Advance learning on tax treatment of various forms of salary like bonus, overtime pay, salary in lieu of notice period, etc. (Theory)

**Tax treatment of advance salary**

Advance salary received by an employee is taxed in the year of receipt. The rule behind this is the basis of taxability of salary, i.e., salary is taxed on due or receipt basis, whichever is earlier. However, an employee can claim relief under section 89 (discussed later) in respect of advance salary.

**Illustration**

In March, 2013, Mr. Kumar received advance salary of Rs. 84,000 pertaining to the month of April, 2013. In which year advance salary will be charged to tax?

**

Salary is taxed on due or receipt basis, whichever is earlier. Thus, advance salary of April, 2013 received in the year 2012-13, i.e., in March, 2013 will be taxed in the year 2012-13.

**Arrears of salary**

Arrears of salary received by an employee are taxed in the year of receipt if the same were not taxed earlier on due basis. However, an employee can claim relief under section 89 (discussed later) in respect of arrears of salary.

**Illustration**

In March, 2013, Mr. Sunny received arrears of salary of Rs. 1,84,000 pertaining to the year 2011-12. The arrears were not taxed earlier on due basis. In which year arrears will be charged to tax?

**

Arrears of salary received by an employee are taxed in the year of receipt if the same were not taxed earlier on due basis. In this case, the arrears of Rs. 1,84,000 were not charged to tax on due basis earlier and, hence, the same will be charged to tax in the year 2012-13.

**Tax treatment of bonus**

Bonus received by an employee is charged to tax in the year of receipt. Relief under section 89 can be claimed in respect of arrears of bonus received during the year.

**Illustration**

Apart from regular salary, in March, 2013, Mr. Sunil received bonus of Rs. 84,000. In this case bonus will be charged to tax in which year?

**

Bonus received by an employee is charged to tax in the year of receipt. In this case, bonus is received in March, 2013 and, hence, will be charged to tax in the previous year 2012-13.
Tax treatment of fees or commission

Fees or commission received by the employee from the employer are charged to tax as salary income. Commission will be taxed as salary income, irrespective of the fact that it is received as fixed monthly amount or is received as a percentage of any particular item like turnover achieved by the employee.

Illustration

Mr. Kapoor is working in Essem Ltd. as sales manager. Apart from his routine pay of basis salary and various allowances amounting to Rs. 84,000 per month, the company also pays him commission @ 5% of the turnover achieved by him. During the year 2012-13 he had achieved sales of Rs. 1,00,00,000. Company paid him commission of Rs. 5,00,000. What will be the tax treatment of commission?

Fees or commission received by the employee from the employer are charged to tax as salary income. Commission will be taxed as salary income, irrespective of the fact that it is received as fixed monthly amount or is received as percentage of turnover. In this case, the commission of Rs. 5,00,000 (i.e. @ 5% of Rs. 1,00,00,000) will be charged to tax as salary income and it will be charged to tax during the previous year 2012-13.

Illustration

Mr. Soham is working in SM Ltd. as sales manager. Apart from his routine pay of basis salary and various allowances amounting to Rs. 1,84,000 per month, the company also pays him monthly commission of Rs. 10,000. What will be the tax treatment of commission?

Fees or commission received by the employee from the employer are charged to tax as salary income. Commission will be taxed as salary income, irrespective of the fact that it is received as fixed monthly amount or is received as percentage of turnover. In this case, the commission of Rs. 10,000 per month will be charged to tax as salary income.

Tax treatment of salary in lieu of notice period

Salary in lieu of notice period is charged to tax on receipt basis, i.e., it is charged to tax in the year of receipt.

Illustration

In April, 2012, Mr. Kumar joined Essem Ltd. As per the terms of employment, the company can remove him from job after giving a notice of one month. If the company wants to remove him by an immediate effect, then the company has to pay him one month’s salary. In June, 2012, the company removed him and paid
him one month’s salary (Rs. 25,200) as salary in lieu of notice period. In this case, what will be the tax treatment of Rs. 25,200?

**

Salary in lieu of notice period is charged to tax on receipt basis, i.e., it is charged to tax in the year of receipt. In this case, Rs. 25,200 is received in June, 2012 and, hence, will be charged to tax in the previous year 2012-13.

**Gifts received from the employer**

Any voluntarily gift received by the employee from the employer is charged to tax as salary income (perquisite). However, non-monetary gifts are exempt upto Rs. 5,000. The detailed tax treatment of gift in the form of perquisite is discussed in advance learning on perquisites.

If gift has no relation to the service rendered by the employee, then the same can be charged to tax under the head “Income from other sources”.

**Illustration**

In March, 2013, on account of appreciation of the work done by Mr. Sunil, his employer gave him gift (by cheque) of Rs. 8,400. What will be the tax treatment of Rs. 8,400?

**

Any voluntarily gift received by the employee from the employer is charged to tax as salary income (perquisite). Thus, in this case Rs. 8,400 will be charged to tax as perquisite.

**Compensation received from the employer**

Compensation received from the employer in connection with modification of terms of employment will be charged to tax as salary income, i.e., profits in lieu of salary.

**Illustration**

Mr. Subodh is working in Shyamal Ltd. as mechanical site head. He is deputed in morning shift on a monthly salary of Rs. 84,000. Due to change in the work schedule of the company, Mr. Subodh is deputed in the night shift. As per the terms of employment, if the shift of the employee is changed then he will be paid compensation of Rs. 1,00,000. In pursuance of this, Mr. Subodh received Rs. 1,00,000 on account of change in shift. What will be the tax treatment of Rs. 1,00,000?

**

Compensation received from the employer in connection with modification of terms of employment, will be charged to tax as salary income, i.e., profits in lieu of salary. Thus, compensation of Rs. 1,00,000 will be charged to tax under the head “Salaries” as profits in lieu of salary.

**Pay for extra work**

source : www.trpscheme.com

(As amended by Finance Act, 2013)
If an employee receives any payment in respect of extra work done by him then the same is charged to tax under the head “Salaries”. In other words, remuneration received for extra work will be charged to tax as salary income.

**Tax treatment of allowances**
Tax treatment of various allowances is discussed in the advance learning on allowances.

**Tax treatment of perquisites**
Tax treatment of various perquisites is discussed in the advance learning on perquisites.

**Tax treatment of retirement benefits**
Tax treatment of various retirement benefits is discussed in the advance learning on retirement benefits.

**Tax treatment of salary received by a partner**
For taxing any income under the head “Salaries”, the relation of the payer and payee should be that of the employer and the employee. In case of a partnership firm, the partners are not the employees of the firm and, hence, salary received by the partners from the firm is not charged to tax under the head “Salaries”. Salary received by partner from the firm is charged to tax under the head “Profits and gains of business or profession”.

**Illustration**
Mr. Viren and Mr. Raja are partners of Essem Trading Co. Apart from share of profit and interest on capital, they receive monthly salary of Rs. 84,000 from the firm. What will be the tax treatment of the salary received by the partners from the firm?

**
Salary received by partner from the firm is charged to tax under the head “Profits and gains of business or profession”.
Thus, salary received by Mr. Viren and Mr. Raja will not be charged to tax as salary income but will be charged to tax as business income under the head “Profits and gains of business or profession”.

**Illustration**
Mr. Vipul is one of the partners in SM Traders. Apart from share of profit and interest on capital, he receives monthly salary of Rs. 25,200 from the firm. He is also doing part time job at a monthly salary of Rs. 10,000. What will be the tax treatment of the salary received by him as the partner from the firm and salary from part time job?

**
(As amended by Finance Act, 2013)
Salary received by partner from the firm is charged to tax under the head “Profits and gains of business or profession”. Thus, salary received by Mr. Vipul from the firm will not be charged to tax as salary income but will be charged to tax as business income under the head “Profits and gains of business or profession”. In other words, salary of Rs. 25,200 will be taxed as business income of Mr. Vipul.

Salary of Rs. 10,000 received from part time job is received from a concern in which he is not a partner but an employee. Thus, in case of salary of Rs. 10,000 he is receiving the same as an employee and, hence, it will be charged to tax as salary income.

Tax treatment of salary received by an Indian citizen deputed outside India

Salary received by an Indian citizen deputed outside India by the Government is treated as income deemed to be accrued or arisen in India and will be taxed in India. However, in such a case allowance and perquisites will be exempt from tax.

Illustration

Mr. Ravi is an Indian citizen. He is deputed in Canada by the Indian Government. The details of his pay structure are as follows:

- Basic salary : Rs. 84,000 per month.
- Other allowances : Rs. 16,000 per month.
- Value of various perquisites provided by the employer : Rs. 50,000

What will be the tax treatment of above items?

**

Salary received by an Indian citizen deputed outside India by the Government is treated as income deemed to be accrued or arisen in India and will be taxed in India. However, in such a case allowance and perquisites will be exempt from tax. Thus, in the above case, salary received by Mr. Ravi from the Government of India will be treated as income deemed to have accrued or arisen in India. Thus, Rs. 84,000 (i.e., basic salary) will be treated as salary income in India and Rs. 16,000 (allowances) and Rs. 50,000 (value of perquisites) will be exempt from tax.

Illustration

Mr. Rahul is an Indian citizen. He is working as a general manager in the UK-based branch of an American company. He is deputed in UK since past 10 years and he has not visited India since 10 years. The details of his pay structure are as follows:

- Basic salary : Rs. 84,000 per month.
- Other allowances : Rs. 16,000 per month.
- Value of various perquisites provided by the employer : Rs. 50,000

What will be the tax treatment of above items?

(As amended by Finance Act, 2013)
Salary received by an Indian citizen deputed outside India by the Government is treated as income deemed to have accrued or arisen in India and will be taxed in India. In the above case, Mr. Rahul is not deputed by the Government of India and, hence, salary earned by him will not be treated as income deemed to have accrued or arisen in India. He is non-resident and, hence, salary earned outside India will not be charged to tax in India.

**Tax treatment of salary foregone by the employee**

Salary is charged to tax on due or receipt basis whichever is earlier, hence, salary foregone by the employee is charged to tax on due basis, even though it is not received by him. In other words, salary foregone after its accrual is charged to tax, even though it is not received by the employee.

**Illustration**

Mr. Kapil is working in Essem Ltd. as branch manager at a monthly salary of Rs. 84,000. A sudden fire occurred in plant of the company and in tune of heavy loss suffered by the company Mr. Kapil decided to forego one month’s salary. What will be the tax treatment of one month’s salary?

**

Salary foregone after its accrual is charged to tax, even though it is not received by the employee. Thus, in this case one month’s salary foregone by Mr. Kapil will be charged to tax, even though it is not received by him.

**Tax treatment of surrender of salary to the Central Government**

Salary foregone after its accrual is charged to tax, even though it is not received by the employee. However, if salary is surrendered to the Central Government under section 2 of the Voluntary Surrender of Salary (Exemption from Taxation) Act, 1961, then such surrendered salary is not charged to tax.

**Illustration**

Mr. Kunal surrendered his salary to the Central Government under section 2 of the Voluntary Surrender of Salary (Exemption from Taxation) Act, 1961. What will be the tax treatment of salary surrendered by him?

**

If salary is surrendered to the Central Government under section 2 of the Voluntary Surrender of Salary (Exemption from Taxation) Act, 1961, then such surrendered salary is not charged to tax.

