Rs.60,000.**
- 4. Treatment of Ramya's father in a Private hospital, cost to the employer as reimbursement Rs.30,000.**

27. Medical Reimbursement

Compute the taxable value of perquisite in respect of medical facilities availed by Miss Ramya an employee of Sham Ltd. For the A.y.2020-21.

- 1. Expenditure on Medical Treatment of dependent family members in a hospital owned by the employer is tax free.**
- 2. Expenditure on Treatment of employee in a Govt. Hospital tax free.**
- 3. Expenditure on Treatment of dependent mother is an "Approved hospital" is tax free.**
- 4. Reimbursement of Medical Expenditure for Treatment of dependent father in a Private hospital is taxable. Therefore taxable value of perquisite in respect of Medical facilities availed is Rs.30,000. Taxable in the hands of employee only.**
- 5. (Medical allowance taxable Rs.30,000.**

Retirement Benefit (Leave Encashment)

Leave encashment

A) Government employee - Exempted

B) Non-government employee

Least of the following is Exempted

i) Actual amount of leave encashment

ii) Rs.3,00,000

iii) 10 month average salary

iv) Cash equivalent of leave salary

credit at the rate of one month every year of completed services.

28. Shri Narasimhan retired from service after rendering a period of service of 32 years and 9 months . At the time of retirement, he received Rs.2,50,000 as leave salary from his employer. The following information is provided by the employee:

Salary at the time of retirement Rs.10,000

Leave availed while in service - 20months

Average salary per month from Jan to Nov - 2019, Rs.9,800

Leave entitlement is 1 1/2 months for every completed year of service. Date of retirement, 31st Dec 2019.

Compute the amount of taxable leave encashment and Gross salary if Narashimhan is a

1. Govt. employee

2. Non-govt. employee.

Computation of Salary Income of Mr.Narasimhan AY:2020-21.

Particulars	Govt. employee	Non-Govt. employee
Salary (April 2019 -Dec.2019) (9,800 x8 +10,000)	88,400	88,400
Leave encashment (2,50,000 - 98,200)	-----	1,51,800
Gross Salary	88,400	2,40,200

Working Note: Exempted value of Leave encashment in the hands of Non-Government employees is least of the following

- 1. Actual amount of leave encashment - Rs.2,50,000**
- 2. Permitted maximum amount exempted - Rs.3,00,000**
- 3. 10 months average salary 9,800x9 + 10,000 - Rs.98,200 (least)**
- 4. Cash equivalent to leave at credit at the rate of one month for every year of completed service (32-20 = 12 x 9,820) - Rs. 1,7,840**

Note: Leave at the credit is: one month for every completed year of service - leave availed =32months -20months

29. Mr. Sharma retires on 30-09-2019 after 20 years of service and received Rs.96,000 as leave encashment for 12 months. His employer allows him 1 1/2 month leave for every one year of service. He has already encashed leave for 18 months. His salary for 2018-19 was Rs.6,000 and from 1-4-2019 it was raised to Rs.8,000 p.m.

Compute the amount of taxable leave encashment and Gross salary if Mr.Sharma is a

- 1. Govt. employee**
- 2. Non-govt. employee.**

Computation of Salary Income of Mr.Sharma AY:2020-21.

Particulars	Govt. employee	Non-Govt. employee
Salary (April 2019 - 30-9-2019) (8,000x6)	48000	48,000
Leave encashment (96,000 - 14,400)	-----	81,600
Gross Salary	88,400	1,29,600

Working Note: Exempted value of Leave encashment in the hands of Non-Government employees is least of the following

1. Actual amount of leave encashment - **Rs.96,000**
2. Permitted maximum amount exempted - **Rs.3,00,000**
3. 10 months average salary $9,800 \times 9 + 10,000$ - **Rs.72,000**
 $(8,000 \times 6 + 6,000 \times 4) = 72,000$ (Avg. salary $72,000/10 = 7,200$)
4. Cash equivalent to leave at credit at the rate of one month for every year of completed service $(20-18 = 2 \times 7,200)$ - **Rs. 1,4,400 (least)**

Note: Leave at the credit is: one month for every completed year of service - leave availed (20months - 18months = 2months)

30. Mr. Vijayan retires from his employment after rendering service of 23 years and 8 months. At the time of retirement he received Rs.4,00,000 as leave salary. His salary at the time of retirement was Rs.14,000 p.m. He was entitled to take 40 days of leave for every year but he availed only 4 months leave in his service. Calculate taxable leave salary.

Computation of taxable Leave encashment of Mr.Vijayan AY:2020-21.

Particulars		Non-Govt. employee
Leave encashment received		4,00,000
Less: Exempted (W.N)		1,40,000
Taxable Leave Salary		2,60,000

Working Note: Exempted value of Leave encashment in the hands of Non-Government employees is least of the following

1. Actual amount of leave encashment - **Rs.4,00,000**
2. Permitted maximum amount exempted - **Rs.3,00,000**
3. 10 months average salary (Rs.14,000x10) - **Rs.1,40,000** (least)
4. Cash equivalent to leave at credit at the rate of 40 days for every year of completed service (23-4 = 19 x 14,000) - **Rs. 2,66,000**

Note: Leave at the credit is: one month for every completed year of service - leave availed (20months - 23months = 4months)

31. Mr. Sridhar, employee of ABC Ltd., received Rs.36,000 as leave salary at the time of retirement 31-1-2020. On the basis of the following information, determine the amount of taxable leave salary. Basic pay Rs.3,000 p.m. since 2017. Duration of service 22 years and 8 month. Leave to his credit at the time of retirement is 12 months on the basis of 45 days entitlement of leave for encash completed year of service.

Computation of taxable Leave encashment of Mr.Sridhar AY:2020-21.

