



Income Under the head Salary- Part -3

- ◆ Retirement Benefits
- ◆ Profit in Lieu of Salary
- ◆ Deductions
- ◆ Relief u/s 89



Retirement Benefits



Retirement Benefits

Retirement -

Retirement is the withdrawal from one's position or occupation or from one's active working life.

Benefits -

An Advantage or profit gained from something.

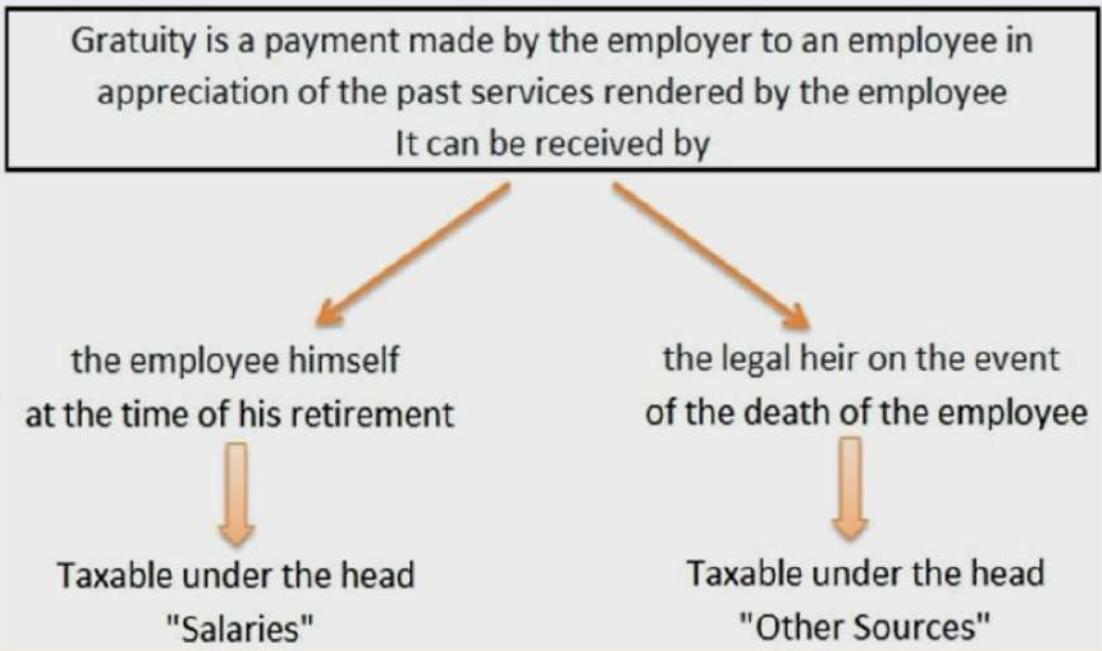


Types of Retirement Benefits Received by Employee

- 1) Gratuity
- 2) Pension
- 3) Leave Encashment
- 4) Provident Fund



1. Gratuity





Gratuity Exemption Limit



Employees covered
under Payment of
Gratuity Act



Employees not
covered
under Payment
of Gratuity Act



Government
Employees



Case 1- For Employees covered under Payment of Gratuity Act

Lower of the Following is exempt:

Last salary (basic + DA)* number of years of employment* 15/26

₹ 20 lakhs

Gratuity Actually received



Case 2- For Employees not covered under Payment of Gratuity Act

Lower of the Following is exempt:

Last 10 month's average salary (basic + DA)* number of years of employment* 1/2;

₹20 lakhs

Gratuity Actually received



Case 3- Government Employees

Gratuity paid by the government to government employees is fully exempt from tax.