Thus, in this case salary surrendered by Mr. Kuanl to the Central Government will not be charged to tax.

**Tax treatment of salary received from the UNO**

Salary received from the United Nations Organisation is exempt from tax as per section 2 of the United Nations (Privileges and Immunities) Act, 1947.
**Illustration**

Mr. Sunil is employed by the United Nations Organisation under a project in India. He is receiving a monthly salary of Rs. 1,84,000 from the UNO. What will be the tax treatment of salary received from the United Nations Organisation?

Salary received from the United Nations Organisation is exempt from tax as per section 2 of the United Nations (Privileges and Immunities) Act, 1947. Thus, in this case salary of Rs. 1,84,000 received from the United Nations Organisation will not be charged to tax.

**Tax treatment of amount received before joining the job**

Any payment received by an employee from his present employer or former employer or prospective employer will be charged to tax under the head “Salaries” (as profits in lieu of salary). Hence, amount received from prospective employer will also be charged to tax under the head “Salaries”.

**Illustration**

Mr. Kapoor appeared for an interview of a multinational company and was selected. However, on request to the company he was allowed to join the job after one month. For securing his joining the company entered into an agreement with him and paid him Rs. 84,000 before joining. What will be the tax treatment of Rs. 84,000 received from prospective employer?

Amount received from prospective employer will also be charged to tax under the head “Salaries”. Thus, Rs. 84,000 received from prospective employer by Mr. Kapoor will be charged to tax under the head “Salaries”.

**Relief under section 89 in respect of arrears of salary**

Under section 89, read with Rule 21A(2), an employee can claim relief in respect of arrears of salary. Relief can be computed in the following manner:

*Step 1*: Calculate total tax liability (including surcharge and cess, if any) on the total income, *including* the additional salary of the previous year in which such salary is received.

*Step 2*: Calculate total tax liability (including surcharge and cess, if any) on the total income, *excluding* the additional salary of the previous year in which such salary is received.

*Step 3*: Find the difference between tax computed at (1) and (2) above.

*Step 4*: Calculate total tax liability (including surcharge and cess, if any) on the total income, *including* the additional salary of the previous year(s) to which such salary relates to.
Step 5: Calculate total tax liability (including surcharge and cess, if any) on the total income, excluding the additional salary of the previous year(s) to which such salary relates to.

Step 6: Find the difference between tax computed at (4) and (5) above.
Relief under section 89 is the excess of tax computed at Step 3 over tax computed at Step 6. No relief is available, if tax computed at Step 3 is less than tax computed at Step 6.

If the additional salary pertains to more than one previous year, then relief shall be computed in above manner by spreading such salary over the previous years to which such salary pertains to.

Illustration
During the year 2012-13, Mr. Kaushal has received arrears of salary of the year 2011-12 (it was not taxed in 2011-12). Due to inclusion of arrears, his tax liability of the year 2012-13 has increased. He provides following details in respect of his salary income:

- Tax on income of the year 2012-13, including arrears of salary: Rs. 8,40,000.
- Tax on income of the year 2012-13, excluding arrears of salary: Rs. 8,00,000.
- Tax on income of the year 2011-12, including arrears of salary: Rs. 7,00,000.
- Tax on income of the year 2011-12, excluding arrears of salary: Rs. 6,75,000.

Compute the amount of relief under section 89(1) from above details.

**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax on income of the year 2012-13, including arrears of salary</td>
<td>Rs. 8,40,000</td>
</tr>
<tr>
<td>Tax on income of the year 2012-13, excluding arrears of salary</td>
<td>Rs. 8,00,000</td>
</tr>
<tr>
<td>Difference</td>
<td>Rs. 40,000</td>
</tr>
<tr>
<td>Tax on income of the year 2011-12, including arrears of salary</td>
<td>Rs. 7,00,000</td>
</tr>
<tr>
<td>Tax on income of the year 2011-12, excluding arrears of salary</td>
<td>Rs. 6,75,000</td>
</tr>
<tr>
<td>Difference</td>
<td>Rs. 25,000</td>
</tr>
<tr>
<td>Difference of difference</td>
<td>Rs. 15,000</td>
</tr>
<tr>
<td>Relief under section 89(1) will amount to</td>
<td>Rs. 15,000</td>
</tr>
</tbody>
</table>

Illustration
During the year 2012-13, Mr. Jay has received arrears of salary of the year 2011-12 (it was not taxed in 2011-12). Due to inclusion of arrears his tax liability of the

(source: www.trpscheme.com)
year 2012-13 has increased. He provides following details in respect of his salary income:

- Tax on income of the year 2012-13, including arrears of salary: Rs. 8,40,000.
- Tax on income of the year 2012-13, excluding arrears of salary: Rs. 8,00,000.
- Tax on income of the year 2011-12, including arrears of salary: Rs. 7,00,000.
- Tax on income of the year 2011-12 excluding arrears of salary: Rs. 6,50,000.

Compute the amount of relief under section 89(1) from above details.

**

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</tr>
<tr>
<td>Difference (A)</td>
<td>Rs. 40,000</td>
</tr>
<tr>
<td>Tax on income of the year 2011-12, including arrears of salary</td>
<td>Rs. 7,00,000</td>
</tr>
<tr>
<td>Tax on income of the year 2011-12 excluding arrears of salary</td>
<td>Rs. 6,50,000</td>
</tr>
<tr>
<td>Difference (B)</td>
<td>Rs. 50,000</td>
</tr>
</tbody>
</table>

In this case, no relief will be granted, since difference at (B) is higher than difference at (A).

**Relief under section 89 in respect of retirement benefits**

Under section 89, read with Rule 21A, an employee can claim relief in respect of retirement benefits. Provisions in this regard are as follows:

**(A) Relief in respect of gratuity [Rule 21A(3)]**

Relief in respect of taxable gratuity [i.e., gratuity received in excess of amount exempt under section 10(10)],. For the purpose of relief, gratuity can be classified as follows:

(a) **Gratuity payable in respect of past service of 15 years or more:**

In this case, relief is computed as follows:

1. Compute the average rate of tax on the total income (including gratuity) for the previous year in which gratuity is received.
2. Compute the average rate of tax on the total income of previous three years by adding one-third of gratuity to each of three years.
3. Find the average of the three average rates determined in (2) above.
4. Find the difference of rate determined at (1) and at (3),
5. Amount of relief is tax on gratuity computed at the rate determined (i.e., excess rate) in (4) above.

Average rate of tax (%) = \( \frac{\text{Tax liability for the year}}{X \times 100} \)

source : www.trpscheme.com (As amended by Finance Act, 2013)
Taxable income for that year

(b) Gratuity payable in respect of past service of less than 15 years, but not less than 5 years:

In this case, relief is computed in the same manner as discussed in (a) above, except that gratuity is to be spread equally over past two years instead of three years.

(c) No relief is available for gratuity received in respect of service rendered for a period of less than 5 years.

(B) Relief in respect of compensation on termination of employment [Rule 21A(4)]

Relief in respect of such compensation is computed in the same manner as relief in case of gratuity paid to the employee after service rendered for a period of 15 years or more [as discussed above]. Such compensation is received after rendering continuous service for not less than 3 years and unexpired portion of term of employment of an employee is also not less than 3 years.

It should be noted that with effect from the assessment year 2010-11, section 10(10C) has been amended to provide that where any relief has been allowed to an assessee under section 89 for any assessment year in respect of any amount received or receivable on his voluntary retirement or termination of service or voluntary separation, no exemption under section 10(10C) shall be allowed to him in relation to such or any other assessment year.

(C) Relief in respect of payment received on commutation of pension [Rule 21A(5)]

Relief in respect of taxable commuted pension [i.e., commuted pension received in excess of amount exempt under section 10(J0A),] can be computed in the same manner as relief in respect of gratuity paid to the employee after service rendered for a period of 15 years or more [as discussed above].

(D) Relief in respect of other payments [Rule 21A(6)]

Relief in respect of any other payment (i.e., other than those covered above) will be granted by the Central Board of Direct Taxes, after examining the circumstances of each individual case.

Illustration

During the year 2012-13, Mr. Sujal retired from his service (after service for 12 years). At the time of retirement he received gratuity of Rs. 1,84,000. Due to inclusion of gratuity, his tax liability of the year 2012-13 has increased. He has provided following details.

- Average rate of tax of the year 2012-13, including gratuity : 25%.
- Average rate of tax of the year 2011-12, including ½ gratuity : 20%.

source : www.trpscheme.com

(As amended by Finance Act, 2013)
- Average rate of tax of the year 2010-11, including ½ gratuity : 18%.

What will be the amount of relief under section 89(1) which can be claimed by him from gratuity received by him?

**

Computation of relief in respect of gratuity will be as follows:

- Average rate of tax of the year 2012-13, including gratuity : 25%.
- Average rate of tax of the year 2011-12, including ½ gratuity : 20%.
- Average rate of tax of the year 2010-11, including ½ gratuity : 18%.

Average of average rate of the year 2010-11 and 2011-12 will come to 19% \([(20\% + 18\%) \div 2]\).

Relief will be available @ 6% \((25\% – 19\%)\) on the amount of gratuity of Rs. 1,84,000. Relief @ 6% on Rs. 1,84,000 will amount to Rs. 11,040.

Illustration

During the year 2012-13, Mr. Rupesh retired from service (after service for 12 years). At the time of retirement he received gratuity of Rs. 1,84,000. Due to inclusion of gratuity, his tax liability of the year 2012-13 increased. He has provided following details:

- Average rate of tax of the year 2012-13, including gratuity : 24%.
- Average rate of tax of the year 2011-12, including ½ gratuity : 26%.
- Average rate of tax of the year 2010-11, including ½ gratuity : 28%.

What will be the amount of relief under section 89(1) which can be claimed by him from gratuity received by him?

**

Computation of relief in respect of gratuity will be as follows:

- Average rate of tax of the year 2012-13, including gratuity : 24%.
- Average rate of tax of the year 2011-12, including ½ gratuity : 26%.
- Average rate of tax of the year 2010-11, including ½ gratuity : 28%.

Average of average rate of the year 2010-11 and 2011-12 will come to 27% \([(26\% + 28\%) \div 2]\).

In this case, no relief will be granted, since the average rate of tax of 2012-13 is lower than average of average rate of tax of past two years.

Illustration

During the year 2012-13, Mr. Raja retired from his service (after service for 21 years). At the time of retirement he received gratuity of Rs. 2,52,000. Due to inclusion of gratuity, his tax liability of the year 2012-13 has increased. He has provided following details:
• Average rate of tax of the year 2012-13, including gratuity : 21%.
• Average rate of tax of the year 2011-12, including 1/3rd gratuity : 20%.
• Average rate of tax of the year 2010-11, including 1/3rd gratuity : 16%.
• Average rate of tax of the year 2009-10, including 1/3rd gratuity : 15%.

What will be the amount of relief under section 89(1) which can be claimed by him from gratuity received by him?

**

Computation of relief in respect of gratuity will be as follows :
• Average rate of tax of the year 2012-13, including gratuity : 21%.
• Average rate of tax of the year 2011-12, including 1/3rd gratuity : 20%.
• Average rate of tax of the year 2010-11, including 1/3rd gratuity : 16%.
• Average rate of tax of the year 2009-10, including 1/3rd gratuity : 15%.