Particulars		Non-Govt. employee
Leave encashment received		36,000
Less: Exempted (W.N)		3,000
Taxable Leave Salary		33,000

Working Note: Exempted value of Leave encashment in the hands of Non-Government employees is least of the following

1. Actual amount of leave encashment - **Rs.36,000**
2. Permitted maximum amount exempted - **Rs.3,00,000**
3. 10 months average salary (Rs.3,000x10) - **Rs.30,000**
4. Cash equivalent to leave at credit at the rate of 45 days for every year of completed service (22-21 = 1 x 3,000) - **Rs. 3,000 (least)**
Leave encashed during the service (22 x 1.5 = 33 -12 = 21 months)
Leave to the credit on retirement (2 -21 = 1month)

Perquisites – Rent Free Accommodation

A) Valuation of unfurnished Accommodation

- i) Central Government – licence fee fixed by Governmnet
- ii) Other employees:

Population of the City	Where the Accommodation is owned by employer	Where the Accommodation is not owned by employer
Population is below 10 lakhs	7.5% of Salary	Actual Rent Paid by employer or 15% of Salary (w.e.l)
Population is exceeds 10 lakhs but less than 25 lakhs	10% of Salary	Actual Rent Paid by employer or 15% of Salary (w.e.l)
Population is exceeds 25 lakhs	15% of Salary	Actual Rent Paid by employer or 15% of Salary (w.e.l)

B) Valuation of Furnished Accommodation - Add: 10% of Cost of furnishing

Perquisites – Rent Free Unfurnished Accommodation - Govt. employee

31. Shri. Raghavan, an officer of the Government of Tamilnadu, draws Rs.10,000 per month as basic salary. The Government has provided him a rent free unfurnished house whose market rent is Rs.2,000 per month though as per Government rules licence fees of the house is Rs.500 per month. Determine the value of the perquisite in respect of the rent free house.

Since Raghavan is a Govt. employee

Value of rent free house would be Rs.6000 (500 x12)

being the licence fee of the house is, as per the govt. rules.

Market rental value of the house is to be ignored.

Perquisites – Rent Free Furnished Flat - Govt. employee

32. Venugopal is an employee of A.P.Govt. During the previous year ending March 31, 2019, he has been allotted a rent-free furnished flat at Hyderabad. Though the licence fee of the flat, as per the govt. rules, is Rs.2,200 per annum, its fair market rent is not less than Rs.15,000 per annum. Some the household appliances provided to Venugopal are owned by the employer (Cost price of which is Rs.40,000) Written down value of the same is Rs.5,000. Employer pays Rs.20,000 as hire charges for two air conditions installed throughout the previous year. Compute the value of the perquisite.

As Venugopal is a Govt. employee, valuation of the perquisite in respect of rent free furnished flat would be as follows:

	Rs.
Valuation of Unfurnished flat (Licence fee)	2,200
Add: Value of furniture: 10% of household furniture owned by employer (40,000 x10%)	4,000
Hire charges of furniture	<u>20,000</u>
Perquisite value in respect of rent free furnished flat.	<u>26,200</u>

Note: Depreciation should be always be on original cost of furniture and other household furnished flat.

Perquisites – RFA - Non Govt. Employee (House is owned by company)

33. Venugopal is an employee of A.P.Govt. During the previous year ending March 31, 2019, he has been allotted a rent-free furnished flat at Hyderabad. Though the licence fee of the flat, as per the govt. rules, is Rs.2,200 per annum, its fair market rent is not less than Rs.15,000 per annum. Some the household appliances provided to Venugopal are owned by the employer (Cost price of which is Rs.40,000) Written down value of the same is Rs.5,000. Employer pays Rs.20,000 as hire charges for two air conditions installed throughout the previous year. Compute the value of the perquisite.

As Venugopal is a Govt. employee, valuation of the perquisite in respect of rent free furnished flat would be as follows:

	Rs.
Valuation of Unfurnished flat (Licence fee)	2,200
Add: Value of furniture: 10% of household furniture owned by employer (40,000 x10%)	4,000
Hire charges of furniture	<u>20,000</u>
Perquisite value in respect of rent free furnished flat.	<u>26,200</u>

Note: Depreciation should be always be on original cost of furniture and other household items. So W.D.V is not relevant.

Perquisites – RFA - Non Govt. Employee (House is owned by company)

34. Visvanathan an employee of a Ltd. Company, working at Madurai (Population 18lakhs) draws Rs.60,000 as basic salary. Rs.5,000 as D.A.(forming part of salary) and Rs. 6,000 as commission. The company provides a rent free furnished house to him. The house is owned by the company Fair rent of the accommodation is Rs.5,000 per annum. Income tax, Gas, Water and Electricity bills paid by employer Rs.4,000 and Rs.6,000 respectively. Determine the taxable value of the perquisite.

Computation of perquisite value of Rent free accommodation of Non-Govt. employee - Accommodation owned by employer.

	Rs.
Basic Salary	60,000
D.A (Forming part of salary)	5,000
Commission	<u>6,000</u>
Salary for computation of perquisite	<u>71,000</u>

Perquisite value at 10% (71,000 x 10%) = Rs.7,100

Note:

1. Salary - B.P + All type of allowance + Bonus + Commission + D.A (form/service benefit)
2. As accommodation is owned by employer is situated in a city having population exceeding 10 lakhs but does not exceeding 25lakhs the 10% of salary is taxable value of the perquisite.
3. Fair rent of accommodation is ignored in respect of accommodation is owned by employer
4. Income tax, Gas, Water and Electricity bills are perquisites hence not taken for RFA

Perquisites – RFA - Non Govt. Employee (House is owned by company)

35. Pandian an employee of the company at Delhi, (Population above 25lakhs) is in receipt of the monthly salary of Rs.3,000 during the previous year 2019-20. He is also entitled for Bonus equal to 2 months salary and entertainment allowance of Rs.300 p.m. (W.E.F. 1-4-64). He is provided with a rent free unfurnished accommodation owned by the company. Annual rental value of the same type of accommodation in the same locality is Rs.10,000.

Find out: 1. Perquisite value of the rent free accommodation

2. What will be the perquisite value if Pandian is an employee of SBI

1.Computation of perquisite value of Rent free accommodation of Non-Govt. employee - Accommodation owned by employer.

	Rs.
Basic Salary (3,000 x 12)	36,000
Bonus (3,000 x 2)	6,000
Entertainment Allowance	<u>3,600</u>
Salary for computation of perquisite	<u>45,600</u>

Perquisite value at 10% (45,600 x 15%) = Rs.6,840

2, Perquisite RFA is Rs.6,840, even if Pandian is an employee of SBI

Note: 1. Salary - B.P + All type of allowance + Bonus + Commission + D.A (service benefit)

2. As accommodation is owned by employer is situated in a city having population exceeding 25 lakhs the 15% of salary is taxable value of the perquisite.

3.EA is fully taxable in the hands of Non-govt. employee

Perquisites – RFA - Non Govt. Employee (House is owned by company)

36. Sri Varadhan, an employee of T.V.S Ltd., draws Rs.80,000 as basic pay, Rs.30,000 as D.A. (Half of which forms part of salary) and Rs.7,000 as bonus. Besides, the company provides a rent free unfurnished house in Pudukkottai (population 8 lakhs) where he is presently posted. The house is owned by the company. Determine the taxable value of the Perquisite if fair rent of the house is Rs,20,000 per annum.

