INCOME TAX

- DR.MONJUNG MOSSANG
- ASST.PROF IN COMMERCE

UNIT-I I: COMPUTATION OF INCOME UNDER DIFFERENT HEADS-I INCOME FROM SALARIES

Salary (Section 15 – 17) Salary is the remuneration received by or accruing to an individual, periodically, for service rendered as a result of an express or implied contract.

1. When due from the former employer or present employer in the previous year, whether paid or not

2. When paid or allowed in the previous year, by or on behalf of a former employer or present employer, though not due or before it becomes due.

3. When arrears of salary is paid in the previous year by or on behalf of a former employer or present employer, if not charged to tax in the period to which it relates.

Section 17(1) of the Income tax Act gives an inclusive and not exhaustive definition of "Salaries" , which includes:

(i) Wages

(ii) Annuity or pension

(iii) Gratuity

(iv) Fees, Commission, allowances perquisites or profits in lieu of salary (v) Advance of Salary

(vi) Amount transferred from unrecognized provident fund to recognized provident fund

(vii) Contribution of employer to a Recognized Provident Fund in excess of the prescribed limit

(viii) Leave Encashment

(ix)Compensation as a result of variation in Service contract etc.

(x) Contribution made by the Central Government to the account of an employee under a notified Pension scheme.

CHARECTERISTICS OF SALARY

(i) Relationship of employer and employee
(ii) Nature of employer (Individual, sole proprietor, partnership firm..)
(iii) Salary from more than one employer
(iv) Salary from present, past or prospective employer.
(v) Tax free salary
(vi) Salary of MLA and MP
(vii) Receipts from persons other than employer
(viii) Place of accrual of salary.
(ix) Deductions made by the employer

EXAMPLE

Gross Salary/Salary=Net salary received + deductions made by employer.

Q.Mr. A receives Rs.4,20,000/- p.a. as net salary. Employer has deducted Rs.4,000 p.m. as employees contribution to RPF., Rs.5,000 p.a. as tax deducted at source and Rs.2,000 p.a. as professional tax. During the year employer had deducted Rs.2,500 p.m. towards the recovery of house building advance taken by Mr.A. Find out the Gross salary.

EXAMPLE

Calculation of Gross Salary:

Net salary received		**Rs.4,20,000**
Add:	**i) Employees own contribution to P.F.@4000X12**	**Rs48,000**
	ii) Tax deducted at source	**Rs5,000**
	iii)Professional tax deducted at source	**Rs2,000**
	iv) Recovery of House building advance@2,500X12	**Rs.30,000**
Gross salary		**Rs.5,05,000**

Treatment of Different forms of Salary:

1. Basic Salary-Fully Taxable
2. Dearness Allowance-Fully Taxable
3. Advance Salary –Fully Taxable(On receipt basis)
4. Arrear of Salary–Fully Taxable(On receipt basis)
5. Fees and Commission–Fully Taxable
6. Bonus-–Fully Taxable (Relief U/S 89 for arrears)
7. Salary in lieu of notice period–Fully Taxable

Treatment of Different forms of Salary:

8.Gratuity-For Govt. employees Fully Exempted

Non Govt.Employees:

i)15 days of salary X Length of service

ii)Rs.10,00,000

iii)Gratuity Actually received

Which ever is less is exempted from tax any excess gratuity is taxable.

9. Pension (Uncomuueted)-Fully Taxable

Treatment of Different forms of Salary:

10.Commuted Pension-

(i) Govt.Employee-Fully exempt from Tax

(ii) Non-Govt.Employee who received Gratuity 1/3 of commuted pension is exempt from tax and 2/3 is taxable.

(iii) Non Govt. Employee who does not receive gratuity -1/2 of commuted pension is exempt from tax and ½ is taxable

11. Leave salary encashment:

During employment –fully taxable for Govt.& Non-Govt. employees.

Govt. employees getting leave encashment at the time of retirement is fully exempt from tax.

Treatment of Different forms of Salary:

Non-Govt. employees getting leave encashment at the time of retirement

i) Earned Leave in No.of months X Average monthly salary

ii) 10X Average monthly salary

iii) Rs.3,00,000

iv) Leave encashment actually received

LEAST OF THE ABOVE IS EXEMPTED FROM TAX AND REST IS TAXABLE

12.Annuity-Paid by present employer is fully taxable

Annuity received from an EX-employer is taxable under profit in lieu of salary.

13.Provident Fund:

i) Statutory provident Fund (SPF)-PF Act 1925

ii) Recognised provident Fund (RPF)-PF Act 1952

iii) Unrecognised Provident Fund(URPF)

iv) Public Provident Fund(PPF)

14.Treatment of Provident Fund:

	STATUTORY PRVIDENT FUNDS	RECOGNISED PRVIDENT FUND	UNRECOGNISED PRVIDENT FUND	PUBLIC PRVIDENT FUND
1.EMPLOYER'S CONTRIBUTION	EXEMPT	EXEMPT UPTO 12% OF SALARY	EXEMPT	EMPLOYER DOES NOT CONTRIBUTE
2.EMPLOYEE'S OWN CONTRIBUTION (Deductions U/S 80C)	FULLY DEDUCTIBLE	FULLY DEDUCTIBLE	NOT DEDUCTIBLE	FULLY DEDUCTIBLE
3. INTEREST CREDITED TO PRVIDENT FUND	EXEMPT	EXEMPT UPTO RATE PRESCRIBED BY GOVT.(9.5%)	EXEMPT	EXEMPT

Q. Calculate the taxable amount of annual accretion to RPF

i) Pay Rs.24,500 p.m.

ii) Commission Rs.36,000

iii) Employer's contribution to RPF@14% of salary

iv) Interest credited to RPF during the year @12% is Rs.24,000

Ans.Calculation of taxable amount of annual accretion to RPF

i) Employer's contribution to RPF @ 14% of		
of salary(14% of 2,94,000+36,000	Rs.46,200	
Less 12% of salary being exempted	Rs.39.600	
Taxable portion		Rs.6,600
ii) Interest credited to RPF @12%	Rs.24,000	
Less exempted upto @ 9.5%(24,000X9.5%/12)	Rs.19,000	
Taxable portion		Rs.5,000
Taxable portion of Annual Accretion		Rs.11,600

PARTLY TAXABLE Allowance

1) Education Allowance
2) Hostel allowance
3) Tribal area allowance
4) Transport allowance
5) Composite hill compensatory allowance
6) Running allowance to the employees of transport undertakings
7) House rent allowance
8) Under Ground Allowance

Example

Solution:

Computation of Gross salary of Mr.Hari:

Salary @ Rs.30,000 p.m. X12	Rs.3,60,000
Commission 50,00,000X 2/100	Rs.1,00,000
Gross salary of Hari	Rs.4,60,000

Exemption of HRA:

i) Actual HRA Received: Rs.96,000 (LEAST)

ii) Actual Rent Paid:Rs.12,000X12 Rs.1,44,000

10% of Salary Rs.4,60,000X10/100 Rs. 46,000

Excess of rent paid over 10% of salary (1,44,000-46,000= Rs.98,000

iii) 40% of Salary (Amritsar)4,60,000X40/100 Rs.1,84,000

Least of the above Rs.96,000 is exempted from tax, hence

Taxable HRA NIL