Average of average rate of the year 2009-10, 2010-11 and 2011-12 will come to 17% \([20% + 16% + 15] ÷ 3\).

Relief will be available @ 4% \((21% − 17%)\) on the amount of gratuity of Rs. 2,52,000. Relief @ 4% on Rs. 2,52,000 will amount to Rs. 10,080.

** Illustration **

During the year 2012-13, Mr. Raja retired from his service (after service for 21 years). At the time of retirement he received gratuity of Rs. 2,52,000. Due to inclusion of gratuity, his tax liability of the year 2012-13 increased. He has provided following details.
• Average rate of tax of the year 2012-13, including gratuity : 16.50%.
• Average rate of tax of the year 2011-12, including 1/3rd gratuity : 20%.
• Average rate of tax of the year 2010-11, including 1/3rd gratuity : 16%.
• Average rate of tax of the year 2009-10, including 1/3rd gratuity : 15%.

What will be the amount of relief under section 89(1) which can be claimed by him from gratuity received by him?

**

Computation of relief in respect of gratuity will be as follows :
• Average rate of tax of the year 2012-13, including gratuity : 16.50%.
• Average rate of tax of the year 2011-12, including 1/3rd gratuity : 20%.
• Average rate of tax of the year 2010-11, including 1/3rd gratuity : 16%.
• Average rate of tax of the year 2009-10, including 1/3rd gratuity : 15%.

Average of average rate of the year 2009-10, 2010-11 and 2011-12 will come to 17% \([20% + 16% + 15] ÷ 3\).
In this case, no relief will be granted since the average rate of tax of 2012-13 is lower than average of average rate of tax of past three years.

Illustration

During the year 2012-13, Mr. Rahul retired from his service (after service for 4 years). At the time of retirement he received gratuity of Rs. 2,52,000. Due to inclusion of gratuity, his tax liability of the year 2012-13 increased. What will be the amount of relief under section 89(1) which can be claimed by him from gratuity received by him?

**

No relief is available for gratuity received in respect of service rendered for a period of less than 5 years. In the current case, Mr. Rahul retired after rendering service of 4 years and, hence, no relief can be claimed since the duration of service is less than 5 years.

Illustration

Mr. Sunil took voluntarily retirement from his job under a Voluntarily Retirement Scheme offered by his employer. He received Voluntarily Retirement Compensation of Rs. 8,40,000 from his employer. Out of Rs. 8,40,000 he claimed exemption of Rs. 5,00,000 under section 10(10C). In respect of balance amount of Rs. 3,40,000 (Rs. 8,40,000 – Rs. 5,00,000) he wants to claim relief under section 89(1). What will be the amount of relief which can be claimed by him under section 89(1) in respect of Rs. 3,40,000?

**

Where any relief has been allowed to an assessee under section 89 for any assessment year in respect of any amount received or receivable on his voluntary retirement or termination of service or voluntary separation, no exemption under section 10(10C) shall be allowed to him in relation to such or any other assessment year. Thus, in this case, he has an option either to claim exemption under section 10(10C) or to claim relief under section 89(1). An employee cannot simultaneously claim both benefits, viz., exemption under section 10(10C) as well as relief under section 89(1).

In the given case, the employee has claimed exemption under section 10(10C) and, hence, he cannot claim relief under section 89(1).
FAQs

1. What is the tax treatment of advance salary? Explain with the help of illustration.

Following illustration will explain the tax treatment of advance salary:

Advance salary received by an employee is taxed in the year of receipt. The rule behind this is the basis of taxability of salary, *i.e.*, salary is taxed on due or receipt basis, whichever is earlier. However, an employee can claim relief under section 89 (discussed later) in respect of advance salary.

**Illustration**

In March, 2013, Mr. Kumar received advance salary of Rs. 84,000 pertaining to the month of April, 2013. In which year advance salary will be charged to tax?

**

Salary is taxed on due or receipt basis, whichever is earlier. Thus, advance salary of April, 2013 received in the year 2012-13, *i.e.*, in March, 2013 will be taxed in the year 2012-13.

2. What is the tax treatment of arrears of salary? Explain with the help of illustration.

Arrears of salary received by an employee are taxed in the year of receipt if the same were not taxed earlier on due basis. However, an employee can claim relief under section 89 (discussed later) in respect of arrears of salary. Following illustration will explain the tax treatment of arrears of salary:

**Illustration**

In March, 2013, Mr. Sunny received arrears of salary of Rs. 1,84,000 pertaining to the year 2011-12. The arrears were not taxed earlier on due basis. In which year arrears will be charged to tax?

**

Arrears of salary received by an employee are taxed in the year of receipt if the same were not taxed earlier on due basis. In this case, the arrears of Rs. 1,84,000 were not charged to tax on due basis earlier and, hence, the same will be charged to tax in the year 2012-13.

3. What is the tax treatment of bonus? Explain with the help of illustration.

Bonus received by an employee is charged to tax in the year of receipt. Relief under section 89 can be claimed in respect of arrears of bonus received during the year. Following illustration will explain the tax treatment of bonus:

**Illustration**

Apart from regular salary, in March, 2013, Mr. Sunil received bonus of Rs. 84,000. In this case bonus will be charged to tax in which year?

source: www.trpscheme.com
Bonus received by an employee is charged to tax in the year of receipt. In this case, bonus is received in March, 2013 and, hence, will be charged to tax in the previous year 2012-13.

4. What is the tax treatment of fees or commission? Explain with the help of illustration.

Fees or commission received by the employee from the employer are charged to tax as salary income. Commission will be taxed as salary income, irrespective of the fact that it is received as fixed monthly amount or is received as a percentage of any particular item like turnover achieved by the employee. Following illustrations will explain the tax treatment of fees or commission:

Illustration

Mr. Kapoor is working in Essem Ltd. as sales manager. Apart from his routine pay of basis salary and various allowances amounting to Rs. 84,000 per month, the company also pays him commission @ 5% of the turnover achieved by him. During the year 2012-13 he had achieved sales of Rs. 1,00,00,000. Company paid him commission of Rs. 5,00,000. What will be the tax treatment of commission?

Fees or commission received by the employee from the employer are charged to tax as salary income. Commission will be taxed as salary income, irrespective of the fact that it is received as fixed monthly amount or is received as percentage of turnover. In this case, the commission of Rs. 5,00,000 (i.e. @ 5% of Rs. 1,00,00,000) will be charged to tax as salary income and it will be charged to tax during the previous year 2012-13.

Illustration

Mr. Soham is working in SM Ltd. as sales manager. Apart from his routine pay of basis salary and various allowances amounting to Rs. 1,84,000 per month, the company also pays him monthly commission of Rs. 10,000. What will be the tax treatment of commission?

Fees or commission received by the employee from the employer are charged to tax as salary income. Commission will be taxed as salary income, irrespective of the fact that it is received as fixed monthly amount or is received as percentage of turnover. In this case, the commission of Rs. 10,000 per month will be charged to tax as salary income.

5. What is the tax treatment of salary in lieu of notice period? Explain with the help of illustration.

Salary in lieu of notice period is charged to tax on receipt basis, i.e., it is charged to tax in the year of receipt. Following illustration will explain the tax treatment of salary in lieu of notice period:

source: www.trpscheme.com

(As amended by Finance Act, 2013)
Illustration
In April, 2012, Mr. Kumar joined Essem Ltd. As per the terms of employment, the company can remove him from job after giving a notice of one month. If the company wants to remove him by an immediate effect, then the company has to pay him one month’s salary. In June, 2012, the company removed him and paid him one month’s salary (Rs. 25,200) as salary in lieu of notice period. In this case, what will be the tax treatment of Rs. 25,200?

**
Salary in lieu of notice period is charged to tax on receipt basis, i.e., it is charged to tax in the year of receipt. In this case, Rs. 25,200 is received in June, 2012 and, hence, will be charged to tax in the previous year 2012-13.

6. What is the tax treatment of gifts received from the employer? Explain with the help of illustration.

Any voluntarily gift received by the employee from the employer is charged to tax as salary income (perquisite). However, non-monetary gifts are exempt upto Rs. 5,000. The detailed tax treatment of gift in the form of perquisite is discussed in advance learning on perquisites.

If gift has no relation to the service rendered by the employee, then the same can be charged to tax under the head “Income from other sources”. Following illustration will explain the tax treatment of gifts received from the employer:

Illustration
In March, 2013, on account of appreciation of the work done by Mr. Sunil, his employer gave him gift (by cheque) of Rs. 3,400. What will be the tax treatment of Rs. 3,400?

**
Any voluntarily gift received by the employee from the employer is charged to tax as salary income (perquisite). Thus, in this case Rs. 3,400 will be charged to tax as perquisite.

7. What is the tax treatment of compensation received from the employer? Explain with the help of illustration.

Compensation received from the employer in connection with modification of terms of employment will be charged to tax as salary income, i.e., profits in lieu of salary. Following illustration will explain the tax treatment of compensation received from the employer:

Illustration
Mr. Subodh is working in Shyamal Ltd. as mechanical site head. He is deputed in morning shift on a monthly salary of Rs. 84,000. Due to change in the work schedule of the company, Mr. Subodh is deputed in the night shift. As per the terms of employment, if the shift of the employee is changed then he will be paid compensation of Rs. 1,00,000. In pursuance of this, Mr. Subodh received Rs.
1,00,000 on account of change in shift. What will be the tax treatment of Rs. 1,00,000?

**

Compensation received from the employer in connection with modification of terms of employment, will be charged to tax as salary income, *i.e.*, profits in lieu of salary. Thus, compensation of Rs. 1,00,000 will be charged to tax under the head “Salaries” as profits in lieu of salary.

8. What is the tax treatment of pay for extra work? Explain with the help of illustration.

If an employee receives any payment in respect of extra work done by him then the same is charged to tax under the head “Salaries”. In other words, remuneration received for extra work will be charged to tax as salary income. Following illustration will explain the tax treatment of pay for extra work:

9. What is the tax treatment of allowances?

Tax treatment of various allowances is discussed in the advance learning on allowances.

10. What is the tax treatment of perquisites?

Tax treatment of various perquisites is discussed in the advance learning on perquisites.

11. What is the tax treatment of retirement benefits?

Tax treatment of various retirement benefits is discussed in the advance learning on retirement benefits.

12. What is the tax treatment of salary received by a partner? Explain with the help of illustration.

For taxing any income under the head “Salaries”, the relation of the payer and payee should be that of the employer and the employee. In case of a partnership firm, the partners are not the employees of the firm and, hence, salary received by the partners from the firm is not charged to tax under the head “Salaries”. Salary received by partner from the firm is charged to tax under the head “Profits and gains of business or profession”. Following illustrations will explain the tax treatment of salary received by a partner:

**Illustration**

Mr. Viren and Mr. Raja are partners of Essem Trading Co. Apart from share of profit and interest on capital, they receive monthly salary of Rs. 84,000 from the firm. What will be the tax treatment of the salary received by the partners from the firm?

**
Salary received by partner from the firm is charged to tax under the head “Profits and gains of business or profession”.

Thus, salary received by Mr. Viren and Mr. Raja will not be charged to tax as salary income but will be charged to tax as business income under the head “Profits and gains of business or profession”.

