UNIT 7 SALARIES—III

Structure

7.0 OBJECTIVES

After studying this unit, you should be able to
- list different types of provident funds and their treatment for tax purposes.
- enumerate and calculate the amount of deductions available u/s 80C
- compute the taxable income from salary after taking into account the P.F. and deduction u/s 80C

7.1 INTRODUCTION

In Units 5 and 6 we have learnt about the items included in the salaried income of an employee. Apart from many allowances and perquisites there are some other benefits available to a salaried employee. Provident fund is one of such benefits. In this unit we will study in detail the provident fund scheme, different kinds of provident fund and their tax-treatments. We will also study the various deduction available to a salaried individual u/s 80C in respect of savings.

7.2 PROVIDENT FUND SCHEME

provident means to provide for future. **Provident Fund** is a fund which is created to help an individual in future. i.e., after retirement or death. The employee contributes a certain amount every month out of his salary an equal amount is contributed by the employee. This amount is invested in government securities and earns a certain amount of interest. The interest so earned on the balance standing in the account of the employee is credited to his provident fund account. This amount gets accumulated over a period of time. The whole amount accumulated over years is given to the employee at the time of retirement or voluntary retirement and is paid to the legal heir after the death of the employee. There are different kinds of provident funds. The employee can deposit the amount in any of the provident funds. The different kinds of Provident Funds are:

i) Statutory Provident Fund
ii) Recognised Provident Fund

iii) Unrecognised Provident Fund
iv) Public Provident Fund
v) Approved Superannuation Fund

Let 'us now discuss them one by one.

7.2.1 Statutory Provident Fund

Statutory provident fund is set up under Provident Fund Act, 1925 and is maintained by government and semi-government departments, Reserve Bank of India, State Bank of India, Railways, Statutory corporations, Universities, colleges and local bodies etc.

7.2.2 Recognized Provident Fund

This is a provident fund which is recognized by the commissioner of Income Tax in accordance with the rules contained in part A of the Fourth Schedule to the Income Tax Act 1961. It includes a provident fund established under a scheme framed under the Employees Provident Fund Act, 1952. It must be remembered that it is important for tax purposes. For example where a provident fund is recognized by the P F commissioner but not by the commissioner of Income Tax, then the tax concessions under the Income Tax Act cannot be extended to the contributions to such provident fund.

7.2.3 Unrecognized Provident Fund

This is a provident fund which is not recognized by the Commissioner of Income Tax. Since it is not recognized no relief is granted to the assessee for tax purposes. In other words, it can neither be termed as statutory provident fund nor a recognized provident fund. Such a fund is normally maintained by private employers.

7.2.4 Public Provident Fund (PPF)

Regular salaried employees save money in provident fund through deductions from their salaries. For the benefit of the public particularly for self-employed person such as doctors, lawyers, accountants, actors, traders, the nentral government introduced the P P F scheme. Individuals and association of persons can deposit in the public provident fund account, as and when their resources permit. Even salaried employees can save through P P F in addition to their regular provident funds. P P F accounts can be opened at any branch of the State Bank of India or its subsidiaries or at any head post office and specified branches of nationalized banks.

Any individual can subscribe to P P F any amount not less than Rs. 100 and not more than Rs. 60,000/- in a year. Interest (which is 12% now) is credited at the end of each year but is payable only at the time of maturity. The accumulated sum in P P F account is payable after 15 years.

7.2.5 Approved Superannuation Fund

This means a superannuation fund approved by the Commissioner of Income Tax in accordance with the rules contained in part B of the Fourth Schedule to the Income Tax Act. It is significant to note that the sole purpose of the above fund should be the provision of annuities for employees on their retirement after a specified age or on their becoming incapacitated prior to such retirement or for the widows or dependants of such employees on their death.

7.3 TAX TREATMENT OF PROVIDENT FUND

In Section 72 you studied the different kinds of provident funds. Let us now study various provisions of Income Tax Act 1961 with regard to these funds. The Income Tax Act lays down provision for

i) employers contribution
ii) his own contribution
iii) Interest on accumulated,

iv) deduction u/s 80C and

v) tax liability of accumulated balance payable.

Chart 7.1 will help you to understand the provisions of provident fund relating to five above.