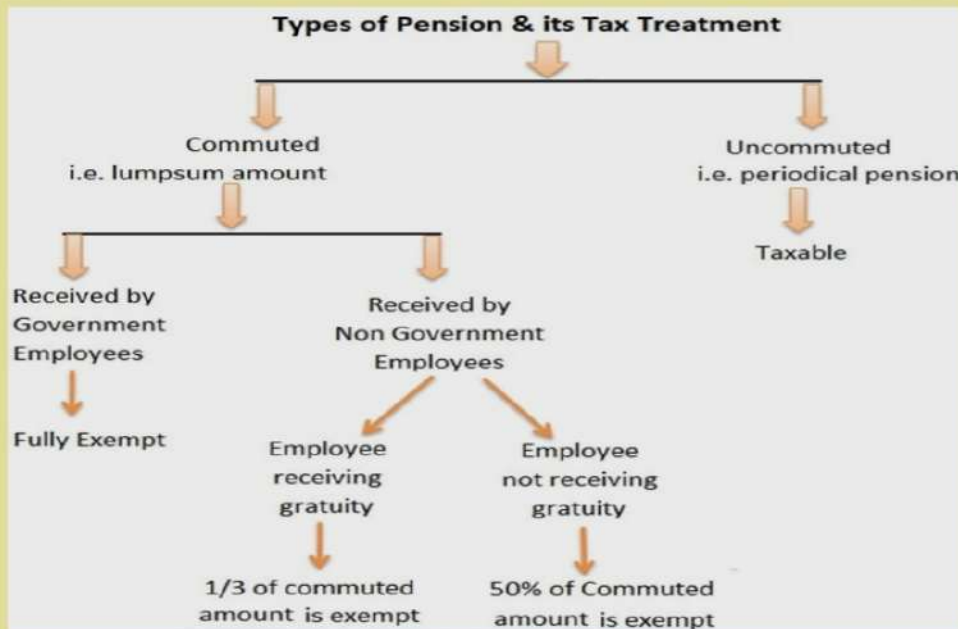
2. Pension

Pension is a payment made by the employer after the retirement/death of the employee as a reward for past service.