**Illustration**

Mr. Vipul is one of the partners in SM Traders. Apart from share of profit and interest on capital, he receives monthly salary of Rs. 25,200 from the firm. He is also doing part time job at a monthly salary of Rs. 10,000. What will be the tax treatment of the salary received by him as the partner from the firm and salary from part time job?

**

Salary received by partner from the firm is charged to tax under the head “Profits and gains of business or profession”. Thus, salary received by Mr. Vipul from the firm will not be charged to tax as salary income but will be charged to tax as business income under the head “Profits and gains of business or profession”. In other words, salary of Rs. 25,200 will be taxed as business income of Mr. Vipul.

Salary of Rs. 10,000 received from part time job is received from a concern in which he is not a partner but an employee. Thus, in case of salary of Rs. 10,000 he is receiving the same as an employee and, hence, it will be charged to tax as salary income.

13. **What is the tax treatment of salary received by an Indian citizen deputed outside India? Explain with the help of illustration.**

Salary received by an Indian citizen deputed outside India by the Government is treated as income deemed to be accrued or arisen in India and will be taxed in India. However, in such a case allowance and perquisites will be exempt from tax. Following illustrations will explain the tax treatment of salary received by an Indian citizen deputed outside India:

**Illustration**

Mr. Ravi is an Indian citizen. He is deputed in Canada by the Indian Government. The details of his pay structure are as follows :

- Basic salary : Rs. 84,000 per month.
- Other allowances : Rs. 16,000 per month.
- Value of various perquisites provided by the employer : Rs. 50,000

What will be the tax treatment of above items?

**

Salary received by an Indian citizen deputed outside India by the Government is treated as income deemed to be accrued or arisen in India and will be taxed in India. However, in such a case allowance and perquisites will be exempt from tax.
India. However, in such a case allowance and perquisites will be exempt from tax. Thus, in the above case, salary received by Mr. Ravi from the Government of India will be treated as income deemed to have accrued or arisen in India. Thus, Rs. 84,000 (i.e., basic salary) will be treated as salary income in India and Rs. 16,000 (allowances) and Rs. 50,000 (value of perquisites) will be exempt from tax.

**Illustration**

Mr. Rahul is an Indian citizen. He is working as a general manager in the UK-based branch of an American company. He is deputed in UK since past 10 years and he has not visited India since 10 years. The details of his pay structure are as follows:

- Basic salary: Rs. 84,000 per month.
- Other allowances: Rs. 16,000 per month.
- Value of various perquisites provided by the employer: Rs. 50,000

What will be the tax treatment of above items?

Salary received by an Indian citizen deputed outside India by the Government is treated as income deemed to have accrued or arisen in India and will be taxed in India. In the above case, Mr. Rahul is not deputed by the Government of India and, hence, salary earned by him will not be treated as income deemed to have accrued or arisen in India. He is non-resident and, hence, salary earned outside India will not be charged to tax in India.

14. What is the tax treatment of salary foregone by the employee? Explain with the help of illustration.

Salary is charged to tax on due or receipt basis whichever is earlier, hence, salary foregone by the employee is charged to tax on due basis, even though it is not received by him. In other words, salary foregone after its accrual is charged to tax, even though it is not received by the employee. Following illustration will explain the tax treatment of salary foregone by the employee:

**Illustration**

Mr. Kapil is working in Essem Ltd. as branch manager at a monthly salary of Rs. 84,000. A sudden fire occurred in plant of the company and in tune of heavy loss suffered by the company Mr. Kapil decided to forego one month’s salary. What will be the tax treatment of one month’s salary?

Salary foregone after its accrual is charged to tax, even though it is not received by the employee. Thus, in this case one month’s salary foregone by Mr. Kapil will be charged to tax, even though it is not received by him.

15. What is the tax treatment of surrender of salary to the Central Government? Explain with the help of illustration.

(As amended by Finance Act, 2013)
Salary foregone after its accrual is charged to tax, even though it is not received by the employee. However, if salary is surrendered to the Central Government under section 2 of the Voluntary Surrender of Salary (Exemption from Taxation) Act, 1961, then such surrendered salary is not charged to tax. Following illustration will explain the tax treatment of surrender of salary to the Central Government:

**Illustration**

Mr. Kunal surrendered his salary to the Central Government under section 2 of the Voluntary Surrender of Salary (Exemption from Taxation) Act, 1961. What will be the tax treatment of salary surrendered by him?

*If salary is surrendered to the Central Government under section 2 of the Voluntary Surrender of Salary (Exemption from Taxation) Act, 1961, then such surrendered salary is not charged to tax.*

Thus, in this case salary surrendered by Mr. Kunal to the Central Government will not be charged to tax.

16. **What is the tax treatment of salary received from the UNO? Explain with the help of illustration.**

Salary received from the United Nations Organisation is exempt from tax as per section 2 of the United Nations (Privileges and Immunities) Act, 1947. Following illustration will explain the tax treatment of salary received from the UNO:

**Illustration**

Mr. Sunil is employed by the United Nations Organisation under a project in India. He is receiving a monthly salary of Rs. 1,84,000 from the UNO. What will be the tax treatment of salary received from the United Nations Organisation?

*Salary received from the United Nations Organisation is exempt from tax as per section 2 of the United Nations (Privileges and Immunities) Act, 1947.*

Thus, in this case salary of Rs. 1,84,000 received from the United Nations Organisation will not be charged to tax.

17. **What is the tax treatment of amount received before joining the job? Explain with the help of illustration.**

Any payment received by an employee from his present employer or former employer or prospective employer will be charged to tax under the head “Salaries” (as profits in lieu of salary). Hence, amount received from prospective employer will also be charged to tax under the head “Salaries”. Following illustration will explain the tax treatment of amount received before joining the job:

**Illustration**

Mr. Kapoor appeared for an interview of a multinational company and was selected. However, on request to the company he was allowed to join the job after

source: www.trpscheme.com
one month. For securing his joining the company entered into an agreement with
him and paid him Rs. 84,000 before joining. What will be the tax treatment of Rs.
84,000 received from prospective employer?

Amount received from prospective employer will also be charged to tax under the
head “Salaries”. Thus, Rs. 84,000 received from prospective employer by Mr.
Kapoor will be charged to tax under the head “Salaries”.

18. How to compute relief under section 89 in respect of arrears of salary?
Explain with the help of illustration.

Under section 89, read with Rule 21A(2), an employee can claim relief in respect
of arrears of salary. Relief can be computed in the following manner:

Step 1 : Calculate total tax liability (including surcharge and cess, if any) on the
total income, including the additional salary of the previous year in which such
salary is received.

Step 2 : Calculate total tax liability (including surcharge and cess, if any) on the
total income, excluding the additional salary of the previous year in which such
salary is received.

Step 3. Find the difference between tax computed at (1) and (2) above.

Step 4 : Calculate total tax liability (including surcharge and cess, if any) on the
total income, including the additional salary of the previous year(s) to which such
salary relates to.

Step 5 : Calculate total tax liability (including surcharge and cess, if any) on the
total income, excluding the additional salary of the previous year(s) to which such
salary relates to.

Step 6 : Find the difference between tax computed at (4) and (5) above.

Relief under section 89 is the excess of tax computed at Step 3 over tax computed
at Step 6. No relief is available, if tax computed at Step 3 is less than tax computed
at Step 6.

If the additional salary pertains to more than one previous year, then relief shall be
computed in above manner by spreading such salary over the previous years to
which such salary pertains to. Following illustrations will explain the manner of
computation of relief under section 89 in respect of arrears of salary:

Illustration

During the year 2012-13, Mr. Kaushal has received arrears of salary of the year
2011-12 (it was not taxed in 2011-12). Due to inclusion of arrears, his tax liability
of the year 2012-13 has increased. He provides following details in respect of his
salary income:

• Tax on income of the year 2012-13, including arrears of salary : Rs. 8,40,000.
**Illustration**

During the year 2012-13, Mr. Jay has received arrears of salary of the year 2011-12 (it was not taxed in 2011-12). Due to inclusion of arrears his tax liability of the year 2012-13 has increased. He provides following details in respect of his salary income:

- Tax on income of the year 2012-13, including arrears of salary: Rs. 8,40,000.
- Tax on income of the year 2012-13, excluding arrears of salary: Rs. 8,00,000.
- Tax on income of the year 2011-12, including arrears of salary: Rs. 7,00,000.
- Tax on income of the year 2011-12, excluding arrears of salary: Rs. 6,50,000.

Compute the amount of relief under section 89(1) from above details.

**

<table>
<thead>
<tr>
<th>Year</th>
<th>Income Including Arrears</th>
<th>Income Excluding Arrears</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012-13</td>
<td>Rs. 8,40,000</td>
<td>Rs. 8,00,000</td>
</tr>
<tr>
<td>Difference (A)</td>
<td>Rs. 40,000</td>
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<tr>
<td>2011-12</td>
<td>Rs. 7,00,000</td>
<td>Rs. 6,50,000</td>
</tr>
<tr>
<td>Difference (B)</td>
<td>Rs. 50,000</td>
<td></td>
</tr>
</tbody>
</table>

Relief under section 89(1) will amount to: Rs. 15,000.

(As amended by Finance Act, 2013)
In this case, no relief will be granted, since difference at (B) is higher than difference at (A).

19. How to compute relief under section 89 in respect of retirement benefits? Explain with the help of illustration.

Under section 89, read with Rule 21A, an employee can claim relief in respect of retirement benefits. Provisions in this regard are as follows:

(A) Relief in respect of gratuity [Rule 21A(3)]

Relief in respect of taxable gratuity [i.e., gratuity received in excess of amount exempt under section 10(10)]. For the purpose of relief, gratuity can be classified as follows:

(a) Gratuity payable in respect of past service of 15 years or more:

In this case, relief is computed as follows:

1. Compute the average rate of tax on the total income (including gratuity) for the previous year in which gratuity is received.
2. Compute the average rate of tax on the total income of previous three years by adding one-third of gratuity to each of three years.
3. Find the average of the three average rates determined in (2) above.
4. Find the difference of rate determined at (1) and at (3),
5. Amount of relief is tax on gratuity computed at the rate determined (i.e., excess rate) in (4) above.

Average rate of tax (%) = Tax liability for the year X 100
Taxable income for that year

(b) Gratuity payable in respect of past service of less than 15 years, but not less than 5 years:

In this case, relief is computed in the same manner as discussed in (a) above, except that gratuity is to be spread equally over past two years instead of three years.

(c) No relief is available for gratuity received in respect of service rendered for a period of less than 5 years.

(B) Relief in respect of compensation on termination of employment [Rule 21A(4)]

Relief in respect of such compensation is computed in the same manner as relief in case of gratuity paid to the employee after service rendered for a period of 15 years or more [as discussed above]. Such compensation is received after rendering continuous service for not less than 3 years and unexpired portion of term of employment of an employee is also not less than 3 years.

It should be noted that with effect from the assessment year 2010-11, section 10(10C) has been amended to provide that where any relief has been allowed to an
assessee under section 89 for any assessment year in respect of any amount received or receivable on his voluntary retirement or termination of service or voluntary separation, no exemption under section 10(10C) shall be allowed to him in relation to such or any other assessment year.

(C) Relief in respect of payment received on commutation of pension [Rule 21A(5)]

Relief in respect of taxable commuted pension \[i.e., \text{commuted pension received in excess of amount exempt under section 10(10A),}\] can be computed in the same manner as relief in respect of gratuity paid to the employee after service rendered for a period of 15 years or more [as discussed above].

