

Name of the Teacher : Prof. Apares Raut

SEM IV – Taxation I (U.G)

Chapter - Income from Salary

Topic – Gratuity : Gratuity means a lump-sum amount received by an employee from his ex-employer after termination of his employment. Here termination means- retirement , death resignation VRS etc .It is considered as the compensation or reward of his past valuable service. It is taxable as salary after exemption u/s 10(10).

Tax treatment of gratuity are as follows:

1). **In case of Govt. employee** :- Exempt full amount of gratuity received u/s 10(10)(i).

2) **In case of Non Govt. employee covered by the Payment of Gratuity Act. 1972** :- Exempt u/s 10(10)(ii) - least of three alternatives

a) Actual gratuity received	xxx
b) 15 days (7 days in case of seasonal establishment) salary for every completed year of service or part thereof in excess of 6 months	xxx
c) Statutory limit	Rs 20,00,000

Notes: (i) Salary= Basic pay + D.A

(ii) 15 days salary = Last month's salary drawn / 26 X 15

3) **In case of Non Govt. employee not covered by the Payment of Gratuity Act. 1972** :- Exempt u/s 10(10)(iii) - least of three alternatives :

a) Actual gratuity received	xxx
b) ½ months average salary for every completed year of service (for calculating completed year -any fraction of the year will be ignored)	xxx
c) Statutory limit	Rs 20,00,000

Notes: (i) Salary= Basic pay + D.A as per terms of employment + Commission if based on a fixed % on turnover

(ii) Average salary = Total salary of 10 months preceding the month of retirement./ 10

Problem (1) : From the following information compute income from salary of Mr C for the previous year 2019-20

i). Basic pay Rs 30,000 p. m . Annual increment Rs 2,000 on 1st June every year.

ii) D.A Rs 20,000 p.m. (40% forming part of salary)

iii) Bonus Rs 8,000

iv) Commission ¼% on sales when sales for last 12 months were Rs 50,00,000

v) Medical allowance Rs 900 p.m . Actual expense Rs 4,000 p.m.

vi) Conveyance allowance Rs 2,000 p.m. Actual expense Rs 3,000 p.m of which 40% incurred for private purpose .

vii) He retired on 31st August 2019 after completion of 32 years and 7 months service and received gratuity Rs 14,00,000. He is a **Govt. employee**

viii) Professional tax Rs 500 p.m.

Solution : Computation of Income from salary of Mr C , a resident individual for the assessment year 2019-20 relating to previous year 2018-19

A). Salary u/s 17(1)

i) Basic pay (30,000 X 2) + (32,000 X 3)			1,56,000
ii) D.A (20,000 X 5)			1,00,000
iii) Bonus			8,000
iv) Commission (¼% on 50,00,000 X 5/12)			5,208
v) Medical allowance (900 X 5) (Actual expense is ignored)			4,500
vi) Conveyance allowance (2,000 X 5)	10,000		
Less : Exempt u/s 10(14) to the extent of actual expense incurred for office purpose (3,000 X 5 X 60%)		9,000	1,000
vii) Gratuity received	14,00,000		
Less : Exempt u/s 10(10)(i) as he is a Govt. employee	14,00,000		NIL
Gross salary			2,74,708
Less : Deduction Gross from salary u/s 16			
a). Standard Deduction u/s 16 (ia)	50,000		
b) Deduction for Professional tax u/s 16 (iii) (500 X 5)	2,500	52,500	
Income from salary			2,22,208

Problem (2) : Same as Problem (1) but Mr C is a **Non Govt. employee covered by the Payment of Gratuity Act. 1972 :**

Solution : Computation of Income from salary of Mr C , a resident individual for the assessment year 2019-20 relating to previous year 2018-19

A). Salary u/s 17(1)

i) Basic pay (30,000 X 2) + (32,000 X 3)			1,56,000
ii) D.A (20,000 X 5)			1,00,000
iii) Bonus			8,000
iv) Commission (¼% on 50,00,000 X 5/12)			5,208
v) Medical allowance (900 X 5) (Actual expense is ignored)			4,500
vi) Conveyance allowance (2,000 X 5)	10,000		
Less : Exempt u/s 10(14) to the extent of actual expense incurred for office purpose (3,000 X 5 X 60%)		9,000	1,000
vii) Gratuity received	14,00,000		
Less : Exempt u/s 10(10)(ii) as he is a Non Govt. employee covered by the Payment of Gratuity Act. 1972 : least of three alternatives:			
(a).Actual Gratuity received	14,00,000		
(b) 15 days salary for every completed year of service or part thereof in excess of 6 months (30,000 X 33)	9,90,000		
c) Statutory limit	20,00,000	9,90,000	4,10,000
Gross salary			6,84,708
Less : Deduction Gross from salary u/s 16			
a). Standard Deduction u/s 16 (ia)	50,000		
b) Deduction for Professional tax u/s 16 (iii) (500 X 5)	2,500	52,500	
Income from salary			6,32,208

Notes: (i) Last months's Salary= Basic pay + D.A = 32,000 + 20,000= 52,000

(ii) 15 days salary = Last month's salary drawn / 26 X 15= 52,000 / 26 X 15 = 30,000

Problem (3) : Same as Problem (1) but Mr C is a **Non Govt. employee Not covered by the Payment of Gratuity Act. 1972 :**

Solution : Computation of Income from salary of Mr C , a resident individual for the assessment year 2019-20 relating to previous year 2018-19

A). Salary u/s 17(1)

i) Basic pay (30,000 X 2) + (32,000 X 3)			1,56,000
ii) D.A (20,000 X 5)			1,00,000
iii) Bonus			8,000
iv) Commission ($\frac{1}{4}\%$ on 50,00,000 X 5/12)			5,208
v) Medical allowance (900 X 5) (Actual expense is ignored)			4,500
vi) Conveyance allowance (2,000 X 5)	10,000		
Less : Exempt u/s 10(14) to the extent of actual expense incurred for office purpose (3,000 X 5 X 60%)	9,000		1,000
vii) Gratuity received	14,00,000		
Less : Exempt u/s 10(10)(iii) as he is a Non Govt. employee Not Covered by the Payment of Gratuity Act. 1972 : least of three alternatives:			
(a).Actual Gratuity received	14,00,000		
(b) $\frac{1}{2}$ months average salary for every completed year of service (for calculating completed year - any fraction of the year will be ignored) (39,441.7 X 32)	12,62,134		
c) Statutory limit	20,00,000	12,62,134	1,37,866
Gross salary			4,12,574
Less : Deduction Gross from salary u/s 16			
a). Standard Deduction u/s 16 (ia)		50,000	
b) Deduction for Professional tax u/s 16 (iii) (500 X 5)		2,500	52,500
Income from salary			3,60,074

Notes: (i) Total salary of 10 months preceding the month of retirement (from 1.10.18 to 31.7.19)

Basic pay (30,000 X 8 +32,000 X 2)	3,04,000
Add: D.A as per terms of employment (20,000 X 10 X 40%)	80,000
Commission if based on a fixed % on turnover ($\frac{1}{4}\%$ X 50,00,000 X 10/12)	10,417
	3,94,417

(ii) Average salary = Total salary of 10 months preceding the month of retirement / 10
= **3,94,417 / 10 = 39,441.7**