Computation of perquisite value of Rent free accommodation of Non-Govt. employee - Accommodation owned by employer.

	Rs.
Basic Salary	80,000
D.A (30,000 X 50%) forming part of salary	15,000
Bonus	<u>7,000</u>
Salary for computation of perquisite	<u>1,02,000</u>
Perquisite value at 7.5% (1,02,000 x 7.5%) = Rs. 7,650	

- Note:** 1. Salary - B.P + All type of allowance + Bonus + Commission + D.A (service benefit)
2. As accommodation is owned by employer is situated in a city having population does not exceeding 10 lakhs the 7.5% of salary is taxable value of the perquisite.
3. Fair rent of the house has no relevance in the case of house owned by employer.

Case: (A) SPF & (C) URPF**10. Computation of Gross salary of Mrs. Smitha for the A.Y.2020-21**

Particulars	Rs.	Rs.
Basic Salary		3,60,000
DA (for service benefits) (8,000 x1/4 x12)	24,000	
DA (for other) (8,000 x3/4 x12)	<u>72,000</u>	96,000
Employer's Contribution to P.F. (4,000 X 12)	48,000	
Exempted	<u>48,000</u>	NIL
Interest credited to P.F	Exempt	
Commission on Turnover		10,000
Fixed Commission (3,000 x 12)		36,000
Bonus		5,000
Hostel Expenditure Allowance	15,000	
Less: Exempted (300 x 12 x 2)	<u>7,200</u>	7,800
Gross Salary		5,14,800

14. Perquisites

Medical Reimbursement

1. Rent free unfurnished accommodation –Govt. employee.

Shri Rajendran, an officer of the government employee, draws Rs.10,000 per month as basic pay. The Government has provided him a rent free unfurnished house whose market rent is Rs.2,000 per month though as per Government rules licence fees of the house is Rs.500 per month. Determine the value of the perquisite in respect of the rent free house.

Solution:

Since Shri. Rajendran is a Govt. employee

Being the licence fee of the house, as per Govt. Rules.

Market Rental Value of the house is to be ignored.

14. Perquisites

Medical Reimbursement

1. Rent free unfurnished accommodation –Govt. employee.

Shri Rajendran, an officer of the government employee, draws Rs.10,000 per month as basic pay. The Government has provided him a rent free unfurnished house whose market rent is Rs.2,000 per month though as per Government rules licence fees of the house is Rs.500 per month. Determine the value of the perquisite in respect of the rent free house.

Solution:

Since Shri. Rajendran is a Govt. employee

Being the licence fee of the house, as per Govt. Rules.

Market Rental Value of the house is to be ignored.

14. Perquisites

Medical Reimbursement

1. Rent free unfurnished accommodation –Govt. employee.

Shri Rajendran, an officer of the government employee, draws Rs.10,000 per month as basic pay. The Government has provided him a rent free unfurnished house whose market rent is Rs.2,000 per month though as per Government rules licence fees of the house is Rs.500 per month. Determine the value of the perquisite in respect of the rent free house.

Solution:

Since Shri. Rajendran is a Govt. employee

Being the licence fee of the house, as per Govt. Rules.

Market Rental Value of the house is to be ignored.

14. Perquisites

Medical Reimbursement

1. Rent free unfurnished accommodation –Govt. employee.

Shri Rajendran, an officer of the government employee, draws Rs.10,000 per month as basic pay. The Government has provided him a rent free unfurnished house whose market rent is Rs.2,000 per month though as per Government rules licence fees of the house is Rs.500 per month. Determine the value of the perquisite in respect of the rent free house.

Solution:

Since Shri. Rajendran is a Govt. employee

Being the licence fee of the house, as per Govt. Rules.

Market Rental Value of the house is to be ignored.

14. Perquisites

Medical Reimbursement

1. Rent free unfurnished accommodation –Govt. employee.

Shri Rajendran, an officer of the government employee, draws Rs.10,000 per month as basic pay. The Government has provided him a rent free unfurnished house whose market rent is Rs.2,000 per month though as per Government rules licence fees of the house is Rs.500 per month. Determine the value of the perquisite in respect of the rent free house.

Solution:

Since Shri. Rajendran is a Govt. employee

Being the licence fee of the house, as per Govt. Rules.

Market Rental Value of the house is to be ignored.

14. Perquisites

Medical Reimbursement

1. Rent free unfurnished accommodation –Govt. employee.

Shri Rajendran, an officer of the government employee, draws Rs.10,000 per month as basic pay. The Government has provided him a rent free unfurnished house whose market rent is Rs.2,000 per month though as per Government rules licence fees of the house is Rs.500 per month. Determine the value of the perquisite in respect of the rent free house.

Solution:

Since Shri. Rajendran is a Govt. employee

Being the licence fee of the house, as per Govt. Rules.

Market Rental Value of the house is to be ignored.

Working Note: Commuted value a) He is a Govt. employee

Committed value in case of Govt. Employee is fully exempted

b) He is a non govt. Employee entitled to gratuity

1/3 of committed value is exempted

Full value 4,00,000 x4/3 = Rs.5,33,333

Less: Exempted 5,33,333x1/3 = Rs.1,77,778

Taxable value of pension = Rs.2,22,222

c) He is a non govt. Employee entitled to gratuity

1/2 of committed value is exempted

Full value 4,00,000 x4/3 = Rs.5,33,333

Less: Exempted 5,33,333x1/2 = Rs.2,66,667

Taxable value of pension = Rs.1,33,333

1. From the following statement, Compute the income of Profession of Dr.S.K.kapoor if the accounts are maintained on Cash / receipts system:

Particulars	Rs.	Particulars	Rs.
To Visiting fees	45,000	By Dispensary rent	36,000
To Consultation fees	1,25,00	By Electricity charges	6,000
To Sale of Medicines	72,000	By Telephone Expenses	6,000
To Dividends	5,000	By Salary to Nurse and compounder	36,000
		By Dep. On Surgical equipment	6,000
		By Purchase of Medicines	38,000
		By Depreciation on X-ray Machine	4,000
		By Income Tax	5,500
		By Donation to Rama Krishna Mission	4,000
		By Motor Car expenses	9,600
		By Depreciation on Car	4,800
		By Balance c/d	91,100
	2,47,000		2,47,000

Other Information's:

1. Electricity & Water charges include domestics bill of Rs.2,500
2. Half of Motor Car Expenses are for Professional use
3. Telephone expenses include 40% for Personal use
4. Opening stock of medicines was Rs.6,000 & Closing stock was Rs.4,000.