(D) Relief in respect of other payments [Rule 21A(6)]

Relief in respect of any other payment \[i.e., \text{other than those covered above}\] will be granted by the Central Board of Direct Taxes, after examining the circumstances of each individual case.

Following illustrations will explain the manner of computation of relief under section 89 in respect of retirement benefits:

**Illustration**

During the year 2012-13, Mr. Sujal retired from his service (after service for 12 years). At the time of retirement he received gratuity of Rs. 1,84,000. Due to inclusion of gratuity, his tax liability of the year 2012-13 has increased. He has provided following details.

- Average rate of tax of the year 2012-13, including gratuity : 25%.
- Average rate of tax of the year 2011-12, including ½ gratuity : 20%.
- Average rate of tax of the year 2010-11, including ½ gratuity : 18%.

What will be the amount of relief under section 89(1) which can be claimed by him from gratuity received by him?

**Computation of relief in respect of gratuity will be as follows:**

- Average rate of tax of the year 2012-13, including gratuity : 25%.
- Average rate of tax of the year 2011-12, including ½ gratuity : 20%.
- Average rate of tax of the year 2010-11, including ½ gratuity : 18%.

Average of average rate of the year 2010-11 and 2011-12 will come to 19% \[(20\% + 18\%) \div 2\].

Relief will be available @ 6% \[(25\% – 19\%)\] on the amount of gratuity of Rs. 1,84,000. Relief @ 6% on Rs. 1,84,000 will amount to Rs. 11,040.

**Illustration**
During the year 2012-13, Mr. Rupesh retired from service (after service for 12 years). At the time of retirement he received gratuity of Rs. 1,84,000. Due to inclusion of gratuity, his tax liability of the year 2012-13 increased. He has provided following details.

- Average rate of tax of the year 2012-13, including gratuity : 24%.
- Average rate of tax of the year 2011-12, including ½ gratuity : 26%.
- Average rate of tax of the year 2010-11, including ½ gratuity : 28%.

What will be the amount of relief under section 89(1) which can be claimed by him from gratuity received by him?

**

Computation of relief in respect of gratuity will be as follows:

- Average rate of tax of the year 2012-13, including gratuity : 24%.
- Average rate of tax of the year 2011-12, including ½ gratuity : 26%.
- Average rate of tax of the year 2010-11, including ½ gratuity : 28%.

Average of average rate of the year 2010-11 and 2011-12 will come to 27% \([(26\% + 28\%) ÷ 2]\).

In this case, no relief will be granted, since the average rate of tax of 2012-13 is lower than average of average rate of tax of past two years.

**Illustration**

During the year 2012-13, Mr. Raja retired from his service (after service for 21 years). At the time of retirement he received gratuity of Rs. 2,52,000. Due to inclusion of gratuity, his tax liability of the year 2012-13 has increased. He has provided following details:

- Average rate of tax of the year 2012-13, including gratuity : 21%.
- Average rate of tax of the year 2011-12, including 1/3rd gratuity : 20%.
- Average rate of tax of the year 2010-11, including 1/3rd gratuity : 16%.
- Average rate of tax of the year 2009-10, including 1/3rd gratuity : 15%.

What will be the amount of relief under section 89(1) which can be claimed by him from gratuity received by him?

**

Computation of relief in respect of gratuity will be as follows:

- Average rate of tax of the year 2012-13, including gratuity : 21%.
- Average rate of tax of the year 2011-12, including 1/3rd gratuity : 20%.
- Average rate of tax of the year 2010-11, including 1/3rd gratuity : 16%.
- Average rate of tax of the year 2009-10, including 1/3rd gratuity : 15%.
Average of average rate of the year 2009-10, 2010-11 and 2011-12 will come to 17% \([20\% + 16\% + 15] ÷ 3\).

Relief will be available @ 4% \((21\% - 17\%)\) on the amount of gratuity of Rs. 2,52,000. Relief @ 4% on Rs. 2,52,000 will amount to Rs. 10,080.

**Illustration**

During the year 2012-13, Mr. Raja retired from his service (after service for 21 years). At the time of retirement he received gratuity of Rs. 2,52,000. Due to inclusion of gratuity, his tax liability of the year 2012-13 increased. He has provided following details.

- Average rate of tax of the year 2012-13, including gratuity : 16.50%.
- Average rate of tax of the year 2011-12, including 1/3rd gratuity : 20%.
- Average rate of tax of the year 2010-11, including 1/3rd gratuity : 16%.
- Average rate of tax of the year 2009-10, including 1/3rd gratuity : 15%.

What will be the amount of relief under section 89(1) which can be claimed by him from gratuity received by him?

**Computation of relief in respect of gratuity will be as follows :**

- Average rate of tax of the year 2012-13, including gratuity : 16.50%.
- Average rate of tax of the year 2011-12, including 1/3rd gratuity : 20%.
- Average rate of tax of the year 2010-11, including 1/3rd gratuity : 16%.
- Average rate of tax of the year 2009-10, including 1/3rd gratuity : 15%.

Average of average rate of the year 2009-10, 2010-11 and 2011-12 will come to 17% \([20\% + 16\% + 15] ÷ 3\).

In this case, no relief will be granted since the average rate of tax of 2012-13 is lower than average of average rate of tax of past three years.

**Illustration**

During the year 2012-13, Mr. Rahul retired from his service (after service for 4 years). At the time of retirement he received gratuity of Rs. 2,52,000. Due to inclusion of gratuity, his tax liability of the year 2012-13 increased. What will be the amount of relief under section 89(1) which can be claimed by him from gratuity received by him?

**No relief is available for gratuity received in respect of service rendered for a period of less than 5 years. In the current case, Mr. Rahul retired after rendering service of 4 years and, hence, no relief can be claimed since the duration of service is less than 5 years.**
Mr. Sunil took voluntarily retirement from his job under a Voluntarily Retirement Scheme offered by his employer. He received Voluntarily Retirement Compensation of Rs. 8,40,000 from his employer. Out of Rs. 8,40,000 he claimed exemption of Rs. 5,00,000 under section 10(10C). In respect of balance amount of Rs. 3,40,000 (Rs. 8,40,000 – Rs. 5,00,000) he wants to claim relief under section 89(1). What will be the amount of relief which can be claimed by him under section 89(1) in respect of Rs. 3,40,000?

Where any relief has been allowed to an assessee under section 89 for any assessment year in respect of any amount received or receivable on his voluntary retirement or termination of service or voluntary separation, no exemption under section 10(10C) shall be allowed to him in relation to such or any other assessment year. Thus, in this case, he has an option either to claim exemption under section 10(10C) or to claim relief under section 89(1). An employee cannot simultaneously claim both benefits, viz., exemption under section 10(10C) as well as relief under section 89(1).

In the given case, the employee has claimed exemption under section 10(10C) and, hence, he cannot claim relief under section 89(1).
MCQ

Q1. Advance salary received by an employee is taxed in the year _________.
(a) Of receipt  (b) To which salary pertains  
(c) As decided by the assessee  (d) As decided by the Assessing Officer
Correct Answer : (a)

Justification of correct answer
Advance salary received by an employee is taxed in the year of receipt. Thus, option (a) is the correct option.

Comment on incorrect answer : Option (a) is the correct option since it gives the correct year of taxability of advance salary, hence, all the other options, viz., option, (b), (c) and (d) giving incorrect years of taxability of advance salary are not correct.

Q2. An employee cannot claim relief under section 89 in respect of advance salary.
(a) True  (b) False
Correct answer (b)

Justification of correct answer
An employee can claim relief under section 89 in respect of advance salary. Thus, the statement given in the question is false and, hence, option (b) is the correct option.

Comment on incorrect answer : The statement given in the question is false, hence, option (a) is not correct.

Q3. Salary of April, 2013 received in March, 2013 is called _________.
(a) Advance salary  (b) Arrears of salary  
(c) Leave salary  (d) Additional salary
Correct Answer : (a)

Justification of correct answer
Salary of April, 2013 received in March, 2013 is called advance salary. Thus, option (a) is the correct option.

Comment on incorrect answer : Option (a) is the correct option, since salary of April, 2013 received in March, 2013 is called advance salary. Hence, all the other options, viz., option (b), (c) and (d) giving incorrect nature of salary are not correct.

Q4. Advance salary is taxed on due basis.
(a) True  (b) False
Correct answer (b)

Justification of correct answer
Salary is taxed on due or receipt basis, whichever is earlier, hence, advance salary is taxed on receipt basis and the rule behind this is the basis of taxability of salary *i.e.* salary is taxed on due or receipt basis, whichever is earlier. Thus, the statement given in the question is false and, hence, option (b) is the correct option.

Comment on incorrect answer: The statement given in the question is false, hence, option (a) is not correct.

Q5. Arrears of salary received by an employee are taxed in the year of receipt if the same was not taxed earlier on due basis.
(a) True          (b) False

Correct answer (a)

Justification of correct answer
Arrears of salary received by an employee are taxed in the year of receipt if the same were not taxed earlier on due basis. Thus, the statement given in the question is true and, hence, option (a) is the correct option.

Comment on incorrect answer: The statement given in the question is true, hence, option (b) is not correct.

Q6. An employee can claim relief under section 89 in respect of arrears of salary.
(a) True          (b) False

Correct answer (a)

Justification of correct answer
Arrears of salary received by an employee are taxed in the year of receipt if the same were not taxed earlier on due basis. Further, an employee can claim relief under section 89 in respect of arrears of salary. Thus, the statement given in the question is true and, hence, option (a) is the correct option.

Comment on incorrect answer: The statement given in the question is true, hence, option (b) is not correct.

Q7. Salary of April 2011 received in March 2013 is called _______.
(a) Advance salary (b) Arrears of salary
(c) Leave salary   (d) Additional salary

Correct Answer: (b)

Justification of correct answer
Salary of April, 2011 received in March, 2013 is called arrears of salary. Thus, option (b) is the correct option.

Comment on incorrect answer: Option (b) is the correct option, since salary of April, 2011 received in March, 2013 is called arrears of salary. Hence, all the other...
options, viz., option (a), (c) and (d) giving incorrect nature of salary are not correct.

Q8. Bonus received by an employee is not charged to tax.
(a) True       (b) False
Correct answer (b)

Justification of correct answer
Bonus received by an employee is charged to tax in the year of receipt. Thus, the statement given in the question is false and, hence, option (b) is the correct option.

Comment on incorrect answer : The statement given in the question is false, hence, option (a) is not correct.

Q9. Relief under section 89 cannot be claimed in respect of arrears of bonus received during the year.
(a) True       (b) False
Correct answer (b)

Justification of correct answer
Bonus received by an employee is charged to tax in the year of receipt. Relief under section 89 can be claimed in respect of arrears of bonus received during the year. Thus, the statement given in the question is false and, hence, option (b) is the correct option.

Comment on incorrect answer : The statement given in the question is false, hence, option (a) is not correct.

