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B.Com Honours | Semester V | Calicut University

# INCOME TAX LAW AND ACCOUNTS

Course Code: COM5CJ301 • Module 2 Notes

# Module II: Income from Salaries (Section 15 to Section 17)

Covers taxability of salary components, House Rent Allowance (HRA), perquisite valuations, Provident Fund rules, Section 16 deductions, and retirement benefits.

## Unit 7: Meaning & Components of Salary Income

Requires employer-employee relationship. Chargeable on due or receipt basis, whichever is earlier (Sec 15). Includes Basic Salary, Dearness Allowance (DA), Bonus, Commission, and Fees.

## Unit 8: Allowances & HRA Exemption Math (Sec 10(13A))

HRA Exemption is the **least** of 3 statutory limits:

> **1. Actual HRA Received**
> **2. Rent Paid minus 10% of Salary (Basic + DA for retirement benefits)**
> **3. 50% of Salary (Metro cities: Delhi, Mumbai, Kolkata, Chennai) OR 40% of Salary (Non-metro)**

## Unit 9: Perquisites Valuation (Sec 17(2))

*Rent-Free Unfurnished Accommodation (RFA):* 15% of salary (population > 25 lakhs), 10% (population 10-25 lakhs), 7.5% (other areas). Add 10% p.a. of furniture cost if furnished.
*Motor Car Perquisite:* Rs. 1,800/mo (≤ 1.6L engine) or Rs. 2,400/mo (> 1.6L engine) plus Rs. 900/mo for driver if for mixed use.

## Unit 10: Profit in Lieu of Salary (Sec 17(3))

Compensation received from employer upon termination or keyman insurance policy payout.

## Unit 11: Provident Fund Types & Tax Treatment

*Recognized Provident Fund (RPF):* Employer contribution exempt up to 12% of salary (excess taxable). Interest exempt up to 9.5% p.a. (excess taxable).

## Unit 12: Deductions from Gross Salary under Section 16

1. Standard Deduction Sec 16(ia): Flat Rs. 50,000.
2. Entertainment Allowance Sec 16(ii): Govt employees only (least of Rs. 5,000, 20% of basic, or actual).
3. Professional Tax Sec 16(iii): Actual amount paid during PY.

## Unit 13: Computation of Net Taxable Salary Income

Net Taxable Salary = Gross Salary (Basic + Allowances + Perquisites + PF excess) minus Sec 16 Deductions.

## Unit 14: Retirement Benefits (Gratuity, Pension, Leave Salary)

*Gratuity Sec 10(10):* Exempt for Govt employees. For POGA employees: Least of (a) Actual Gratuity, (b) Rs. 20 Lakhs, (c) 15/26 × Last Drawn Salary × Completed years of service.
*Commuted Pension Sec 10(10A):* Exempt 1/3rd of full pension if gratuity received, 1/2 if no gratuity.

**Practical Problem 1 (Comprehensive Solved Income from Salary Statement):** An employee in a private firm in Kochi (Non-Metro) receives during PY:
Basic Salary = Rs. 40,000/mo (Rs. 4,80,000 p.a.); DA (enters retirement benefits) = Rs. 10,000/mo (Rs. 1,20,000 p.a.); HRA Received = Rs. 12,00,0/mo (Rs. 1,44,000 p.a.); Actual Rent Paid in Kochi = Rs. 14,000/mo (Rs. 1,68,000 p.a.); Employer RPF Contribution = Rs. 78,000 (Salary = Basic + DA = Rs. 6,00,000); Professional Tax Paid = Rs. 2,500. Calculate (a) Taxable HRA under Sec 10(13A), (b) Excess Employer RPF Contribution, and (c) Net Taxable Income from Salary under Sec 15-17.

**Step-by-Step Solved Salary Income Statement:**

- **1. Salary for HRA & RPF (Basic + DA) = 4,80,000 + 1,20,000 = Rs. 6,00,000.**
- **2. HRA Exemption Calculation under Sec 10(13A) (Least of 3):**
  Limit (i): Actual HRA Received = Rs. 1,44,000.
  Limit (ii): Rent Paid (1,68,000) minus 10% of Salary (60,000) = Rs. 1,08,000.
  Limit (iii): 40% of Salary (Non-Metro Kochi) = 40% of 6,00,000 = Rs. 2,40,000.
  > **Exempt HRA = Least of (1,44,000, 1,08,000, 2,40,000) = Rs. 1,08,000**
  > **Taxable HRA = 1,44,000 - 1,08,000 = Rs. 36,000**
- **3. Employer RPF Contribution Taxability:**
  Exempt limit = 12% of 6,00,000 = Rs. 72,000. Employer paid = Rs. 78,000.
  > **Taxable RPF Excess = 78,000 - 72,000 = Rs. 6,000**

**Comprehensive Computation of Income from Salary:**

| Salary Income Components & Deductions | Amount (Rs.) |
|---|---|
| Basic Salary | 4,80,000 |
| Dearness Allowance (DA) | 1,20,000 |
| Taxable House Rent Allowance (HRA) | 36,000 |
| Employer Contribution to RPF in excess of 12% | 6,000 |
| **GROSS SALARY INCOME** | **6,42,000** |
| Less: Standard Deduction under Sec 16(ia) | (50,000) |
| Less: Professional Tax under Sec 16(iii) | (2,500) |
| **NET TAXABLE INCOME FROM SALARY** | **5,89,500** |