Note: Purchase value Medicines only is taken for cost of Medicines, if cash basis is followed to maintain books. If **Mercantile basis** (cash as well as credit) Cost of Medicines sold is **Opening stock + Purchase - Closing Stock.**

1. Computation of Professional Income (on cash basis) of Dr.S.K.Kapoor.

Particulars:	(Rs.)	(Rs.)
Professional Receipts:		
Visiting fees	45,000	
Consultation fees	1,25,000	
Sale of Medicines	<u>72,000</u>	2,42,000
Less: Professional Expenses:		
Dispensary Rent	36,000	
Electricity & Water charges (6,000 – 2,500)	3,500	
Telephone expenses (6,000 x 60%)	3,600	
Salary to Staff	36,000	
Depreciation on surgical equipment	6,000	
Purchase of Medicines	38,000	

Particulars	(Rs.)	(Rs.)
Depreciation on X-ray machine	4,000	
Motor Car Expenses (9,600 – 4,800)	4,800	
Depreciation on Car (4,800 - 2,400)	<u>2,400</u>	<u>1,34,300</u>
Professional Gain		<u>1,07,700</u>
Note: 1. Electricity & Water charges (6,000 – 2,500)	3,500	
2. Telephone expenses (6,000 x 60%)	3,600	
3. Motor Car Expenses (9,600 – 4,800)	4,800	
4. Depreciation on Car (4,800 - 2,400)	<u>2,400</u>	
5. Opening and Closing stock of Machines has been ignored and Machine Purchase has been treated as expense because Professional income is required to be calculated on cash basis .		

1. Computation of Professional Income of Dr.S.K.Kapoor.

Particulars:	(Rs.)	(Rs.)
Professional Receipts:		
Visiting fees	45,000	
Consultation fees	1,25,000	
Sale of Medicines	<u>72,000</u>	2,42,000
Less: Professional Expenses:		
Dispensary Rent	36,000	
Electricity & Water charges (6,000 – 2,500)	3,500	
Telephone expenses (6,000 x 60%)	3,600	
Salary to Staff	36,000	
Depreciation on surgical equipment	6,000	
Purchase of Medicines (6,000 + 38,000 -4,000)	40,000	

Particulars	(Rs.)	(Rs.)
Depreciation on X-ray machine	4,000	
Motor Car Expenses (9,600 – 4,800)	4,800	
Depreciation on Car (4,800 - 2,400)	<u>2,400</u>	<u>1,36,300</u>
Professional Gain		<u>1,05,700</u>
Note: 1. Electricity & Water charges (6,000 – 2,500)	3,500	
2. Telephone expenses (6,000 x 60%)	3,600	
3. Motor Car Expenses (9,600 – 4,800)	4,800	
4. Depreciation on Car (4,800 - 2,400)	<u>2,400</u>	
5. Purchase value Medicines only is taken for cost of Medicines, if cash basis is followed to maintain books. If Mercantile basis (cash as well as credit) Cost of Medicines sold is Opening stock + Purchase – Closing Stock.		

2. Dr. Satish is a Medical Practitioner. He gives you following summary of cash book for the year ending 31-3-32020.

Particulars	Rs.	Particulars	Rs.
To Balance b/d	10,000	By Rent of clinic	18,000
To Consultation fees	60,000	By Purchase of Medicine	38,000
To Visiting fees	45,000	By Staff Salaries	24,000
To Gifts and Presents	8,000	By Surgical equipment	40,000
To Sale of Medicines	42,000	By Motor Car expenses	8,000
To Dividend from UTI	6,000	By Purchase of Motor Car	1,40,000
To Life Insurance Maturity	1,00,000	By Household expenses	7,000
To Dividend from N.D.S	6,000	By Balance c/d	2,000
	2,77,000		2,77,000

Other Information's:

1. Household expenses include Rs.6,800 Insurance Premium.
2. 50% of Motor Car Expenses incurred in connection with profession. Car was Purchased in December 2019.
3. Gift and Present Include Rs.3,000 from relatives.
4. Opening stock of medicines was Rs.4,000 & Closing stock was Rs.12,000

2.Computation of Professional Income (on cash basis) of Dr.Satish.

Professional Receipts:	(Rs.)	(Rs.)
Visiting fees	45,000	
Consultation fees	60,000	
Gifts and Presents (8,000 -3,000)	5,000	
Sale of Medicines	<u>42,000</u>	1,52,000
Less: Professional Expenses:		
Rent of clinic	18,000	
Purchase of Medicines	38,000	
Staff Salaries	24,000	
Depreciation on surgical equipment (40,000 x 15%)	6,000	
Motor Car expenses (8,000 x 50%)	4,000	
Depreciation on car (1,40,000 x 15% x 1/2 x 1/2)	<u>5,250</u>	<u>95,250</u>
Professional Gain		<u>56,750</u>

Particulars

Note

1. Gifts and Presents $(8,000 - 3,000) = \text{Rs.}5,000$
2. Depreciation on surgical equipment $(40,000 \times 15\%) = \text{Rs.}6,000$
3. Motor Car Expenses $(8,000 \times 50\%) = \text{Rs.}4,000$
4. Depreciation on Car (Car is used less than 180 days. Half of the Depreciation is calculated $(1,40,000 \times 15\% \times \frac{1}{2} \times \frac{1}{2}) = \text{Rs.}5,250$)
5. Purchase value Medicines only is taken for cost of Medicines, if cash basis is followed to maintain books. If **Mercantile basis** (cash as well as credit) Cost of Medicines sold is **Opening stock + Purchase - Closing Stock.**

2.Computation of Professional Income of Dr.Satish for the A.Y.2020-2021.