Types of Pension & its tax treatment



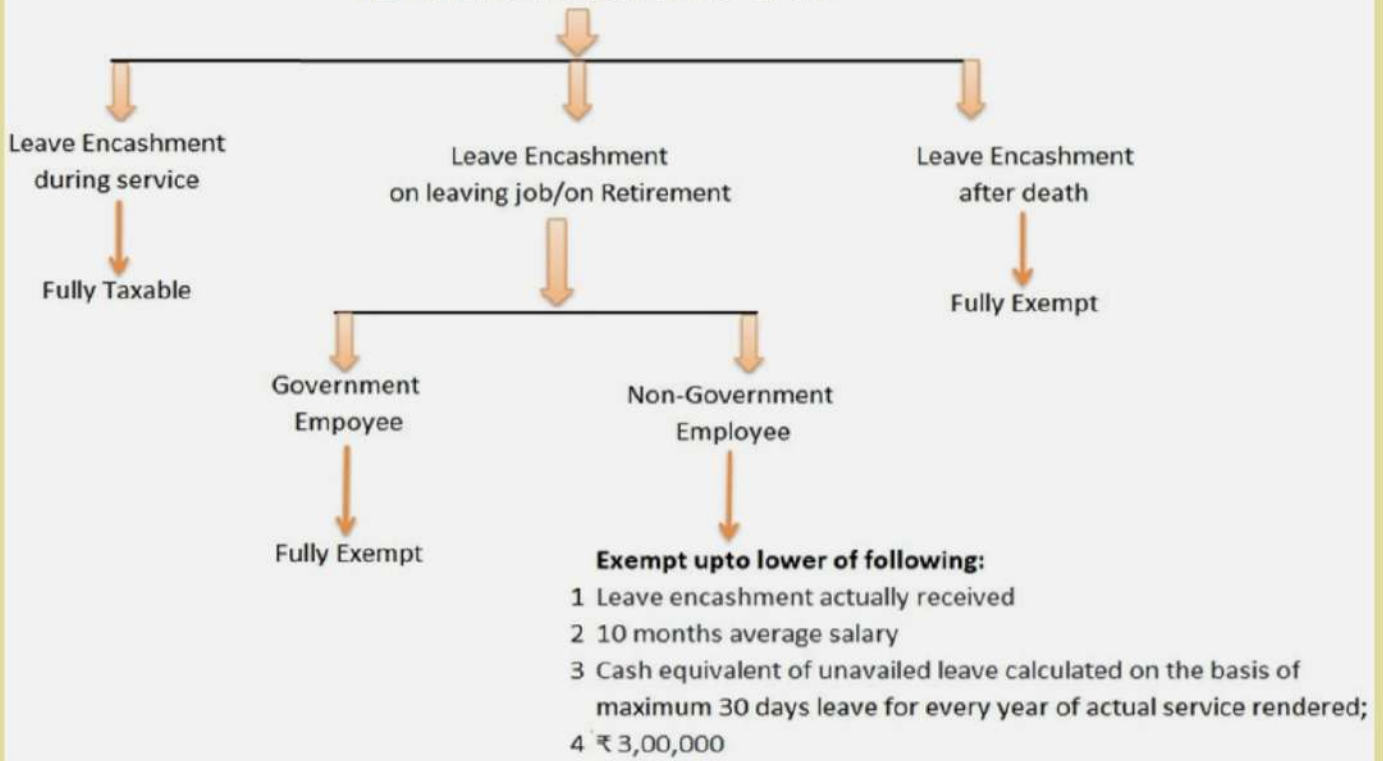


3. Leave Encashment

- ◆ As per terms of employment, generally, an employee is granted certain period of leaves on yearly basis.
- ◆ Such leaves may be casual leaves, medical leaves and privileged leaves or earned leaves.
- ◆ Generally, an employee can accumulate his medical leaves and privileged leaves and can avail such leaves in subsequent years as per his necessity.



Tax treatment of Leave Encashment





4.Provident Fund

Provident Fund is a government managed savings schemes, where you invest your money and benefit from accumulated interest over time.



Types of Provident Fund



Recognized
Provident
Fund (RPF)



Unrecognized
Provident
Fund (URPF)



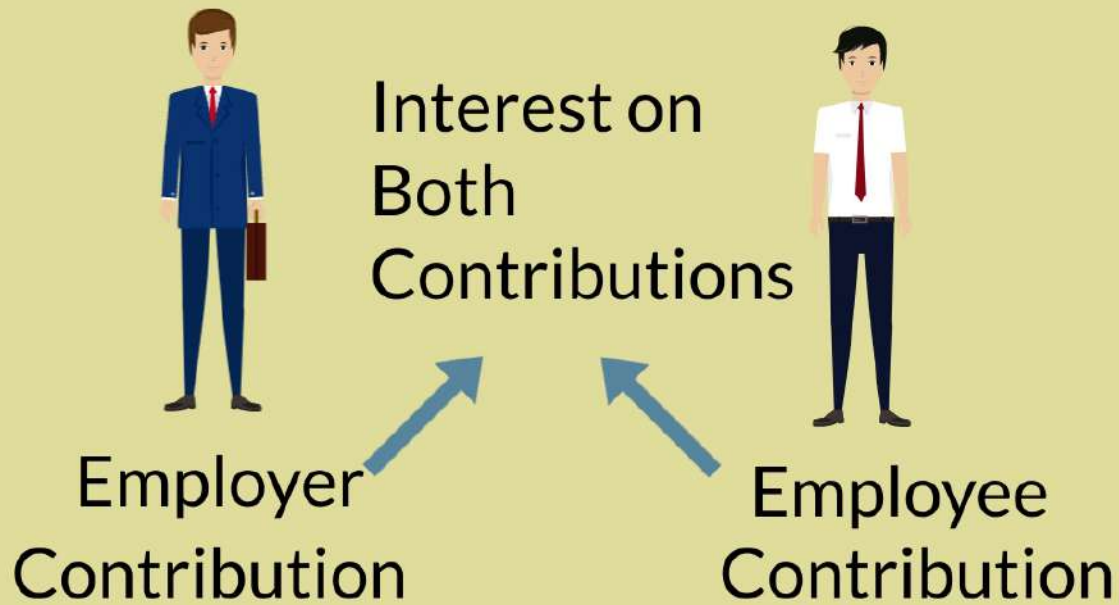
Statutory
Provident
Fund (SPF)