Chart 7.1
Provident Fund and Provisions of Income Tax

	Name of the Fund	Employee's Contribution	Employer's Contribution	Interest credited to the fund	What qualifies for deduction u/s 80C	Tax Liability of the accumulated balance payable of the assessee
1)	Statutory Provident Fund	Included in the salary income	Not included in the salary income	Not included in the salary income	Employee's own contribution	Not included in the salary income
2)	Recognised Provident Fund	Included in the salary income	Only excess over 10% of the salary included in the salary income (i.e. total contribution 10% of the salary)	Only excess over 12% of the rate included in the salary income (Actual rate—12% of the salary)	Own contribution subject to a maximum of 1/5th of salary	Not included in the salary income provided the employer was in continuous service with the employer for 5 years or the discontinuance was due to factors beyond his control
3)	Unrecognised Provident Fund	Included in the salary income	Not included in the salary income year to year	Not included in the salary income year to year	Own contribution is taxable nothing qualifies for deduction	Only employer's contribution and interest thereon is included in the salary income but interest on employees contribution is taxable under the head income from other sources.
4)	Public Provident fund	Included in the total income	Employer does not contribute anything to PPF	Not included in total income	Own contribution	Not included in total income
5)	Approved superannuation Fund	Included in the total income	Not included in the salary income	Not included in total income	Own contribution	Not included in total income.

Salary for the purposes of provident fund is Basic Salary + Dearness Allowance (if taken for retirement + benefits) + Dearness Pay (exluding all other allowances, bonus and perquisites) + Commission (if based on fixed percentage of turnover achieved and given under terms of employment)

7.4 CERTAIN OTHER ASPECTS OF TAXABLE SALARY

While calculating the taxable income from salary, we should take into account the following aspects of salary:

1) Waivers of salary : Once salary accrues to an employee it becomes taxable under Section 15. Even if the employee waives his right to receive payment thereof it will be considered as a mere application of his income and his tax liability will not be affected.

2) Surrender of salary: However if an employee surrenders his salary to the central government under Section 2 of the Voluntary Surrender of Salaries (Exemption from Taxation) Act, 1961, the salary so surrendered will be excluded while computing his salary income.

3) Tax-free salaries: An employer can choose to pay the tax on behalf of the employee and refrain from deducting the same from the salary paid to the employee. However while computing the income of the employee, the tax so paid by the employer will be added to the salary income of the employee.

7.5 DEDUCTION UNDER SECTION 80C

(applicable up to 1990-91 assessment year)
Chapter VIA of the Income Tax Act contains several sections which allow deductions from the gross total income to various types of assessees. 'Gross total income' means the total income computed in accordance with the provisions of this Act before making any deduction under the above chapter. In other words, income under each head like salaries, income-from house property etc, has to be computed separately and aggregated. The provisions concerning set off and carry forward of losses have to be applied. The resulting figure is the gross total income. If the gross total income is nil or a negative figure, there will be no deduction permissible under chapter VIA.

For our purpose deductions under Section 80C will be relevant as it allows deductions in respect of payments towards life insurance premium, contribution to provident fund, subscription to National savings certificates etc. In order to compute deductions permissible under Section 80C three steps are involved. They are 1) Gross Qualifying Amount 2) Net Qualifying Amount 3) Amount of deduction.

7.5.1 Gross Qualifying Amount

The Gross Qualifying Amount is the amount which qualifies for deduction. The following payments made out of income chargeable to tax are first to be aggregated to arrive at the Gross Qualifying Amount.

1) LIC premium paid by an individual to effect or to keep in force an insurance on his own life, life of spouse or any child. However, any premium paid in excess of 10% of sum assured will not qualify for deduction. Such excess is to be ignored for the purpose of computation. Payment made by the Government employees to the Central Government Employees Insurance scheme is also to be included for the purpose.

   However, where an assessee discontinues a policy of life insurance before premiums for two years have been paid no deduction will be allowed in respect of the premiums paid in the year in which the policy is terminated. Further, the amount of deduction allowed in respect of the premiums paid in the preceding year or years is deemed to be the income of the assessee of such preceding year or years and shall be taxed accordingly. For this purpose, the deduction allowed in respect of the premiums pad in any previous year or years is the difference between the amount by which the total deduction actually allowed under this section for that relevant year exceeds the deduction which would have been allowed if no such premium had been paid in that year.

2) Payment by individual in respect of incommutable deferred annuity of his own life, life of the spouse or any child. It has been clarified that contribution for annuity plans under Section 80CCA i.e., Jeevan Dhara and Jeevan Akshay Policies do not qualify for deduction under Section 80C.

3) Contribution made towards Statutory Provident Fund qualifies fully. Contribution made to recognised provident fund qualifies subject to the maximum limit of 1/5 of the salary. Salary for this purpose includes Dearness Allowance if the terms of employment so provide but excludes all other allowances and perquisites. If, however, under the terms of contract of employment, commission is determined at a fixed percentage of turnover achieved by'an employee such commission can be included in salary. Contribution to an approved superannuation fund qualifies fully. Contribution to an unrecognised provident fund does not qualify.

4) Contribution to the Public provident fund, subject to a minimum of Rs. 100 and a maximum of Rs. 60,000.