Professional Receipts:	(Rs.)	(Rs.)
Visiting fees	45,000	
Consultation fees	60,000	
Gifts and Presents (8,000 -3,000)	5,000	
Sale of Medicines	<u>42,000</u>	1,52,000
Less: Professional Expenses:		
Rent of clinic	18,000	
Purchase of Medicines (4,000 +38,000 -12,000)	30,000	
Staff Salaries	24,000	
Depreciation on surgical equipment (40,000 x 15%)	6,000	
Motor Car expenses (8,000 x 50%)	4,000	
Depreciation on car (1,40,000 x 15% x 1/2 x 1/2)	<u>5,250</u>	<u>87,250</u>
Professional Gain		<u>64,750</u>

Particulars

Note

1. Gifts and Presents $(8,000 - 3,000) = \text{Rs.}5,000$
2. Depreciation on surgical equipment $(40,000 \times 15\%) = \text{Rs.}6,000$
3. Motor Car Expenses $(8,000 \times 50\%) = \text{Rs.}4,000$
4. Depreciation on Car (Car is used less than 180 days. Half of the Depreciation is calculated $(1,40,000 \times 15\% \times \frac{1}{2} \times \frac{1}{2}) = \text{Rs.}5,250$)
5. Purchase value Medicines only is taken for cost of Medicines, If **Mercantile basis** (cash as well as credit) Cost of Medicines sold is **Opening stock + Purchase - Closing Stock.**

3. Dr.Nagendra is a renowned Medical Practitioner who maintains books of accounts on Cash basis furnishes receipts and payments for the P.Y.2019-20.

Receipts	Rs.	Payments	Rs.
To Balance b/d	14,000	By Electricity and water bill	2,000
To Consultation fees		By Rent from clinic	
2017-18 - 3,000		2017-18 - 600	
2018-19- 15,000		2018-19- 4,800	
2019-20 - <u>2,000</u>	20,000	2019-20 - <u>600</u>	6,000
To Visiting fees	30,000	By Purchase of Professional Books	4,000
To Sale of Medicines	60,000	By Household expenses	7,800
To Dividend	10,000	By Collection charges and Dividend	100
To Loan from Bank	25,000	By Surgical equipment Purchased	4,800
To Gifts and Presents	5,000	By Motor Car Purchased	30,000

3. Dr.Nagendra is a renowned Medical Practitioner who maintains books of accounts on Cash basis furnishes receipts and payments for the P.Y.2019-20.

Receipts	Rs.	Payments	Rs.
To Interest on Post-office Saving a/c	7,000	By Income Tax	10,000
To Remuneration from Journal	6,000	By Salary to staff	15,000
		By Life Insurance Premium	15,000
		By Car expenses	15,000
		By Interest on loan (for Profession)	2,000
		By Gift to wife	5,000
		By Purchase of Medicine	40,000
		By Balance c/d	20,300
	1,77,000		1,77,000

Compute the taxable Professional Income for the A.Y.2020-21 after considering the following:

1. 1/3 of the use of car relates to his personal use
2. Depreciation on car is to be allowed @15% and on Books @ 40%
3. Gift include Rs.3,000 from patients and Rs.2,000 from relatives
4. Closing stock of Medicine is Rs.5,500.

3.Computation of Professional Income (on cash basis) of Dr.Nagendra.

Professional Receipts:	(Rs.)	(Rs.)
Consultation fees	20,000	
Visiting fees	30,000	
Gifts from patients	3,000	
Remuneration from Journals	6,000	
Sale of Medicines	<u>60,000</u>	1,19,000
Less: Professional Expenses:		
Rent of clinic	6,000	
By Electricity and water	2,000	
Salary to Staff	15,000	
Depreciation on surgical equipment (4,800 x 15%)	720	
Depreciation on Car (30,000 x 15% x 2/3)	3,000	
Depreciation on Professional Books (4,000 x 40%)	<u>1,600</u>	

3.Computation of Professional Income (on cash basis) of Dr.Nagendra.

Professional Receipts:	(Rs.)	(Rs.)
Car expenses (15,000 x 2/3)	10,000	
Interest on loan	2,000	
Medicines	<u>40,000</u>	<u>80,320</u>
Professional Gain		<u>38,680</u>

- Note:** 1. Gifts from Patients Rs. 3,000 & Gift from relatives have been ignored
2. Depreciation on surgical equipment (4,800 x 15%) = Rs.720
3. Depreciation on Car (30,000 x 15% x 2/3) = Rs.3,000
4. Depreciation on Professional Books (4,000 x 40%) = Rs.1,600
5. Motor Car Expenses (15,000 x 2/3) = Rs.10,000 considered
(1/3 Personal use have been ignored)
6. Opening and Closing stock of Machines has been ignored and
Machine Purchase has been treated as expense because
Professional income is required to be calculated on **cash basis**.

4. Dr.Pratibha a renowned Medical Practitioner , furnishes receipts and payments account for year ended 31st March 2019.

Receipts	Rs.	Payments	Rs.
To Balance b/d	12,970	By Cost of Medicines	6,000
To Consultation fees	9,000	By Rent from clinic	3,000
To Visiting fees	15,000	By Subscription to Medical Magazine	100
To Sale of Medicines	13,500	By Surgical equipments	900
To Dividend (gross)	1,580	By Car Purchased	30,000
To GST on sale of Medicines	500	By LIC Premium	2,000
To Gifts and Presents	4,000	By Gift to daughter	1,000
To Profit on sale of Securities	1,000	By Car expenses	3,000
To Interest on Govt. Sec.	800	By Sales tax	500
To Interest on P.O.SB a/c	150	By Donation to School	3,000
To Interest on F.D a/c	1,500	By Salary to compounder	2,000
		By Balance c/d	8,500
	60,000		60,000

Compute the taxable Professional Income for the A.Y.2020-21 after considering the following:

- 1. 1/3 of car expenses are attributed to personal use**
- 2. Depreciation allowable on car is 15% and Surgical equipment is 15%**

4.Computation of Professional Income of Dr.Pratibha.

Professional Receipts:	(Rs.)	(Rs.)
Consultation fees	9,000	
Visiting fees	15,000	
Gifts from patients	4,000	
GST on Sale of Medicines	500	
Sale of Medicines	<u>13,500</u>	42,000
Less: Professional Expenses:		
Rent of clinic	3,000	
Cost of Medicine	6,000	
Subscription to Medical Magazine	100	
Depreciation on surgical equipment (900 x 15%)	135	
GST on medicines	500	

4.Computation of Professional Income Dr.Pratibha.

