UNIT 7 SALARIES-III

Structure

7.0 OBJECTIVES

After studying this unit, you should be able to:

- list different types of provident funds and their treatment for tax purposes;
- enumerate and calculate the amount of deductions available u/s 80C; and
- compute the taxable income from salary after taking into account the provident fund and deduction u/s 80C.

7.1 INTRODUCTION

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

7.2 PROVIDENT FUND SCHEMES

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

i) Statutory-Provident Fund

ii) Recognized Provident Fund

iii) Unrecognized Provident Fund

iv) Public Provident Fund

v) Approved Superannuation Fund

Let us now discuss them one by one.

7.2.1 Statutory Provident Fund

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

7.2.2 Recognized Provident Fund

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

7.2.3 Unrecognized Provident Fund

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

7.2.4 Public Provident Fund (PPF)

Regular salaried employees save money in provident fund through deductions from their salaries. For the benefit of the public, particularly for self-employed person such as doctors, lawyers, accountants, actors, traders, the central government introduced the PPF scheme. PPF scheme was started from 01/07/1968. Its main aim is to encourage savings. Individuals and association of persons can deposit in the public provident fund accounts, as and when their resources permit. Even salaried employees can save through PPF in additions to their regular provident funds. PPF accounts can be opened at any branch of the State Bank of India or its subsidiaries or at any head post office and specified branches of nationalized banks. Any individual can subscribe to PPF any amount not less than Rs. 500 and not more than Rs. 1, 50,000 in a year. Interest is credited at the end of each year, but is payable only at the time of maturity. The accumulated sum in PPF account is payable after 15 years and after completion of 15 years, the whole amount together with interest is exempt from income tax. An assessee can extend this account further for period of 5 years. Non-resident Indians and HUF are not eligible to open this account.

7.2.5 Approved Superannuation Fund

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

7.3 TAX TREATMENT OF PROVIDENT FUND

You studied the different kinds of provident funds in this unit point 7.2. Let us now study various provisions of Income Tax Act, 1961 with regard to these funds. Tax exemptions in relation to this fund are as under:

i) Employer's contribution is exempt from tax

ii) Employee's contribution qualifies for deduction under section 80C

iii) Interest on accumulated balance is exempt from tax

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

Table 7.1: Provisions of Provident Funds

Particulars	Statutory P.F.	Recognized P.F.	Unrecognized P.F	Public P.F
Employee's / assessee's contribution	Employee is paid his monthly salary after deducting his contribution to provident fund but Employee's contribution in SPF is included in taxable salary. But the entire contribution qualifies for deduction u/s 80C.	Employee is paid his monthly salary after deducting his contribution to provident fund but Employee's contribution in RPF is included in taxable salary. But the entire contribution qualifies for deduction u/s 80C.	Employee is paid his monthly salary after deducting his contribution to provident fund but Employee's contribution in URPF is included in taxable salary. But the entire contribution does not qualify for deduction u/s 80C.	Deduction u/s 80C is available from gross total income subject to the limited specified amount.
Employer's contribution	Exempt	Tax free upto 12% of salary. Excess over 12% of salary is included in salary.	Exempt	The employer does not contribute

Interest credited to provident fund	Exempt	Tax free (u/s 10) upto 9.5% p.a rate of interest; excess over 9.5% is included in gross salary	Exempt	Exempt
Lump-sum payment at the time of retirement or termination of service etc.	Exempt u/s 10 (11)	Tax free u/s 10 (12) provided: (i) the employee has served continuously for at least 5 years, or (ii) he has been removed from service on account of retrenchment, illness or closure of business.	Lump sum upto the amount equal to employee's contribution and interest thereon is included in salary income. Interest on employee's contribution is taxable under the head. 'Income from other sources'.	Exempt

Illustration 1

Mr. Gaurav Modi is employed in Khadi Samiti in Lucknow. He is in receipt of a salary of Rs. 17,000 p.m. and a dearness allowance of Rs. 2,000 p.m. He contributes 10% of his salary and dearness allowance to a provident fund to which Khadi Samiti contributes 15%. He is provided with a rent free unfurnished house by his employer. He received Rs. 25,000 as bonus during previous year. The interest credited to his provident fund @ 12% amounted to Rs. 1,000.

Compute taxable income of Mr. Gaurav Modi for the assessment year 2021-22, if the P.F. in question is (i) Statutory (ii) Recognized or (iii) Unrecognized. On what amount the assessee is entitled to deduction u/s 80C.

Computation of Taxable Income of Mr. Gaurav Modi for AY 2020-21

	Statutory P.F. P.F. (Rs.)	Recognized P.F. (Rs.)	Unrecognized P.F. (Rs.)
Salary @ 17,000 p.m.	2,04,000	2,04,000	2,04,000
D.A. @ 2,000 p.m.	24,000	24,000	24,000
Bonus	25,000	25,000	25,000
Employer's contribution to R.P.F. in excess of 12%	—	6,840	—
Interest credited to R.P.F.in excess of 9.5%	—	208	—
Value of rent free house 10% of salary of Rs. 2,53,000 (as population of Lucknow exceeds 10 lakhs but does not exceed 25 lakhs)	25,300	25,300	25,300
Gross Salary	2,78,300	2,85,348	2,78,300
Less: Standard Deduction	50,000	50,000	50,000
Taxable Salary	2,28,300	2,35,348	2,28,300
Amount entitled to deduction u/s 80C	22,800	22,800	Nil

Note: Calculation of Recognized P.F.