5) Contribution for participating in the 'Unit-linked insurance plan'.

6) Contribution to Unit Linked Plan of the LIC Mutual Fund (Dhanaraksha 1989).

7) Amount deposited in a 10-year account under post office savings bank (Cumulative time deposit, Rules 1959).

8) Subscription to National Savings Certificates VIII since (w.e.f. 8.5.89). Up to 1989-90 assessment year subscription to 6-year National Savings Certificates VI and VII issues qualified for deduction. The sale of the above certificates has been discontinued after March 31, 1989. However, interest on NSC VI issued purchased up to 31.3.89 is to be included in the qualifying amount.

4) Payment for the construction of residential house. Any specified payment subject to a maximum of Rs. 10,000 for the purchase or construction of a residential house, the construction of which is completed after March 31, 1987 and the income from which is chargeable under the head 'Income from house property' will qualify for inclusion in the qualifying amount. If the house is not completed during the relevant previous year no deduction will be allowed.

The following are the specified payments in this regard:
a) Any instalment payment or part payment of the amount due under self-financing or other schemes of any development authority, housing boards etc. engaged in the construction and the sale of house property on ownership basis.

b) Any instalment payment or part payment of the amount due to any company or co-operative society of which the assessee is a shareholder or member towards the cost of the house allotted to him.

c) Repayment of the loan borrowed by the assessee from :
   i) The Central Government or any State Government or
   ii) Any bank including a co-operative bank or
   iii) The Life Insurance Corporation or
   iv) Any public company formed and registered in India with the main object of carrying on the business of providing long-term finance for the construction or purchase of houses in India for residential purposes and which is approved for creating special reserve under Section 36(i) (viii) or
   (v) Any company in which the public are substantially interested or any co-operative society where such company or society is engaged in the business of financing the construction of houses or
   vi) The employer of the assessee, where such employer is a public company or
   vii) Public sector company or
   viii) University in its affiliated college or
   ix) A local authority or
   x) National Housing Bank

d) Any payment of stamp duty, registration fee and other expenses for the purpose of the transfer of such house property to the assessee.

Ineligible Payments

The following payments do not qualify for the purpose of deduction:

i) Admission fee, cost of share/initial deposit which a shareholder of a company or member of a co-operative society has to pay for becoming shareholder or member or

ii) The cost of land, except where the consideration for the purchase of the house property is a composite amount and the cost of land alone cannot be separately ascertained or

iii) The cost of any addition, alteration, renovation, repair of the house, incurred either after the issue of completion certificate or after the house has been occupied by the assessee or any person on his behalf or after the house has been let out or

iv) Any expenditure in respect of which deduction is allowable while computing the income from house property.

Where the deduction has been allowed to an assessee in any previous year in respect of payments covered under a, b, c or d above and subsequently such sum is refunded or received back by the assessee in any previous year, the tax treatment in respect of such refunds will be as follows:

i) Any money paid in the relevant previous year in which the refund is received will not qualify for being considered for deduction under Section 80C.

ii) The total amount of the deductions allowed in the previous years preceding the relevant previous year will be deemed to be the income of the assessee of the relevant previous year in which such refund has been received. Such income will be chargeable as income from other sources.

Where the house property so acquired is transferred by the assessee before the expiry of 5 years from the end of the financial year in which possession of such property is obtained by him, the two tax effects as explained above will follow.

10) **Deposit with National Housing Bank**

Any deposit made in the Home Loan Account Scheme of the National Housing Bank qualifies for deduction under Section 80C.

If we add up all the above qualifying amounts as explained in 1 to 10; the total will constitute the gross qualifying amounts as explained in I to 10; the total will constitute the gross qualifying amount.

7.5.2 Net Qualifying' Amount

The entire gross qualifying amount cannot be considered as eligible for deduction. The act provides upper limits in respect of the qualifying amounts. They are as follows:

i) In the case of an individual being an author, playwright, artist, musician, actor or sportsman including an athlete, the qualifying amount is either the total of the contribution to the approved savings or Rs. 60,000 whichever is less.

ii) In the case of any other individual ei'ther the total of contribution to the approved savings or Rs. 40,000 whichever is less.

7.5.3 Amoupt of Deduction

The amount of deduction is computed by applying the prescribed rates to the qualifying amount. The prescribed rates are as follows:

100% of the first Rs. 6,000 of the qualifying amount
50% of the next Rs. 6,000 of the qualifying amount
40% of the balance of the qualifying amount

7.5.4 System of Rebate from Assessment Year 1991-92

The Finance Act 1990 has replaced the existing system of allowing deduction from gross total income under Section 80C with a new system of allowing a rebate which will be deducted from the tax payable by the assessee on his total income. The rebate allowable is at the rate of 20% of the qualifying amount. The method of ascertaining the qualifying amount is the same as described above. The items of approved savings also temain the same except for the fact that the ceiling limit of 1/5 of the salary in respect of contribution to recognised provident fund has been removed.