Professional Receipts:	(Rs.)	(Rs.)
Depreciation on Car ($30,000 \times 15\% \times 2/3$)	3,000	
Salary to compounder	2,000	
Car expenses ($3,000 \times 2/3$)	<u>2,000</u>	<u>16,735</u>
Professional Gain		<u>25,265</u>

Note:

1. Gifts from Patients Rs. 4,000 considered
2. Depreciation on surgical equipment ($900 \times 15\%$) = Rs.135
3. Depreciation on Car ($30,000 \times 15\% \times 2/3$) = Rs.3,000
4. Motor Car Expenses ($3,000 \times 2/3$) = Rs.2,000 considered
(1/3 Personal use have been ignored)

Particulars

Note

1. Gifts and Presents $(8,000 - 3,000) = \text{Rs.}5,000$
2. Depreciation on surgical equipment $(40,000 \times 15\%) = \text{Rs.}6,000$
3. Motor Car Expenses $(8,000 \times 50\%) = \text{Rs.}4,000$
4. Depreciation on Car (Car is used less than 180 days. Half of the Depreciation is calculated $(1,40,000 \times 15\% \times \frac{1}{2}) = \text{Rs.}5,250$
5. Opening and Closing stock of Machines has been ignored and Machine Purchase has been treated as expense because Professional income is required to be calculated on **cash basis**.

5. Mr. Manoj an advocate, furnishes the following receipts and payments for the P.Y.2019-20.

Receipts	Rs.	Payments	Rs.
To Balance b/d	6,540	By Telephone	3,000
To Legal fees	84,400	By Rent	2,400
To Salary (Part-time law lecturer)	3,600	By Subscription of law journal	240
To Interest on Debenture (Not listed)	2,700	By Purchase of stamp paper and Court fee stamps	1,600
To Gift from client	10,000	By Office expenses	600
To Rent	6,000	By Travelling	560
To Interest on foreign security	8,000	By Interest on loan	870
To Refund of company Deposit	2,000	By Donation to school	5,000

Receipts	Rs.	Payments	Rs.
		By LIC Premium	6,000
		By Salaries	2,400
		By Income tax paid	8,420
		By Municipal tax	600
		By Wealth tax (2014-15)	1,600
		By Balance c/d	89,950
	1,23,240		1,23,240

- 1. The loan was borrowed for constructing his residential houses. Its rental value is Rs.300 per months.**
- 2. School is recognised for I.T Purposes**
- 3. Gift from clients include Rs.2,000 received from father. Compute the taxable Professional Income for the A.Y.2020-21.**

5.Computation of Professional Income of Mr.Manoj for the A.Y. 2020.21

Professional Receipts:	(Rs.)	(Rs.)
Legal fees	84,400	
Gifts from clients (10,000 – 2,000)	<u>8,000</u>	92,400
Less: Professional Expenses:		
Rent	2,400	
Telephone	3,000	
Salaries	2,400	
Travelling expenses	560	
Office expenses	600	
Subscription to law journals	240	
Purchase of stamp paper and fee	<u>1,600</u>	<u>10,800</u>
Professional Gain		<u>81,600</u>

Particulars

Note

1. Gifts from clients is income from profession (includes Rs.2000 from his father is personal) **(10,000 - 2,000) = Rs.8,000**
2. **Lic Premium, Income tax paid, Municipal tax, Wealth tax (2014-15)**
Personal expenditure is ignored
3. **Salary as part time lecturer is income under the head Salary**
4. **Donation to School is ignored**
5. **Interest on loan is not specified for profession hence ignored**

6. Mr.Kumar a lawyer by proression Keeps his cash book as per cash system of accouting. The following is the summary of his cash book for the year ended 31-3-2020

Receipts	Rs.	Payments	Rs.
To Balance b/d	5,000	By Rent of Chamber	2,400
To Fees	35,000	By Car expenses	3,600
To Remuneration as examiner	3,000	By Household expenses	12,000
To Interest on Bank deposits	2,500	By Local tax for house	1,200
To Rent from House Property	8,000	By Repairs of house	4,000
To Dividends	1,600	By LIC Premium for self	4,800
		By Cost of Journals	4,000
		By Medical treatment for self	5,000
		By Balance c/d	18,100
	55,100		55,100

Other Information's:

1. $\frac{1}{3}$ of the house used by Kumar for his own residence.
 2. $\frac{1}{2}$ of Car Expenses relate to personal use of the car by Kumar.
 3. Kumar is insured for Rs.40,000.
 4. Kumar has to get Medical treatment for an eye ailment caused by Kumar.
- Compute his income from profession.

6. Computation of Professional Income (on cash basis) of Dr. Kumar.

Professional Receipts:	(Rs.)	(Rs.)
Fees	35,000	
Remuneration as examiner	<u>3,000</u>	38,000
Less: Professional Expenses: Rent of Chamber	2,400	
Car expenses (3,600 x 1/2)	1,800	
Cost of Journals	4,000	
Depreciation on car (2,000 x 1/2)	<u>1,000</u>	<u>9,200</u>
Professional Gain		<u>28,800</u>

Notes:

1. Interest on Bank Deposits, Rent from House Property and Dividends are to be ignored as they are not income from profession.
2. Car expenses = $3,600 \times \frac{1}{2}$ and Depreciation on car = $2,000 \times \frac{1}{2} = 1,000$
3. Household expenses, local taxes and LIC Premium are personal expenses and they are ignored.
4. Opening and Closing balances in cash book are irrelevant in computing professional income.

7. Shri Magendra Singh Dhoni as a chartered Accountant in Delhi. He deposits all receipts in his Bank account and pays all expenses by cheque. The following is the analysis of his bank a/c P.Y 2019-20. compute income from profession.

Receipts	Rs.	Payments	Rs.
Consultation fees	4,00,000	Computer Purchased	50,000
Audit fees	90,000	Stipend to articled clerks	24,000
Appellate Tribunal appearance	50,000	Purchase of books for Professional use (Annual Publication)	10,000
Presents from client	20,000	Office expenses	30,000
Interest on Govt. Securities	60,000	Office rent	15,000
Income from House	70,000	Subscription to C.A. Institute	800
Loan from client	100,000	Travelling expenses	12,000
Miscellaneous receipts	7,000	Interest on loan	15,000
		Donation to NDF	20,000
		Salary and wages	18,000
		Printing and stationery	5,000

Additional Information:

1. Traveling expenses incurred for Profession.
2. 1/2 of the Travelling expenses are disallowed.
2. 1/2 of the loan from client is used for personal purpose
3. Computer is purchased on 1-8-2019 and used for office purpose
4. 50% of the books purchased in August 2020

Compute his income from profession.

7.Computation of Professional Income of Mr.M.S.Dhoni for the A.Y.2020-21.