Q10. Mr. Kumar received bonus of Rs. 84,000 pertaining to the year 2011-12 in April, 2012. In this case, bonus is charged to tax during the previous year ________.
(a) 2011-12     (b) 2012-13
(c) 2010-11     (d) 2013-14
Correct answer (b)

Justification of correct answer
Bonus received by an employee is charged to tax in the year of receipt. Relief under section 89 can be claimed in respect of arrears of bonus received during the year. Hence, bonus of 2011-12 received in April, 2012 will be charged to tax in the previous year 2012-13, i.e., the year in which it is received. Thus, option (b) is the correct option.

Comment on incorrect answer : Option (b) is the correct option since it gives the correct year of taxability of bonus, hence, all the other options, viz., option (a), (c) and (d) giving incorrect years of taxability of bonus are not correct.

Q11. Mr. Gautam received bonus of Rs. 1,84,000 pertaining to the year 2011-12 in April, 2012. In this case, bonus is charged to tax during the assessment year_______.

(As amended by Finance Act, 2013)
Correct answer (d)

Justification of correct answer

Bonus received by an employee is charged to tax in the year of receipt. Relief under section 89 can be claimed in respect of arrears of bonus received during the year. Hence, bonus of 2011-12 received in April, 2012 will be charged to tax in the previous year 2012-13, i.e., assessment year 2013-14. Thus, option (d) is the correct option.

Comment on incorrect answer: Option (d) is the correct option since it gives the correct year of taxability of bonus, hence, all the other options, viz., option (a), (b) and (c) giving incorrect years of taxability of bonus are not correct.

Q12. Fees received by the employee from the employer are charged to tax as ______.
(a) Business Income     (b) Income from other sources
(c) Capital gains     (d) Salary income
Correct answer (d)

Justification of correct answer

Fees or commission received by the employee from the employer are charged to tax as salary income. Thus, option (d) is the correct option.

Comment on incorrect answer: Option (d) is the correct option since it gives the correct head of taxability of fees, hence, all the other options, viz., option (a), (b) and (c) giving incorrect head of taxability of fees are not correct.

Q13. Commission received by the employee from the employer is charged to tax as ______.
(a) Business Income     (b) Income from other sources
(c) Capital gains     (d) Salary income
Correct answer (d)

Justification of correct answer

Fees or commission received by the employee from the employer are charged to tax as salary income. Thus, option (d) is the correct option.

Comment on incorrect answer: Option (d) is the correct option since it gives the correct head of taxability of commission, hence, all the other options, viz., option (a), (b) and (c) giving incorrect head of taxability of commission are not correct.

Q14. Commission received as percentage of turnover achieved by the employee will be taxed as salary income, however, an employee can claim deduction in respect of expenditure incurred by him in earning such commission.
Correct answer (b)

Justification of correct answer
Commission will be taxed as salary income. Deduction cannot be claimed in respect of expenditure incurred to earn such commission. Thus, the statement given in the question is false and, hence, option (b) is the correct option.

Comment on incorrect answer: The statement given in the question is false, hence, option (a) is not correct.

Q15. Commission will be taxed as salary income if it is received as percentage of any particular item like turnover achieved by the employee. However, fixed monthly commission is not charged to tax as salary income.

(a) True  (b) False

Correct answer (b)

Justification of correct answer
Commission will be taxed as salary income, irrespective of the fact whether it is received as fixed monthly amount or is received as a percentage of any particular item like turnover achieved by the employee. Thus, the statement given in the question is false and, hence, option (b) is the correct option.

Comment on incorrect answer: The statement given in the question is false, hence, option (a) is not correct.

Q16. Commission received as percentage of any particular item like turnover achieved by the employee is not charged to tax as salary income.

(a) True  (b) False

Correct answer (b)

Justification of correct answer
Commission will be taxed as salary income, irrespective of the fact whether it is received as fixed monthly amount or is received as a percentage of any particular item like turnover achieved by the employee. Thus, the statement given in the question is false and, hence, option (b) is the correct option.

Comment on incorrect answer: The statement given in the question is false, hence, option (a) is not correct.

Q17. Salary in lieu of notice period is __________.

(a) Taxable
(b) Exempt
(c) Taxable if Assessing Officer wants to charge to tax
(d) Taxable if assessee wants to offer for tax

Correct answer (a)

Justification of correct answer

source: www.trpscheme.com

(As amended by Finance Act, 2013)
Salary in lieu of notice period is charged to tax on receipt basis, \textit{i.e.,} it is charged to tax in the year of receipt. Thus, option (a) is the correct option.

\textbf{Comment on incorrect answer :} Option (a) is the correct option since it gives the correct tax treatment of salary in lieu of notice period, hence, all the other options, \textit{viz.,} option (b), (c) and (d) giving incorrect tax treatment of salary in lieu of notice period are not correct.

\textbf{Q18.} Any voluntarily gift received by the employee from the employer is charged to tax as _______.

(a) Salary income \hspace{1cm} (b) Income from other sources
(c) Capital gains \hspace{1cm} (d) Business income

\textbf{Correct answer (a)}

\textbf{Justification of correct answer}

Any voluntarily gift received by the employee from the employer is charged to tax as salary income (perquisite). Thus, option (a) is the correct option.

\textbf{Comment on incorrect answer :} Option (a) is the correct options since it gives the correct tax treatment of gifts received by the employee from the employer, hence, all the other options, \textit{viz.,} option (b), (c) and (d) giving incorrect tax treatment of salary gifts are not correct.

\textbf{Q19.} Non-monetary gifts received by an employee from the employer are exempt upto Rs. 50,000.

(a) True \hspace{1cm} (b) False

\textbf{Correct answer (b)}

\textbf{Justification of correct answer}

Any voluntarily gift received by the employee from the employer is charged to tax as salary income (perquisite). However, non-monetary gifts are exempt upto Rs. 5,000. Thus, the statement given in the question is false and, hence, option (b) is the correct option.

\textbf{Comment on incorrect answer :} The statement given in the question is false, hence, option (a) is not correct.

\textbf{Q20.} An employee can claim relief under section 89(1) in respect of gift received from his employer.

(a) True \hspace{1cm} (b) False

\textbf{Correct answer (b)}

\textbf{Justification of correct answer}

Relief under section 89(1) cannot be claimed in respect of gifts received from his employer. Thus, the statement given in the question is false and, hence, option (b) is the correct option.
Comment on incorrect answer: The statement given in the question is false, hence, option (a) is not correct.

Q21. If gift received from the employer has no relation to the service rendered by the employee, then the same can be charged to tax under the head “Income from other sources”.

(a) True  (b) False

Correct answer (a)

Justification of correct answer
If gift received from the employer has no relation to the service rendered by the employee, then the same can be charged to tax under the head “Income from other sources”. Thus, the statement given in the question is true and, hence, option (a) is the correct option.

Comment on incorrect answer: The statement given in the question is true, hence, option (b) is not correct.

Q22. Compensation received from the employer in connection with modification of terms of employment will be charged to tax as capital gain.

(a) True  (b) False

Correct answer (b)

Justification of correct answer
Compensation received from the employer in connection with modification of terms of employment, will be charged to tax as salary income, *i.e.*, profits in lieu of salary. Thus, the statement given in the question is false and, hence, option (b) is the correct option.

Comment on incorrect answer: The statement given in the question is false, hence, option (a) is not correct.

Q23. Compensation received from the employer in connection with modification of terms of employment will be charged to tax as profits in lieu of salary.

(a) True  (b) False

Correct answer (a)

Justification of correct answer
Compensation received from the employer in connection with modification of terms of employment will be charged to tax as salary income, *i.e.*, profits in lieu of salary. Thus, the statement given in the question is true and, hence, option (a) is the correct option.

Comment on incorrect answer: The statement given in the question is true, hence, option (b) is not correct.
Q24. Compensation received from the employer in connection with modification of terms of employment will be charged to tax as profits in lieu of salary or alternatively, can be charged to tax as capital gain at the choice of the employee.

(a) True  
(b) False

Correct answer (b)

Justification of correct answer

Compensation received from the employer in connection with modification of terms of employment will be charged to tax as salary income, i.e., profits in lieu of salary and not as capital gain. Thus, the statement given in the question is false and, hence, option (b) is the correct option.

Comment on incorrect answer: The statement given in the question is false, hence, option (a) is not correct.

Q25. If an employee receives any payment in respect of extra work done by him then the same is exempt from tax.

(a) True  
(b) False

Correct answer (b)

Justification of correct answer

If an employee receives any payment in respect of extra work done by him then the same is charged to tax under the head “Salaries”. In other words, remuneration received for extra work will be charged to tax as salary income. Thus, the statement given in the question is false and, hence, option (b) is the correct option.

Comment on incorrect answer: The statement given in the question is false, hence, option (a) is not correct.

Q26. Remuneration received for extra work will be charged to tax as business income.

(a) True  
(b) False

Correct answer (b)

Justification of correct answer

If an employee receives any payment in respect of extra work done by him then the same is charge to tax under the head “Salaries”. In other words, remuneration received for extra work will be charged to tax as salary income. Thus, the statement given in the question is false and, hence, option (b) is the correct option.

Comment on incorrect answer: The statement given in the question is false, hence, option (a) is not correct.

Q27. A partner of a firm is not an employee of the firm.

(a) True  
(b) False
Correct answer (a)

Justification of correct answer
A partner of a firm is not an employee of the firm. Thus, the statement given in the question is true and, hence, option (a) is the correct option.

Comment on incorrect answer : The statement given in the question is true, hence, option (b) is not correct.

Q28. Salary received by a partner from his firm is charged to tax under the head “Salaries”.
(a) True (b) False

Correct answer (b)

Justification of correct answer
In case of a partnership firm, the partners are not the employees of the firm and, hence, salary received by the partners from the firm is not charged to tax under the head “Salaries”. It is charged to tax as business income. Thus, the statement given in the question is false and, hence, option (b) is the correct option.

Comment on incorrect answer : The statement given in the question is false, hence, option (a) is not correct.

Q29. Salary received by a partner from his firm is charged to tax under the head “Salaries”, if the Assessing Officer so desires.
(a) True (b) False

Correct answer (b)

Justification of correct answer
In case of a partnership firm, the partners are not the employees of the firm and, hence, salary received by the partners from the firm is never charged to tax under the head “Salaries”. Thus, the statement given in the question is false and, hence, option (b) is the correct option.

Comment on incorrect answer : The statement given in the question is false, hence, option (a) is not correct.

Q30. Salary received by a partner from his firm is charged to tax under the head “Salaries” if the partner so desires.
(a) True (b) False

Correct answer (b)

Justification of correct answer
In case of a partnership firm, the partners are not the employees of the firm and, hence, salary received by the partners from the firm is never charged to tax under the head “Salaries”. Thus, the statement given in the question is false and, hence, option (b) is the correct option.
Comment on incorrect answer : The statement given in the question is false, hence, option (a) is not correct.

Q31. In case of a person who is a partner in a firm, salary received by him from any concern will not be charged to tax under the head “Salaries”.
(a) True (b) False
Correct answer (b)
Justification of correct answer
In case of a partnership firm, the partners are not the employees of the firm and, hence, salary received by the partners from the firm in which they are partner is never charged to tax under the head “Salaries”. If a person is a partner in a firm as well as he is an employee of any other concern, then salary received from the concern in which he is not a partner will be charged to tax under the head “Salaries”. Thus, the statement given in the question is false and, hence, option (b) is the correct option.

Comment on incorrect answer : The statement given in the question is false, hence, option (a) is not correct.