The deduction by way of rebate of tax cannot exceed the following limits:

i) In the case of an individual, being an author, playwright, artist, musician, actor or sportsman (including an athlete), Rs. 14,000. In other words they can contribute up to Rs. 70,000 in approved savings to get maximum rebate.

ii) In any other case, Rs. 10,000. In other words their contribution can be up to Rs. 50,000 to get maximum rebate.

Check Your Progress A

1) A person who is a government employee saves the following amount
   i) Rs. 2,000 as premium on LIC
   ii) Rs. 3,000 as contribution to Statutory Provident Fund
   iii) Rs. 4,000 in ULIP
   iv) Rs. 12,000 as repayment of loan taken for the house
   v) Rs. 4,000 in Jeevan Dhara,

   Calculate (a) the Gross qualifying amount and
   (b) Net qualifying amount

2) Fill in the blanks
   i) Interest credited to a Statutory 'provident Fund is...................in the salary income.
   ii) Own contribution to..................subject'to a maximum of 1/5 of the salary qualifies for deduction u/s 80C
   iii) A person can deposit Rs. 100 to..................in a year in PPF
   iv) Contribution to Jeevan Dhara and Jeevan Akshay are entitled for deduction u/s..................

7.6 SOME ILLUSTRATIONS

You have studied the provisions of Income Tax Act regarding different Provident funds. Let us now take a few illustrations to clarify the treatment of provident fund contribution for tax purposes.

Illustration 1

Following particulars are furnished by Mr. Murari, a citizen and resident of India.

		Rs.
a)	Basic Sabry	36,000
b)	Own.contribution to Statutory P.F.	5,000
c)	Interest credited to P.F. at 12%	3,600
d)	House rent allowance (the house is at Kolar and rent paid amounts to Rs. 6,000)	4,200
e)	LIC premium paid	8,000
f)	Unit Linked Insurance plan contribution paid by employer	1,000

Compute the taxable income of Mr. Murari for 1990-92 Assessment year

Solution

Computation of taxable income of Mr. Murari of assessment year 1990-91

Basic Salary			36,000
House rent allowance:		Rs.	
i)	Actual HRA received	4,200	
ii)	Rent paid in excess of 10% of salary Rs. 6,000—Rs. 3,600	2,400	
iii)	40% of salary	14,400	
	Taxable HRA Rs. 4,200—Rs. 2,400		1,800

Employer's contribution to Unit Linked Insurance plan		1,000
(chargeable as a perquisite)		38,800
Less : Standard deduction 33 1/3% of Salary or Rs. 12,000 whichever is less		12,080
Taxable Salary being Gross Total Income		26,800
Less : Standard deduction 33 1/3% of Qualifying Amount		
PF contribution	Rs. 5,000	
LIC Premium paid	Rs. 8,000	
Contribution to Unit Linked Insurance Plan	Rs. 1,000	
	Rs. 14,000	
Deduction		
First Rs. 6,000 @ 100%	Rs. 6,000	
Next Rs. 6,000 @ 50%	Rs. 3,000	
Balance Rs. 2,000 @ 40%	Rs. 800	
		9,800
Next Rs. 6,000 @ 50%	Total Income	17,000

Since the total income is below the exempted limit of Rs. 18,000 so no tax liability will arise.

Note : Contribution to **statutory provident fund** and interest thereof is not taxable at all.

From assessment year 1991-92 the deductions **u/s 80C** will not be **available** as given in the solution the qualifying amount will be calculated as it is. **1/5** of the qualifying amount will be allowed as a rebate and deducted from the amount of tax calculated on gross total income. **i.e.,** Rs. 2,800 (**1/5** X 14,000) will be deducted from the **tax** calculated on Rs. 26,800.

Illustration 2

The following particulars are given by **S. Rajan,** Madras in respect of his annual income for the year ended 31.3.90.

i) Consolidated salary till 30.9.89 at Rs. 2,500 p.m. and from **1.10.89** Rs. 3,000
ii) HRA 20% of salary
iii) Actual house rent paid Rs. 1,200 p.m. However he owns a house property which he has let out
iv) Contribution to PF by self and employer each 10% of salary
v) LIC Premium paid Rs. 1,200
vi) Leave Travel Allowance Received Rs. 2,500. Rs. 2,000 was incurred in travel to home district.
vii) Medical expenses incurred in treatment of self and family **Rs.** 5,000. Prepare Rajan's statement of income showing computation of taxable income giving necessary explanation.