Professional Receipts:	(Rs.)	(Rs.)
Consultation fees	4,00,000	
Audit fees	90,000	
Gifts from patients	50,000	
Appellate Tribunal appearance	20,000	
Present from client	7,000	
Miscellaneous receipts	<u>60,000</u>	5,67,000
Less: Professional Expenses:		
Stipend to articled clerks	24,000	
Office expenses	30,000	
Office rent	15,000	
Subscription to C.A. Institute	800	
Travelling expenses (12,000 x 1/2)	6,000	

Professional Receipts:	(Rs.)	(Rs.)
Salary and wages	18,000	
Printing and stationery	5,000	
Interest on loan (15,000 x 1/2)	7,500	
Depreciation on Computer at 40%	20,000	
Depreciation on books used for profession (40%)	<u>10,000</u>	<u>1,46,300</u>
Professional Gain		<u>4,20,700</u>

- Note:** 1. Interest on Govt. Securities, Rent from House and loan from client are non professional Income. Hence they are ignored.
2. Miscellaneous receipts income from profession.
3. Donation to NDF is deductible from Gross Total Income
4. Book used for profession being annual publications are eligible for 40% Depreciation.

8. The following are the Receipts and Payments accounts of Mr. Pradeep an advocate for the ended 31st March 2020. Compute Income from Profession.

Receipts	Rs.	Payments	Rs.
To Balance b/d	2,400	By Typewriter	8,000
To Fee from client		By office expenses	6,000
for 2017-18	30,000	By Salary to staff	10,000
for 2018-19	3,000	By Interest on loan	2,000
for 2019-20	10,000	By Car expenses	5,000
To Presents from clients	8,000	By Income tax	2,000
To Loan (Professional purpose)	15,000	By Life Insurance Premium	4,000
		By Rent for chamber	6,000
		By Balance c/d	25,400
	68,400		68,400

Note: Depreciation of car is Rs.5,000, The car was used for 60% official Purpose

8.Computation of Professional Income of Mr.Pradeep for the A.Y.2020-21.

Professional Receipts:	(Rs.)	(Rs.)
Consultation fees (30,000 +3000+10,000)	43,000	
Presents from client	<u>8,000</u>	51,000
Less: Professional Expenses:		
office expenses	6,000	
Salary to staff	10,000	
Rent for chamber	6,000	
Car expenses (5,000 x 60%)	3,000	
Depreciation on car (5000 x60%)	3,000	
Depreciation on Typewriter (8,000 x 15%)	1,200	
Interest on loan Bank loan used for professional purpose	<u>2,000</u>	<u>31,200</u>
Professional Income		<u>19,800</u>

9. The following Income and Expenditure a/c of Mr. Z, a lawyer Ascertain his professional Income for the year ended 31-3-2020

Expenditure	Rs.	Income	Rs.
To Rent of Chamber	4,000	By Legal fees	40,000
To Salaries	10,000	By Gifts from clients	20,000
To Travelling expenses	5,000	By Rent from H.P (Let)	5,000
To Stamp paper & court fee stamps	1,000		
To House hold expenses	2,000		
To Subscription for law journals	2,000		
To Household property tax	500		
To Donations	1,000		
To Surplus	39,500		
	65,000		65,000

Additional Information:

1. Gifts from client include gift from his father is Rs.4,000
2. Stock of stamp paper at the end of the year Rs.200
3. Donation are made to approved Institution.

9. Computation of Professional Income of Mr. Z for the A.Y. 2020-21.

Professional Receipts:	(Rs.)	(Rs.)
Legal fees	40,000	
Gifts from client (20,000 – 4,000)	<u>16,000</u>	56,000
Less: Professional Expenses:		
Stamp paper & court fee stamps	1,000	
Salaries	10,000	
Rent for chamber	4,000	
Travelling expenses	5,000	
Subscription for law journals	<u>2,000</u>	<u>22,000</u>
Professional Income		<u>34,000</u>

1. Stock of stamp paper, Rent from House Property, surplus, Household expenses and Donation is ignored
2. Gift from client is professional and Gift from father is personal

10. Dr.Narayanan is a Medical Practitioner in Chennai. From the following Calculate his income from profession for the A.Y.2020-21.

Receipts	Rs.	Payments	Rs.
Gross receipts from Dispensary	2,35,000	Medicines Purchased	1,25,000
Gross receipts from Consultancy	1,65,000	Closing stock of medicine	35,000
Operation fees	2,50,000	Opening stock of medicine	10,000
Visiting fees	50,000	Salary to employees	1,50,000
Gifts and Presents	30,000	Medical books purchased	20,000

Dr.Narayanan went to attend a medical seminar in Germany to update knowledge and spent Rs. 65,000 on it.

10. Computation of Professional Income of Dr. Narayanan for the A.Y. 2020-21.

Professional Receipts:	(Rs.)	(Rs.)
Receipts	Rs.	
Gross receipts from Dispensary	2,35,000	
Gross receipts from Consultancy	1,65,000	
Operation fees	2,50,000	
Visiting fees	50,000	
Gifts and Presents	<u>35,000</u>	7,30,000
Less: Professional Expenses:		
Salary to employees	1,50,000	
Medical seminar in Germany and spent	65,000	
Depreciation on Medical book (20,000 x 40%)	8,000	
Cost of Medicine (cash basis)	<u>1,25,000</u>	<u>3,48,000</u>
Professional Income		<u>3,82,000</u>
Note: Rate of depreciation on books is 40% (20,000 x 40% = 8,000)		

11. D.D Dewan & Company are Chartered accountant in Delhi. They have submitted the following Receipts and Payments a/c for the year. Compute Income from Business.

Receipts	Rs.	Payments	Rs.
To Audit fees	2,24,000	By Drawings	48,000
To Financial consultancy services	98,000	By Office rent	42,000
To Dividend from Indian Company (Gross)	6,000	By Telephone Installation charges O.Y.T scheme	15,000
To Dividend on units of UTI	4,000	By Electricity Bill	4,200
To Accountancy works	24,000	By Salary to Staff	66,000
		By Charities	1,200

Receipts	Rs.	Payments	Rs.
		By Gift given to relatives	9,600
		By Car expenses	21,000
		By Subscription for Journals	2,500
		By Institute fee	1,200
		By Stipends given to trainees	12,000
		By Net Income	1,33,300
	3,56,300		3,56,000

Note:

- 1. Depreciation of car during the amounts to Rs.5,000**
- 2. 30% of the car is used for Personal Purpose.**

11.Computation of Professional Income of Dr.D.D.Dewan & Company.