Q32. Salary received by a partner from his firm is charged to tax on due or receipt basis, whichever is earlier.
(a) True (b) False
Correct answer (b)
Justification of correct answer
In case of a partnership firm, the partners are not the employees of the firm and, hence, salary received by the partners from the firm is never charged to tax under the head “Salaries”. Salary received by a partner from the firm is charged to tax as business income and, hence, it will be taxed on the basis of method of accounting adopted by the partnership firm. Thus, the statement given in the question is false and, hence, option (b) is the correct option.

Comment on incorrect answer : The statement given in the question is false, hence, option (a) is not correct.

Q33. Salary received by an Indian citizen deputed outside India by any employer is treated as income deemed to be accrued or arisen in India.
(a) True (b) False
Correct answer (b)
Justification of correct answer
Salary received by an Indian citizen deputed outside India by the Government is treated as income deemed to be accrued or arisen in India and will be taxed in India. Thus, the statement given in the question is false and, hence, option (b) is the correct option.
Comment on incorrect answer: The statement given in the question is false, hence, option (a) is not correct.

Q34. Salary received by an Indian citizen deputed outside India by the Government is treated as income deemed to be accrued or arisen in India.
(a) True (b) False
Correct answer (a)
Justification of correct answer
Salary received by an Indian citizen deputed outside India by the Government is treated as income deemed to be accrued or arisen in India and will be taxed in India. Thus, the statement given in the question is true and, hence, option (a) is the correct option.

Comment on incorrect answer: The statement given in the question is true, hence, option (b) is not correct.

Q35. Perquisite enjoyed by an Indian citizen deputed outside India by the Government will be exempt from tax.
(a) True (b) False
Correct answer (a)
Justification of correct answer
Salary received by an Indian citizen deputed outside India by the Government is treated as income deemed to be accrued or arisen in India and will be taxed in India. However, in such a case allowance and perquisites will be exempt from tax. Thus, the statement given in the question is true and, hence, option (a) is the correct option.

Comment on incorrect answer: The statement given in the question is true, hence, option (b) is not correct.

Q36. Allowances received by an Indian citizen deputed outside India by the Government will be exempt from tax.
(a) True (b) False
Correct answer (a)
Justification of correct answer
Salary received by an Indian citizen deputed outside India by the Government is treated as income deemed to be accrued or arisen in India and will be taxed in India. However, in such a case allowance and perquisites will be exempt from tax. Thus, the statement given in the question is true and, hence, option (a) is the correct option.

Comment on incorrect answer: The statement given in the question is true, hence, option (b) is not correct.
Q37. Perquisites enjoyed by an Indian citizen deputed outside India by the Government will be exempt from tax, if such person has not visited India during the year.

(a) True  
(b) False  

Correct answer (b)  

Justification of correct answer  
Salary received by an Indian citizen deputed outside India by the Government is treated as income deemed to be accrued or arisen in India and will be taxed in India. However, in such a case allowance and perquisites will be exempt from tax. There is no condition attached for claiming exemption in respect of perquisites and allowances. 

Thus, the statement given in the question is false and, hence, option (b) is the correct option.  

Comment on incorrect answer : The statement given in the question is false, hence, option (a) is not correct.

Q38. Allowances received by an Indian citizen deputed outside India by the Government will be exempt from tax if such person has not visited India during the year.

(a) True  
(b) False  

Correct answer (b)  

Justification of correct answer  
Salary received by an Indian citizen deputed outside India by the Government is treated as income deemed to be accrued or arisen in India and will be taxed in India. However, in such a case allowance and perquisites will be exempt from tax. There is no condition attached for claiming exemption in respect of perquisites and allowances. 

Thus, the statement given in the question is false and, hence, option (b) is the correct option.  

Comment on incorrect answer : The statement given in the question is false, hence, option (a) is not correct.

Q39. An employee can never forego his salary.

(a) True  
(b) False  

Correct answer (b)  

Justification of correct answer  
There is no restriction on foregoing of salary by an employee. Thus, the statement given in the question is false and, hence, option (b) is the correct option.
Comment on incorrect answer: The statement given in the question is false, hence, option (a) is not correct.

Q40. Salary foregone by an employee is _______.
(a) Exempt       (b) Taxable

Correct answer (b)

Justification of correct answer
Salary is charged to tax on due or receipt basis, whichever is earlier, hence, salary foregone by the employee is charged to tax on due basis, even though it is not received by him. In other words, salary foregone after its accrual is charged to tax, even though it is not received by the employee. Thus, option (b) is the correct option.

Comment on incorrect answer: Option (b) is the correct option, since it gives the correct tax treatment of salary foregone by the employee, hence, other option, viz., option (a) giving incorrect tax treatment of salary foregone is not correct.

Q41. Salary foregone by an employee is ______ even if it is foregone at the requirement of the employee.
(a) Exempt       (b) Taxable

Correct answer (b)

Justification of correct answer
Salary is charged to tax on due or receipt basis, whichever is earlier, hence, salary foregone by the employee is charged to tax on due basis, even though it is not received by him. In other words, salary foregone after its accrual is charged to tax, even though it is not received by the employee. Thus, option (b) is the correct option.

Comment on incorrect answer: Option (b) is the correct option, since it gives the correct tax treatment of salary foregone by the employee, hence, other option, viz., option (a) giving incorrect tax treatment of salary foregone is not correct.

Q42. Salary foregone by an employee is exempt if it is foregone after the permission of the Assessing Officer.
(a) True       (b) False

Correct answer (b)

Justification of correct answer
Salary foregone by an employee is charged to tax in any case. Thus, the statement given in the question is false and, hence, option (b) is the correct option.

Comment on incorrect answer: The statement given in the question is false, hence, option (a) is not correct.

Q43. Salary foregone by an employee is exempt if it is foregone due to heavy loss suffered by the employer.
Q44. If salary is surrendered to the Central Government under section 2 of the Voluntary Surrender of Salary (Exemption from Taxation) Act, 1961, then such surrendered salary is not charged to tax.

(a) True  
(b) False

Correct answer (a)

Justification of correct answer
Salary foregone after its accrual is charged to tax, even though it is not received by the employee. However, if salary is surrendered to the Central Government under section 2 of the Voluntary Surrender of Salary (Exemption from Taxation) Act, 1961, then such surrendered salary is not charged to tax. Thus, the statement given in the question is true and, hence, option (a) is the correct option.

Comment on incorrect answer : The statement given in the question is true, hence, option (b) is not correct.

Q45. If salary is surrendered to the employer, then such surrendered salary is not charged to tax.

(a) True  
(b) False

Correct answer (b)

Justification of correct answer
Salary foregone after its accrual is charged to tax, even though it is not received by the employee. However, if salary is surrendered to the Central Government under section 2 of the Voluntary Surrender of Salary (Exemption from Taxation) Act, 1961, then such surrendered salary is not charged to tax. Thus, the statement given in the question is false and, hence, option (b) is the correct option.

Comment on incorrect answer : The statement given in the question is false, hence, option (a) is not correct.

Q46. If salary is surrendered to any charitable trust, then such surrendered salary is not charged to tax.

(a) True  
(b) False

Correct answer (b)

Justification of correct answer
Salary foregone after its accrual is charged to tax, even though it is not received by the employee. However, if salary is surrendered to the Central Government under section 2 of the Voluntary Surrender of Salary (Exemption from Taxation) Act, 1961, then such surrendered salary is not charged to tax. Thus, the statement given in the question is false and, hence, option (b) is the correct option.

Comment on incorrect answer : The statement given in the question is false, hence, option (a) is not correct.

Q47. Salary received from the United Nations Organisation is exempt from tax as per section 2 of the United Nations (Privileges and Immunities) Act, 1947.
   (a) True       (b) False

Correct answer (a)

Justification of correct answer
Salary received from the United Nations Organisation is exempt from tax as per section 2 of the United Nations (Privileges and Immunities) Act, 1947. Thus, the statement given in the question is true and, hence, option (a) is the correct option.

Comment on incorrect answer : The statement given in the question is true, hence, option (b) is not correct.

Q48. Any payment received by an employee from his prospective employer will be charged to tax under the head ______.
   (a) Salary income     (b) Income from other sources
   (c) Capital gains     (d) Business income

Correct answer (a)

Justification of correct answer
Any payment received by an employee from his present employer or former employer or prospective employer will be charged to tax under the head “Salaries” (as profits in lieu of salary). Hence, amount received from prospective employer will also be charged to tax under the head “Salaries”. Thus, option (a) is the correct option.

Comment on incorrect answer : Option (a) is the correct option since it gives the correct tax treatment of amount received from prospective employer, hence, all the other options, viz., option (b), (c) and (d) giving incorrect tax treatment of amount received from prospective employer are not correct.

Q49. Any payment received by an employee from his former employer will be charged to tax under the head ______.
   (a) Salary income     (b) Income from other sources
   (c) Capital gains     (d) Business income

Correct answer (a)
Justification of correct answer
Any payment received by an employee from his present employer or former employer or prospective employer will be charged to tax under the head “Salaries” (as profits in lieu of salary). Hence, amount received from former employer will also be charged to tax under the head “Salaries”. Thus, option (a) is the correct option.

Comment on incorrect answer: Option (a) is the correct option since it gives the correct head chargeable to tax on account of amount received from former employer, hence, all the other options, viz., option (b), (c) and (d) giving incorrect head chargeable to tax are not correct.

Q50. Any payment received by an employee from his prospective employer will be charged to tax under the head “Salaries” or under the head “Income from other sources”, at the choice of the employee.
(a) True (b) False
Correct answer (b)

Justification of correct answer
Any payment received by an employee from his present employer or former employer or prospective employer will be charged to tax under the head “Salaries” (as profits in lieu of salary). Hence, amount received from prospective employer will also be charged to tax under the head “Salaries”. There is no choice available to the employee for selection of the head of taxability of such payment. Thus, the statement given in the question is false and, hence, option (b) is the correct option.

Comment on incorrect answer: The statement given in the question is false, hence, option (a) is not correct.

Q51. Any payment received by an employee from his prospective employer will be charged to tax under the head “Salaries” or under the head “Income from other sources”, at the choice of the Assessing Officer.
(a) True (b) False
Correct answer (b)

Justification of correct answer
Any payment received by an employee from his present employer or former employer or prospective employer will be charged to tax under the head “Salaries” (as profits in lieu of salary). Hence, amount received from prospective employer will also be charged to tax under the head “Salaries”. There is no choice available to the Assessing Officer for selection of the head of taxability of such payment. Thus, the statement given in the question is false and, hence, option (b) is the correct option.

Comment on incorrect answer: The statement given in the question is false, hence, option (a) is not correct.
Q52. Under section 89, read with Rule 21A(2), an employee can claim relief in respect of ______.
(a) Any payment           (b) Arrears of salary
(c) Bonus                 (d) Commission
Correct answer (b)

Justification of correct answer
Under section 89, read with Rule 21A(2), an employee can claim relief in respect of arrears of salary. Thus, option (b) is the correct option.

Comment on incorrect answer: Option (b) is the correct option since it gives the correct item in respect of which relief is available under section 89, read with Rule 21A(2), hence, all the other options, viz., option (a), (c) and (d) giving incorrect tax items are not correct.