Public
Provident
Fund (PPF)



Who deposit in Provident Fund





During the service

NATURE OF PROVIDENT FUND	EMPLOYEE CONTRIBUTION	EMPLOYER CONTRIBUTION	INTEREST
Statutory Provident Fund	Deduction u/s 80C	Exempt	Exempt
Recognised Provident Fund	Deduction u/s 80C	Exempt up to 12% of Salary	Exempt up to 9.5% p.a.
Unrecognised Provident Fund	Deduction u/s 80C not available	Exempt	Exempt
Public Provident Fund	Deduction u/s 80C	N.A.	Exempt

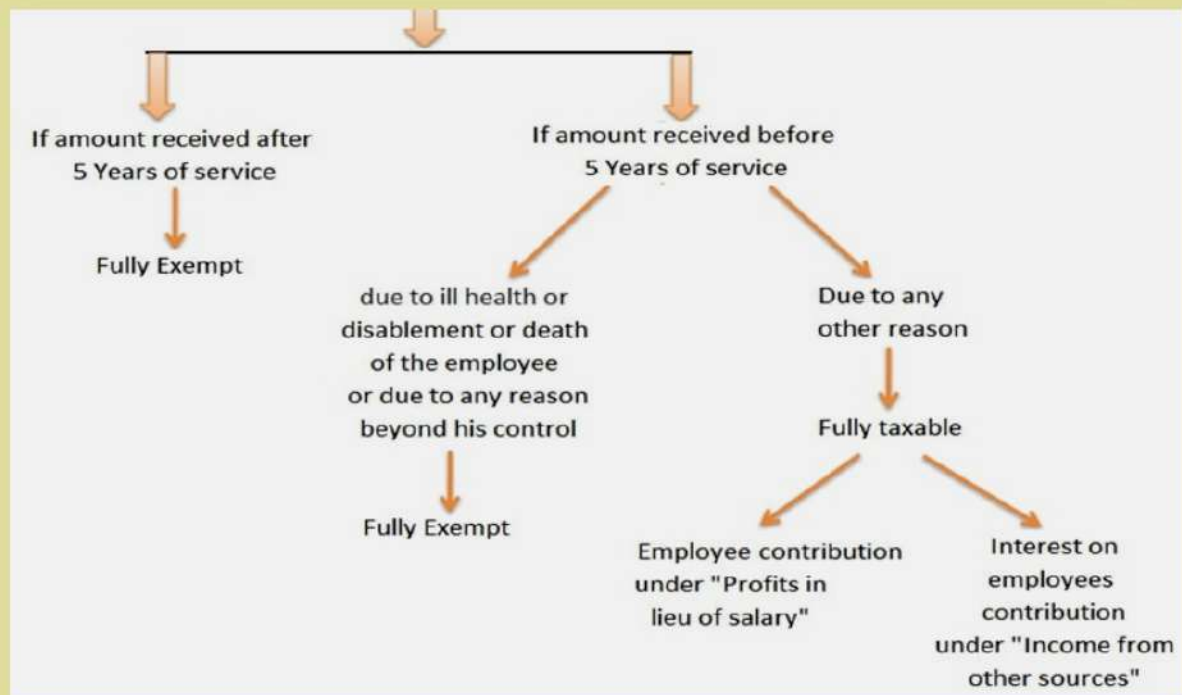


On Retirement

NATURE OF PROVIDENT FUND	AMOUNT RECEIVED ON TERMINATION
Statutory Provident Fund	Exempt
Recognised Provident Fund	Exempt
Unrecognised Provident Fund	Employer Contr - Salaries Interest on Employer Contr - Salaries Employee Contr - Not Taxable Interest on Employee Contr - Other Sources



Exemption criteria of Accumulated Provident Fund





Profit in Lieu of Salary



Profit in Lieu of Salary

Profits in lieu of Salary mean payments which are received by the employee in lieu of or in addition to salary or wages.