Professional Receipts:	(Rs.)	(Rs.)
Receipts	Rs.	
Audit fees	2,24,000	
Financial consultancy services	98,000	
Accountancy works	<u>24,000</u>	3,46,000
Less: Professional Expenses: Office Rent	42,000	
Telephone Installation charges O.Y.T scheme	15,000	
Electricity Bill	4,200	
Car Expenses (21,000 X 70%)	14,700	
Subscription for Journals	2,500	
Institute fee	1,200	
Salary to Staff	66,000	
Stipends given to trainees	12,000	
Depreciation	<u>3,500</u>	<u>1,61,100</u>
Professional Income		<u>1,84,900</u>

12. Dr. Mahesh, furnishes the following particulars of his professional receipts and payment: Calculate his income from profession for the A.Y.2020-21.

Receipts	Rs.	Payments	Rs.
Consultancy fees	1,10,000	Surgical equipment	16,000
Visiting fees	48,000	Salaries	9,200
Rent from property	7,200	Personal expenses	23,600
		Balance c/d	1,16,400
	1,65,200		1,65,200

Additional information:

Depreciation of surgical equipment is 15%

12.Computation of Professional Income of Dr.D.D.Dewan & Company.

Professional Receipts:	(Rs.)	(Rs.)
Consultancy fees	1,10,000	
Visiting fees	<u>48,000</u>	1,58,000
Less: Professional Expenses:		
Depreciation (16,000 x 15%)		2,400
Salaries		<u>9,200</u>
Professional Income		<u>1,46,400</u>
Note: Rate of Depreciation of surgical equipment is 15%		

**13. Cash book of an Auditor for the year ended 31-3-2020.
Compute his income from profession for the A.Y.2020-21.**

Receipts	Rs.	Payments	Rs.
To Balance b/d	9,614	By Office expenses	24,150
To Audit fees	54,750	By Personal expenses	4,769
To Accountancy work fee	25,475	By Membership fees	4,045
To other sources of income	27,745	By Income tax	2,493
To Rent from HP	14,200	By car Purchased	23,450
		By car expenses	5,420
		By Insurance (house)	300
		By Balance c/d	67,157
	131,784		1,31,784

- 1. Depreciation on car @15%**
- 2. 1/4 of car expenses for personal purpose.**

13. Computation of Professional Income for the A.Y 2020-21.

Professional Receipts:	(Rs.)	(Rs.)
To Audit fees	54,750	
To Accountancy work fee	<u>25,475</u>	<u>80,225</u>
Less: Professional Expenses:		
1. Office expenses	24,150	
2. Membership fees	4,045	
3. Depreciation of car(23,450 x15% x3/4)	2,638	
4 car expenses (5,420 x3/4)	<u>4,065</u>	<u>34,898</u>
Professional Gain		<u>45,327</u>

Note: Rate of Depreciation of car 15% and $\frac{3}{4}$ car expenses is Professional Purpose.

14 . The following is the receipts and payments account of Mr.Y, A Practicing Chartered accountant for P.Y 31-3-2020. Compute professional income.

Receipts	Rs.	Payments	Rs.
To Consultation	10,000	By Office expenses	8,000
To Audit fees	50,000	By Office rent	7,000
To Appellate Tribunal Appearance	20,000	By Purchase of books for Professional use	1,600
To Miscellaneous	10,000	By Printing & Stationary	1,600
To Interest on Govt. Sec.	5,000	By Subscription to CA Institute	4,000
To Rent received	6,000	By Salaries and wages	14,000
To Presents from clients	9,000	By Travelling expenses	6,000
		By Donation to NDF	5,000

1. Depreciation on Books@40%

2. Miscellaneous receipts taken as professional receipts.

15. From the following are the Receipts and Payments accounts of Mr.Saravanan tax consultant . Compute Income from Profession P.Y.2019-20.

Receipts	Rs.	Payments	Rs.
To Balance b/d	3,50,000	By Administrative expenses	60,000
To Fee from client		By Salary to staff	
for 2019-20	1,00,000	For 2019-20	40,000
for 2018-19	50,000	For 2018-19	30,000
To Winning from lotteries	28,000	By Repairs	8,000
To Gifts from clients	40,000	By Interest on loan for Business	12,000
To Rent from let out property	75,000	By Income tax	6,000
To Share of Income from firm	12,500	By Purchase of car -2017	1,50,000
		By Balance c/d	3,49,500
	6,55,500		6,55,500

Note: 1. Depreciation of car is @15%.

15.Computation of Professional Income of Mr.X for the A.Y 2020-21.

Professional Receipts:	(Rs.)	(Rs.)
1. Fee from client (1,00,000+50,000)	1,50,000	
2. Gifts from clients	<u>40,000</u>	<u>1,90,000</u>
Less: Professional Expenses:		
1.Administrative expenses	60,000	
2. Salary to staff	70,000	
3. Interest on loan from Business	12,000	
4. Repairs	8,000	
5. Depreciation of Car (1,50,000 x 15%)	<u>22,500</u>	
		<u>1,72,500</u>
Professional Gain		<u>17,500</u>
Note: 1.Depreciation on car 15%		
2.Repairs expenses is Professional Payment		

16. The the following Income and Expenditure a/c of Mr.X , a Chartered Accountant for the year ended 31-3-2020. Compute professional Income.

Expenditure	Rs.	Income	Rs.
To Office Rent	33,000	By Audit fees	3,00,000
To Salary to staff	75,000	By Financial consultancy fee	60,000
To Charities	5,000	By Interest on Deposits	22,000
To Gift to relatives	6,000	By Dividend on units of UTI	6,000
To House hold expenses	8,600	By Accountancy works	32,000
To Subscription for journals	2,400		
To Drawings	16,000		
To Car expenses	24,000		
To NSC Purchased	40,000		
To Net Income	2,10,000		
	4,20,000		4,20,000

Additional Information: 1. Office rent Rs.3,000 paid not recorded. 2. Depreciation on car is Rs.6,000 3. 30% of car is related to personal purpose

16. Computation of Professional Income of Mr.X for the A.Y 2020-21.

Professional Receipts:	(Rs.)	(Rs.)
1. Audit fees	3,00,000	
2. Financial consultancy fee	60,000	
3. Accountancy works	32,000	<u>3,92,000</u>
Less: Professional Expenses:		
1. Office Rent	33,000	
2. Salary to staff	75,000	
3. Depreciation of car(6,000 x70%)	4,200	
4. Subscription for journals	2,400	
5. Car expenses (24,000 x70%)	16,800	
4 Office expenses paid not recorded	<u>3,000</u>	<u>1,34,400</u>
Professional Gain		<u>2,57,600</u>

Note: 1.70% car expenses is Professional Purpose.

2. Office expenses paid not recorded is professional Payment