Q53. Under section 89, read with Rule 21A(2), an employee can claim relief in respect of arrears of salary if arrears pertains to more than one year.
(a) True             (b) False
Correct answer (a)

Justification of correct answer
Under section 89, read with Rule 21A(2), an employee can claim relief in respect of arrears of salary. The arrears may pertain to one or more year. Thus, the statement given in the question is true and, hence, option (a) is the correct option.

Comment on incorrect answer: The statement given in the question is true, hence, option (b) is not correct.

Q54. Relief under section 89 in respect of arrears of salary is available only if the employee has rendered service of more than 5 years.
(a) True           (b) False
Correct answer (b)

Justification of correct answer
Under section 89, read with Rule 21A(2), an employee can claim relief in respect of arrears of salary. Relief is available irrespective of duration of service rendered by the employee. Thus, the statement given in the question is false and, hence, option (b) is the correct option.

Comment on incorrect answer: The statement given in the question is false, hence, option (a) is not correct.

Q55. Relief under section 89 in respect of arrears of salary is available only if the employer grants permission for claiming the arrears.
(a) True        (b) False
Correct answer (b)
Justification of correct answer
Under section 89, read with Rule 21A(2), an employee can claim relief in respect of arrears of salary. There is no need to take the permission of the employer. Thus, the statement given in the question is false and, hence, option (b) is the correct option.

Comment on incorrect answer : The statement given in the question is false, hence, option (a) is not correct.

Q56. Relief under section 89 in respect of arrears of salary is available only to the Government employees.
(a) True (b) False

Correct answer (b)

Justification of correct answer
Under section 89, read with Rule 21A(2), any employee can claim relief in respect of arrears of salary. Relief is not restricted to the Government employees. Thus, the statement given in the question is false and, hence, option (b) is the correct option.

Comment on incorrect answer : The statement given in the question is false, hence, option (a) is not correct.

Q57. Relief under section 89 in respect of arrears of salary is available only to private sector employees.
(a) True (b) False

Correct answer (b)

Justification of correct answer
Under section 89, read with Rule 21A(2), any employee can claim relief in respect of arrears of salary. Relief is not restricted to private sector employees. Thus, the statement given in the question is false and, hence, option (b) is the correct option.

Comment on incorrect answer : The statement given in the question is false, hence, option (a) is not correct.

Q58. Relief under section 89 in respect of arrears of salary is computed by the Assessing Officer on the basis of circumstances of each case.
(a) True (b) False

Correct answer (b)

Justification of correct answer
Under section 89, read with Rule 21A(2), any employee can claim relief in respect of arrears of salary. Relief is available on the basis of specific method of computation of relief provided in this regard. Relief is not to be computed by the Assessing Officer on the basis of circumstances of each case, hence, option (b) is the correct option.
Comment on incorrect answer: The statement given in the question is false, hence, option (a) is not correct.

Q59. An employee ______ claim relief under section 89 in respect of gratuity if gratuity is received after rendering service of more than 15 years.
(a) Can (b) Cannot
Correct answer (a)
Justification of correct answer
An employee can claim relief under section 89 in respect of gratuity if gratuity is received after rendering service of more than 15 years. Thus, option (a) is the correct option.

Comment on incorrect answer: Option (a) is the correct option since it gives the correct provisions, hence, other option, viz., option (b) giving incorrect provision is not correct.

Q60. An employee cannot claim relief under section 89 in respect of gratuity if gratuity is received after rendering service of less than _____ years.
(a) 5 (b) 15
Correct answer (a)
Justification of correct answer
An employee cannot claim relief under section 89 in respect of gratuity, if gratuity is received after rendering service of less than 5 years. Thus, option (a) is the correct option.

Comment on incorrect answer: Option (a) is the correct option since it gives the correct duration, hence, other option viz., option (b) giving incorrect duration is not correct.

Q61. Relief under section 89 in respect of gratuity is available to the Central Government employees.
(a) True (b) False
Correct answer (b)
Justification of correct answer
Gratuity received by a Central Government employee is exempt from tax, and, thus, there is no question of claiming relief in respect of gratuity in case of a Central Government employee. Thus, the statement given in the question is false and, hence, option (b) is the correct option.

Comment on incorrect answer: The statement given in the question is false, hence, option (a) is not correct.

Q62. Relief under section 89 in respect of gratuity is not available to an employee who is not covered by the Payment of Gratuity Act, 1972.

(As amended by Finance Act, 2013)
An employee can claim relief in respect of gratuity whether or not he is covered by the Payment of Gratuity Act, 1972. Thus, the statement given in the question is false and, hence, option (b) is the correct option.

Comment on incorrect answer: The statement given in the question is false, hence, option (a) is not correct.

Q63. Relief under section 89 in respect of gratuity is not available to an employee who is covered by the Payment of Gratuity Act, 1972.

(a) True   (b) False

Correct answer (b)

Justification of correct answer

An employee can claim relief in respect of gratuity whether or not he is covered by the Payment of Gratuity Act, 1972. Thus, the statement given in the question is false and, hence, option (b) is the correct option.

Comment on incorrect answer: The statement given in the question is false, hence, option (a) is not correct.

Q64. While computing relief under section 89 in respect of gratuity received after rendering service of more than 5 years but of less than 15 years, gratuity is distributed over past ______ years’ income.

(a) 2   (b) 3
(c) 4   (d) 5

Correct answer (a)

Justification of correct answer

While computing relief under section 89 in respect of gratuity received after rendering service of more than 5 years but of less than 15 years, gratuity is distributed over past 2 years’ income and then the average rate of tax of past two years is ascertained. Thus, option (a) is the correct option.

Comment on incorrect answer: Option (a) is the correct option since it gives the correct period, hence, all the other options, viz., option (b), (c) and (d) giving incorrect periods are not correct.

Q65. While computing relief under section 89 in respect of gratuity received after rendering service of more than 15 years, gratuity is distributed over past ______ years’ income.

(a) 2   (b) 3
(c) 4   (d) 5
Correct answer (b)

Justification of correct answer
While computing relief under section 89 in respect of gratuity received after rendering service of more than 15 years, gratuity is distributed over past 3 years’ income and then the average rate of tax of past three years is ascertained. Thus, option (b) is the correct option.

Comment on incorrect answer: Option (b) is the correct option since it gives the correct period, hence, all the other options, viz., option (a), (c) and (d) giving incorrect periods are not correct.

Q66. Relief under section 89 in respect of compensation received on termination of employment is available if such compensation is received after rendering continuous service of not less than 3 years and unexpired portion of term of employment of an employee is also not of less than 3 years.

(a) True (b) False

Correct answer (a)

Justification of correct answer
Relief in respect of compensation received on termination of employment is computed in the same manner as relief in case of gratuity paid to the employee after service rendered for a period of 15 years or more. Such compensation is received after rendering continuous service of not less than 3 years and unexpired portion of term of employment of an employee is also not of less than 3 years. Thus, the statement given in the question is true and, hence, option (a) is the correct option.

Comment on incorrect answer: The statement given in the question is true, hence, option (b) is not correct.

Q67. Where any relief has been allowed to an assessee under section 89 for any assessment year in respect of any amount received or receivable on his voluntary retirement or termination of service or voluntary separation, no exemption under section 10(10C) shall be allowed to him in relation to such or any other assessment year.

(a) True (b) False

Correct answer (a)

Justification of correct answer
It should be noted that with effect from the assessment year 2010-11, section 10(10C) has been amended to provide that where any relief has been allowed to an assessee under section 89 for any assessment year in respect of any amount received or receivable on his voluntary retirement or termination of service or voluntary separation, no exemption under section 10(10C) shall be allowed to him.

source: www.trpscheme.com
in relation to such or any other assessment year. Thus, the statement given in the question is true and, hence, option (a) is the correct option.

Comment on incorrect answer: The statement given in the question is true, hence, option (b) is not correct.

Q68. Relief under section 89 in respect of taxable commuted pension can be computed in the same manner as relief in respect of gratuity paid to the employee after service rendered for a period of more than 5 years but not more than 15 years.

(a) True (b) False

Correct answer (b)

Justification of correct answer

Relief in respect of taxable commuted pension can be computed in the same manner as relief in respect of gratuity paid to the employee after service rendered for a period of 15 years or more. Thus, the statement given in the question is false and, hence, option (b) is the correct option.

Comment on incorrect answer: The statement given in the question is false, hence, option (a) is not correct.

Q69. Relief under section 89 in respect of taxable commuted pension can be computed in the same manner as relief in respect of gratuity paid to the employee after service rendered for a period of 15 years or more.

(a) True (b) False

Correct answer (a)

Justification of correct answer

Relief in respect of taxable commuted pension can be computed in the same manner as relief in respect of gratuity paid to the employee after service rendered for a period of 15 years or more. Thus, the statement given in the question is true and, hence, option (a) is the correct option.

Comment on incorrect answer: The statement given in the question is true, hence, option (b) is not correct.

Q70. Relief under section 89 in respect of taxable commuted pension can be claimed only by the Government employees.

(a) True (b) False

Correct answer (b)

Justification of correct answer

Commuted pension received by a Government employee is exempt from tax and, thus, there is no question of claiming relief in respect of commuted pension in case of a Government employee. Thus, the statement given in the question is false and, hence, option (b) is the correct option.
Comment on incorrect answer: The statement given in the question is false, hence, option (a) is not correct.

**Q71.** Relief under section 89 in respect of taxable commuted pension can be claimed by a non-Government employee only if he has not received gratuity.

(a) True  
(b) False

Correct answer (b)

**Justification of correct answer**
A non-Government employee can claim relief in respect of commuted pension whether or not he has received gratuity. Thus, the statement given in the question is false and, hence, option (b) is the correct option.

Comment on incorrect answer: The statement given in the question is false, hence, option (a) is not correct.

**Q72.** Relief under section 89 in respect of gratuity is not available if the amount of gratuity exceeds Rs. 10,00,000.

(a) True  
(b) False

Correct answer (b)

**Justification of correct answer**
Relief in respect of gratuity is available, irrespective of amount of gratuity. Thus, the statement given in the question is false and, hence, option (b) is the correct option.

Comment on incorrect answer: The statement given in the question is false, hence, option (a) is not correct.

**Q73.** Relief under section 89 in respect of compensation received at the time of voluntarily retirement or voluntarily separation is not available if the amount of such compensation exceeds Rs. 5,00,000.

(a) True  
(b) False

Correct answer (b)

**Justification of correct answer**
Relief under section 89 in respect of compensation received at the time of voluntarily retirement or voluntarily separation is not available if the employee has claimed exemption in respect of such compensation under section 10(10C). Relief is available irrespective of the amount of compensation. Thus, the statement given in the question is false and, hence, option (b) is the correct option.

Comment on incorrect answer: The statement given in the question is false, hence, option (a) is not correct.

**Q74.** Relief under section 89 in respect of compensation received at the time of voluntarily retirement or voluntarily separation is not available if the employee has claimed exemption under section 10(10C).

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(As amended by Finance Act, 2013)
(a) True  
(b) False

Correct answer (a)

Justification of correct answer
Relief under section 89 in respect of compensation received at the time of voluntarily retirement or voluntarily separation is not available if the employee has claimed exemption in respect of such compensation under section 10(10C). Thus, the statement given in the question is true and, hence, option (a) is the correct option.

Comment on incorrect answer: The statement given in the question is true, hence, option (b) is not correct.