Profit in Lieu of Salary

1. Terminal Compensation or compensation on account of modification of terms & Conditions of employment.
2. Payment under Key man Insurance Policy .



Profit in Lieu of Salary

3. Any amount due or received before joining or after cessation of employment. (Non Compete Fees)
4. Any payment due or to be received by an assessee from the employer or from a provident or other fund, (excluding employees own contribution and interest on his compensation)



Compensation received under Voluntary Retirement Scheme

VRS Commonly known as Voluntary Retirement Scheme is a scheme in which an employee is offered to voluntarily retire from services before the retirement date.



Compensation received under Voluntary Retirement Scheme

Tax Treatment of VRS

Lower of the following is exempt:

1. Amount of exemption received
2. ₹ 500000
3. 3 Months salary for every completed year of service.
4. Salary at the time of retirement X No. of months left for service

* Salary = Basic + DA + Commission



Retrenchment Compensation

Retrenchment benefits are payments given by employers to compensate for the loss of employment.

Least of the following is exempt :

1. Amount received
2. $15/26 \times$ Average Salary of last 3 months \times completed year of service
3. ₹ 500,000

* Salary =Basic+ Allowance+ Perquisite+ LTC+ Commission



Relief u/s 89



Relief u/s 89

Tax is calculated on a person's total income, but if this income includes any past arrears or dues then a higher tax on such income is to be paid.

To save from such burden of tax, the law provides a relief u/s 89.



Step 1	Calculate tax payable on the total income, including such additional arrears – in the year it is received.
Step 2	Calculate tax payable on the total income, excluding additional such arrears in the year it is received
Step 3	Step 1 - Step 2
Step 4	Calculate tax payable on the total income of the year to which the arrears relate , excluding arrears.
Step 5	Calculate tax payable on the total income of the year to which the arrears relate , including arrears
Step 6	Step 4-Step 5
Step 7	Step 3-Step 6 Is the tax relief



Example

- ◆ Mr. Pankaj is employed by A Ltd. For the previous year 2007-08 his taxable salary income is ₹ 2,30,000 (he has no other income).
- ◆ On ₹ 2,30,000, X has paid income-tax of ₹ 20,600.
- ◆ For the previous year 2018-19, his taxable income (after standard deduction) is ₹ 12,00,000.
- ◆ On December 1, 2018, X has received arrears of bonus of ₹ 60,000 pertaining to the previous year 2007-08.



Step 1	Calculate Tax payable including arrears in FY 2018-19 ₹ 1,98,120
Step 2	Calculate Tax payable excluding arrears in FY 2018-19 ₹ 1,79,400
Step 3	Step 1 - Step 2 ₹ 18,720
Step 4	Calculate Tax payable including arrears in FY 2007-08 ₹ 37,080
Step 5	Calculate Tax payable excluding arrears in FY 2007-08 ₹ 20,600
Step 6	Step 3 - Step 4 ₹ 16,480
Step 7	Step 3 - Step 6 ₹ 2240 is the relief amount



Deductions u/s 16

Standard Deduction under [Section 16(ia)]



Standard Deduction Till FY 2017-18 was NIL

Standard Deduction for FY 2018-19 was ₹ 40000

Standard Deduction for FY 2019-20 is ₹ 50000



Entertainment Allowance

Entertainment Allowance [Section 16(ii)]

In case of a Government Employee



Lower of the following is exempt:

- ◆ 20% of basic salary *
- ◆ ₹ 5000
- ◆ Entertainment allowance actually granted

In case of a Non Government Employee



No deduction allowed

* Salary excludes the benefits, allowances and other perquisites.

The actual amount expended by employee is not considered

Professional Tax [Section 16(iii)]



Professional Tax or tax on employment, levied by a state, is allowed as Deduction.