Solution

	Previous Year	1989-90
S. Rajan	Assessment Year	1990-91

Computation of Total Income

	Rs.	Rs.
1) Salaries		
Consolidated Salary Rs. 2,500 X 6	Rs. 15,000	
Rs. 3000 X 6	Rs. 18,000	33,000
House rent allowance (**See** Note 1)		Nil
Leave travel allowance — taxable **portion**		500

(See Note 3)		
Less : Standard deduction (Section 16(1)		33,500
Less : Standard deduction @ 33'3% or		11,167
	Rs.	Rs.
Taxable Salary being GTI		22,333
Less Deduction Section 80C		
PF contribution	3,300	
LIC Premium	1,000	
Qualifying Amount	4,500	
Deduction @ 100% (First @ Rs. 6,000 @ 100%)		4,500
Taxable income		17,833
Rounded off to Rs. 17,830/-		

Since this is below the maximum ceiling limit of Rs. 18,000 there will be no tax liability.

Working Notes: 1) Exemption under rule 2A read with Section 10(13A)—HRA

i) .Actual HRA received	Rs. 6,600
ii) Actual rent paid over 10% of salary (Rs. 14,400—Rs. 33,800)	Rs. 11,100
iii) 50% of salary	Rs. 16,600
Exempt HRA	Rs. *6,600*
Taxable HRA	Nil

2) Shri Rajan, though owns a house property, which has been let out, can claim exemption u/s 10(13A) in respect of HRA as
   i) Residential accommodation occupied by him is not owned by him
   ii) He has actually incurred expenditure on payment of rent in respect of the residential accommodation occupied by him.

3) Leave Travel allowance to the extent of the amount actually spent on travel to home district has been treated as exempt under Section 10(5) assuming that the fare does not exceed the air-conditioned second class fare by the shortest route to the home district. However, in case where an employer regularly pays a fixed amount as Leave Travel Allowance without any condition whatsoever and without any reference to the amount actually incurred by the employee on this account, the entire allowance is included in salary, without any exemption.

4) Reimbursement of medical expenses is entirely exempt since it is not in excess of one month's salary or Rs. 5,000 whichever is higher.

5) Employers contribution up to 10% of salary is not taxable,

Illustration 3

Mr. Aggarwal is a professor and head of the department of commerce in Siddarth college, Delhi. His salary particulars are as follows:

	Rs.
Basic pay in April 89	7,500
Annual increment (Rs. 250) due on 1st June 89	
Dearness pay forming part of basic pay	200 p.m.
Additional D.A.	150 p.m.
Warden allowance	300 p.m.
Examinership remuneration from various universities	Rs. 4000

The college has provided Mr. Aggarwal a free furnished accommodation. The fair rental value of the house is Rs. 3000 p.m. A free telephone has been installed in his house, Mr. Aggarwal uses the phone both for official and personal purposes.

He spent Rs. 10,000 on a major operation on his wife performed in a hospital in London where his son resides. The managing committee, of the college, as a special case reimbursed Rs. 7,000 towards the above expenses.

During the previous year he along with his family visited Kanyakumari by air-conditioned first class sleeper. The train fare amounted to Rs. 10,000. Thd train fare for air-conditioned second class sleeper by the shortest route to Kanyakumari for his family would amount to Rs. 8000. The college reimbursed Rs. 10,000 to Mr. Aggarwal.

Mr. Aggarwal is a member of the recognised fund maintained by an independent board of trustees. He contributes 12% of his salary as compulsory contribution and 10% thereof a voluntary contribution. The college contributes to his PF 12% of his salary. Mr. Aggarwal was allotted a flat in April 1989 by the Delhi Development Authority under self-finance scheme. To meet the cost of the house Mr. Aggarwal had borrowed Rs. 1,00,000 from Delhi University and Rs. 50,000 from Housing Development Finance Corporation. During the previous year the loan and interest repayments are as follows:

	Loan	Interest
HDFC	Rs. 7,200	Rs. 2,800
Delhi University	Rs. 6,000	Rs. 2,000

During the previous year 1988-89 Mr. Aggarwal deposited Rs. 1,00,000 in a fixed deposit.

Complete the taxable income of Mr. Aggarwal for the assessment year 1990-91.

Solution **Mr. Aggarwal**

Previous year 1989-90 Assessment Year 1990-91

Computation of taxable income

Salaries		
Basic pay (7500 × 2 + 7750 × 10)		92,500
Dearness pay		2,400
Additional DA		1,800
Warden allowance		3,600
Perquisite value of house		
Fair rental value	36,000	
10% of salary (92,500 – 24,000 + 1,800 + 3,600 + 2,000)	10,230	
Excess of fair rent bver 60% of his salary (Rs. 36,000—Rs. 61,380)	nil	
		10,230
Use of telephone for official and personal purpose is not a taxable perquisite.		
Reimbursement of medical expenses incurred on his wife in a hospital in London is taxable since the expenses have not been incurred in a recognised public hospital in India		7,000
The exemption available under Section 10(5) in respect of leave travel concession is limited to train fare for air-conditioned second class sleeper by the shortest route to Kanyakumari		
The excess fare reimbursed is taxable		2,000
Excess of employer's contribution over 10% of salary		1,898
Income from salary		1,21,428
Less Standard deduction @ 33⅓% or Rs. 12,000 whichever-is less		12,000
Taxable Salary		1,09,428

Income from other sources

i)	Examinership allowance from various universities	4,000	
ii)	Interest on fixed deposit made in wife's name—includible in Mr. Aggarwal's income by virtue of Clubbing provisions of Section 64(1)	11,000	Rs. 1,09,428 15,000
	Gross total income		1,24,428
	Less Deduction under Section 80C		
	Qualifying amounts		
	Contribution to PF	11,388	
	Contribution to voluntary Provident fund	9,490	
	Repayment of housing loan to HDFC and Delhi University qualifying amount limited to	10,000	
	LIC premium paid by wife from out of interest on FD limited to 10% of the face value	9,000	
		39,878	
	Deduction		
	First Rs. 6,000 @ 100%	6,000	
	Next Rs. 6,000 @ 50%	3,000	
	Balance Rs. 27,878 @ 40%	11,151	20,151
	Taxable income		1,04,277
	Rounded off to		1,04,280

Working Notes

1) Salary for the Calculation of concession in rent

	Rs.
Basic	92,500
DA	1,800
Dearness Pay	2,400
Warden Allowance	3,600
Taxable portion of LTC	2,000
	1,02,300

10% is Rs. 10,230

2) Salary for the purposes of provident fund

	Rs.
Basic	92,500
Dearness Pay	2,400
	94,900

Illustration 4

Mr. Vinod, Manager in Garwal Paints (P) Ltd., Delhi gives you below the details of his income for the year ended 31.3.90.

Salary from April to March 90, Rs. 48,000. Dearness Allowance (taken into account for computing retirement benefits) @ Rs. 1000 p.m. House Rent Allowance @ Rs. 750 p.m. (Mr. Vinod is residing in his own residence). Fixed Medical Allowance @ Rs. 250/- p.m.

He was provided with one Motor-car, above 16 h.p. with a driver which was used partly for business and partly for personal use. The running and maintenance expenses were met by the employer.

He utilised gas, from quick gas service by paying Rs. 1800 which was reimbursed by the employer.

His contribution to unrecognised provident fund was @ Rs. 400 p.m. The employer also contributed an equal sum. Life insurance premium paid by Mr. Vinod during the year amounted to Rs. 8000. Compute his taxable income for 1990-91 assessment year..

Solution

Name of the assessment Shri Vinod, Manager, Garwash Paints (P) Ltd. Delhi:

Previous year ending : 31.3.90		Assessment year 1990-91
Calculation of Taxable Income		Rs.
Basic salary @ Rs. 4000 p.m.		48,000
Dearness Allowance @ Rs. 1000 p.m.		12,000
Fixed Medical Allowance		3,000
House Rent Allowance—fully taxable since Mr. Vinod is staying in his own residence		9,000
Perquisites		
Motor-car exceeding by 16 h.p. with driver @ Rs. 550 p.m.		6,600
Car charge reimbursed by employer —an obligation met by the ctiipioyer—Hence taxable under Section 17(2) (iv)		1,800
		80,400
Less Standard deduction u/s 16(i) Rs. 12000 or $33\frac{1}{3}\%$ whichever is less		12,000
Taxable salary being Gross total income		68,400
Deduction under chapter VIA		
80C : life insurance premium Rs. 8,000		
Deduction		
First Rs. 6,000 @ 100%	6,000	
Balance Rs. 2,000 @ 50%	1,000	7,000
Taxable income		61,400

Note : Employers contribution to unrecognised pravident fund is not included for deduction u/s 8OC.

Illustration S

A was employed from 1.4.89 for the first time as an assistant marketing manager with Pearl (P) Ltd., New Delhi at a monthy salary of Rs. 4,000 p.m. He was provided with a house by his company and the fair rental value of the house was Rs. 2,000 p.m. He was also provided with furniture and a refrigerator costing Rs. 10,000 and Rs. 6,000 respectively. He contributed Rs. 450 p.m. to an unrecognized provident fund to which his employer also contributed a similar amount.

A resigned the above job on 30.11.89 and joined Pfizer Ltd., Bombay as a marketing manager from 1.12.89 at a monthly salary of Rs. 6,000 and entertainment allowance of Rs. 500 p.m. At that time his contributions to the unrecognized provident fund amounting to Rs. 3,600 and a similar amount representing his employer's contribution and total interest amounting to Rs. 580 were transferred to A's credit in the recognized provident fund maintained by Pfizer Ltd. A contributed 10% of his salary to this recognised PF and the company contributed equally.

Pfizer Ltd. provided the following perquisites to A.

i) Free furnished accommodation the fair rental value of which.was Rs. 30,000
ii) The original cost of furniture and fittings provided to A was Rs. 30,000
iii) Reimbursement of school fess of A's son amounting to Rs. 250 per month
iv) Reimbursement of medical expenses actually incurred by A amounting to Rs. 4000 in total
v) Free lunch, otherwise costing Rs. 20, for an average of 25 days in a month.

On 28.2.90 A resigned the job from Pfizer Ltd., and joined a company in middle east from 1.3.90 on a monthly salary of Rs. 30,000. He therefore got back his provident fund contributions and interest thereon amounting to Rs. 15,000 in April 1990.

Compute A's taxable income for the assessment year 1990-91.

Solution :

P.Y. ended	31.3.1990	**Asst.** year 1990-91
Salaries		
(1) Pearl (P) Ltd.		
Salary Rs. 4,000 X 8		32,000
Perquisite value of house		
Fair rental value of the house for 8 months Rs. 16,000		
10% of salary	3,200	
Excess of fair-rental value over 60% of salary (16,000—19,800)	nil	
10% of cost of furniture and refrigerator for 8 months	1,067	4,267
Employer's share of contribution in the unrecognised provident fund now transferred to Pfizer Ltd.		3,600
Interest thereon Rs. 580÷2		290
(2) Pfizer Ltd.		
Salary Rs. 6000 X 3		18,000
Entertainment allowance—No deduction is permissible under Section 16(ii) Rs. 500 X 3		1,500[2]
Perquisite value	Rs.	
(i) House		
Fair rental value for three months Rs. 7,500		
10% of salary (salary = Rs. 18000 + Rs. 1500 + Rs. 600 + Rs.	2,010	
Excess of fair rental salary (Rs. 7500—Rs. 12,060)	Nil	
10% of cost of furniture for 3 months	750	2,760
Reimbursement of school fees of son for 3 months	750	
Less Exemption under Section 10(14) Rs. 50 X	150	600[3]
Reimbursement of medical expenses is fully exempt since the same is below Rs. 5000/-		
Free lunch is not an exempted perquisite whereas free refreshments and subsidised lunch is exempted perquisite Rs. 20 X 25 X 3		1,500
(iii) Salary from middle east		
Since A is resident in India during the previous year 1989-90, salary received by him in Saudi Arabia for services rendered there is taxable		30,000

(iv) Provident fund dues		
A has not completed S years of continuous service. His resignation is not due to ill health or factors beyond his control. Hence the amount accumulated in his provident fund account becomes taxable on his resignation on due basis. The date of receipt of the amount is immaterial. However that portion of unrecognised provident fund representing A's contribution and his employer's contribution and interest thereon which have already been included in the taxable income have to be excluded (Rs. 15,000—Rs. 3,600—Rs. 3,600 – Rs. 580)		7,220
		1,01,737
Less Standard deduction		12,000
Taxable Salary		89,737
Income from other sources		
Interest credited on the employee's contribution to the unrecognized fund is taxable as income from other sources since it is not covered by the definition 'profits in lieu of salary'. It may be noted that employer's contribution and interest thereon are specifically covered under the above term and hence considered as income from salary		290
Gross total income		90,027
'Deduction under chapter VIA section 80C:		
Contribution to recognized P F	Rs. 1800	
Deduction @ 100%		1,800
Taxable income		88,227
Rounded off to		88,230/-

Note : For the purpose of allowing 80C deduction the only condition is that the qualifying contribution must have been made out of income chargeable to tax. It is immaterial if the employee withdraws the entire P F balance on his retirement or resignation.

7.7 LET US SUM UP

Provident fund is the main fund in which a person contributes a certain sum and saves money for future benefits. Provident Fund scheme is prevalent in most of the organisations whereby the employer and the employee contribute some amount every month. This amount earns some interest and keeps accumulating over a period of time. At the time of retirement or resignation the total balance in the provident fund account is given to the employee. Provident Funds are of the five types

i) Statutory Provident Fund
ii) Recognised Provident Fund
iii) Unrecognised Provident Fund
iv) Public Provident Fund
v) Approver Superannuation Fund

Income Tax Act 1961 lays down provisions of Provident Fund relating to

i) Employee's Contribution
ii) Employer's Contribution
iii) Interest on the balance

v) Final payment

Section 80C provides for the deductions relating to savings from gross total income. The savings include LIC premium, PF contribution, Contribution to ULIP, deposits in CTD, repayment of loan on residential house, deposits with national housing bank. All these saving when added amounts to Gross Qualifying Amount, with the help of Gross Qualifying amount to amount of deduction is calculated. This amount is deducted from Gross Total Income to compute the taxable income of the assessee.

7.8 KEY WORDS

Provident Fund : A Fund created to help an individual in future.

Statutory Provident Fund : A Provident Fund maintained by Government and semi-government departments, RBI, SBI Statutory Corporations, universities and colleges.

Recognised Provident Fund : A provident fund recognised by Commissioner of Income Tax whereby any contribution of employer in excess of 10% of salary is taxable.

Unrecognised Provident Fund : A provident fund maintained by private employers and which is not recognised.

Public Provident Fund : A provident fund maintained usually by self-employed persons in a post office or a branch of SBI in addition to the regular provident fund.

Gross Qualifying Amount : Amount of savings that qualify for deduction u/s 80C.

7.9 ANSWERS TO CHECK YOUR PROGRESS

A 1 a) Rs. 19,000 b) Rs. 11,800
2 i) not included, ii) recognised provident fund,
iii) Rs. 60,000 iv) 80 CCA

7.10 TERMINAL QUESTIONS/EXERCISES

Questions

1) What are the provisions of Income Tax Act 1961 regarding the Unrecognised Provident Fund?

2) What payments are not eligible to qualify for deductions in case of payment of loan taken for construction of a house?

Exercises

1) What is the total income of Mr. Bhushan who is posted in Delhi for assessment 1990-91

Basic Salary	50,000
Dearness Allowance	6,500
CCA	1,200
HRA	9,600
Actual rent paid	14,580
Contribution to Statutory Provident Fund	6,500
Investment in ULIP	2,500
Deposits in CTD	1,500

(Answer : Rs. 38,160)

2) Mr. Kishori Lal, who is employed in Wikro Ltd. furnishes following information for Assessment year 1990-91

	Rs.
Salary @ Rs. 3,200 p.m.	38,400
Conveyance allowance @ Rs. 300 p.m.	3,600
Education allowance for two children	3,800
Reimbursement of Gas, Water, Electricity charges by the company	1,800

The Company provides him a rent-free accommodation of the value of Rs. 3,000 p.a. He contributes Rs. 5,000 in RPF. The employer's contribution being Rs. 3,800. Ha has paid Rs. 4,000 by way of premium on his life policy of Rs. 40,000 by him. What is the total income of Mr. Kishori Lal.
(Answer : Rs.26,300)

3) Mr. Krishna Rao is employed with a company in Bombay. His basic salary is Rs. 3,500 p.m. His contribution towards recognised provident fund is Rs. 6,000. The employer contributes @ 12.5% of his salary. The interest credited to his P is Rs. 2,000. The accumulated balance to his credit is Rs. 15,000. Two children of Krishna Rao are studying in the institution run by the employer for which no fees is paid. Normal expenditure per student in such institution is Rs. 50 a month. The assessee is provided with a 14 h.p. care which is used for official and private purposes. The maintenance of the car is borne by Krishna Rao.

The Company has also provided him a rent-free unfurnished accommodation, the municipal value of which is Rs. 9,400. Calculate the total income of the assessee for Assessment year 1990-91.

(Answer : Rs. 31,850)

4) Following information is furnished by Darshan for the Assessment year 1990-91. Calculate his total Income.

	Rs.
Basic salary	40,000
Dearness Allowance	18,500
CCA	1,200
HRA	4,600
Actual Rent paid @ 800 p.m.	9,600

He contributes 15% of his basic salary to an unrecognised provident fund, the employee contributing 12% of the same. He is also paying Rs. 1500 on his life policy of Rs. 12,000.

(Answer : Rs. 46,500)

Note : These questions will help you to understand the unit better. Try to write answers for them. But do not submit your answers to the University. These are for your practice only.)

SOME USEFUL BOOKS

Bhagwati Prasad, ***Law and Practice of Income Tax;*** Navaman Prakashan, Aligarh (Chapter 5)

Mahesh Chandra **& Goyal** S.P., ***Income Tax Law and Practice,*** 1990, Himalaya Publishing House, Delhi (Chapter 6)

Mehrotra, H.C. ***Income*** Tax ***Law and Accounts 1990,*** Sahitya Bhawan, Agra (Chapter 5)'

Vinod K. Singhania, ***Students Guide to Income Tax*** Taxman Publications Private Ltd. (Chapter 4)