1) Employer's contribution RPF = 2, 28,000 (Salary + D.A.)

$$= 2,28{,}000 \times \frac{3}{100} = 6{,}840$$

Interest credited $= \dfrac{1000 \times 100}{12} = 8333.33$

Excess of 9.5% $= \dfrac{8{,}333 \times 2.5}{100} = 208$

2) Assessee is entitled to deduction u/s 80C, upto a maximum amount of Rs. 1,50,000 in respect of his contribution to statutory or recognized provident fund, i.e. 10% of his salary and D.A., say Rs. 22,800. He is not entitled to deduction u/s 80C in respect of his contribution to unrecognized provident fund.

3) Salary = Basic Pay + D.A+ Bonus

= 2,04,000+ 24,000+25,000 = Rs. 2,53,000

7.4 CERTAIN OTHER ASPECTS OF TAXABLE SALARY

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

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

2) Surrender of salary: However, if any employee surrenders his salary to the central government under Section 2 of the Voluntary Surrender of Salaries, then the salary so surrendered will be excluded while computing his salary income.

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

7.5 DEDUCTION UNDER SECTION 80C

Section 80C allows certain investments and expenditure to be tax-exempt. Under this section, deduction is allowed in respect of specified qualifying amount paid or deposited by individual or H.U.F taxpayer (assessee) only.

7.5.1 Gross Qualifying Amount

Deductions in respects of contribution to life insurance premium, Deferred Annuity, Provident Fund and Public Provident Fund and subscription to certain shares and debentures, etc. (Sec. 80C). This deduction is available on the basis of specified qualifying investments/contributions/ deposits/payments (Gross Qualifying Amount) made by the taxpayer during the previous year.

Eligibility of Assessee: This deduction is allowed only to the following assesses from their gross total income computed as per the provisions of the Act:

i) An individual or

ii) A Hindu Undivided family

Deduction on account of the following saving/investment cannot exceed Rs. 1,50,000. The above assesses shall be entitled to a deduction of whole of the amount paid or deposited in the previous year, being the aggregate of sum referred to below as does not exceed Rs. 1,50,000.

A) In case of Individual Assessee

i) Life Insurance Premium: The premium paid by an assessee on his own life, on the life of spouse (husband or wife) and children, contribution of employee in insurance plan, joint life premium and group insurance W.e.f. Assessment Year 2019-20 maximum 20% of sum assured shall be allowed as deduction u/s 80C.

a) Insurance policy may be taken by the assessee for his desired amount but only 20% of insurance amount or actual premium paid (whichever is less), shall be included in total limit for deduction u/s 80C. (If policy is taken before 01.04.2012 and 10% if policy is taken after 31.03.2012)

b) No deduction u/s 80C will be allowed on the amount of premium paid on insurance policy taken by the assessee on the life of his/ her parents.

c) Life Insurance Corporation may issue various types of insurance policies, e.g. whole his insurance policy, Bima Gold, Endowment Insurance Policy, Jeewan Mitra Policy, etc. The assessee may take any one or more insurance plan.

d) The children, who have been insured, may be married, unmarried dependent or independent upon the assessee.

ii) Deferred Annuity: To effect and to keep in force a contract for a deferred annuity on the life of spouse and children.

iii) Contribution of employee in Statutory Provident Fund.

iv) Contribution of employee in Recognized Provident Fund.

v) Contribution in Public Provident Fund upto maximum Rs. 1,50,000.

vi) Payment under Unit Linked Insurance Plan, 1971.

vii) Amount deducted out of salary of Government employee or deferred annuity or for provision to wife and children restricted to $1/5^{th}$ of salary.

viii) Contribution in Approved Superannuation Fund.

ix) Contribution in Notified Central Government Securities or in Notified Deposit Scheme. For this section, investment in 6 years National Saving Certificate VIII or IX issue and deposits in National Saving Scheme, 1992 have been recognized.

x) Re-investment of accrued interest on National Saving Certificate (NSC) VIII.

xi) Deposit in National Housing Scheme or contribution in pension fund, e.g. Housing Loan Scheme.

xii) Contribution in the following deposit schemes:

   a) A public sector company, which provides long-term loans for the purchase or construction of residential house, or

   b) Any authority established in India through and Act for solving the housing problems or formed for development of cities, towns or village or for both the purpose.

xiii) Refund of loan (Principal amount only) taken for the construction of house. Following points are essential to be considered in this refund of loan.

   a) Payment of any installment or its part under scheme of construction and sale of the house by any self-financing or development authority, housing board or other authority.

   b) Payment of any installment or its part to any company or co-operative society of which the assessee is member for allotment of the house.

xiv) Contribution in Mutual Fund establishment u/s 10(23D) or in units of Equity Linked Saving Scheme of Unit Trust of India.

xv) Contribution in pension fund notified u/s 10(23D) in mutual fund established by Unit Trust of India.

xvi) Tuition fee for children education: Tuition fee paid by assessee for his children education shall be allowed as deduction u/s 80C provided following condition are satisfied:

   a) It should be paid for school, college, university within India;

   b) The fee should be paid for full time education;

   c) It should be paid in connection with maximum 2 children; and

   d) Tuition fee does not include college development fee, sports, library fee, donation etc.

xvii) Any sum paid or deposited in name of girl child under the Sukanya Samridhi account scheme W.e.f AY 2015-16.

xviii) Payment made by an individual for notified annuity plan of the life insurance corporation or any other insurer. New jeevan dhara, New jeevan dhara-I and New jeevan Akshay, New jeevan Akshay-I and New jeevan Akshay-II are notified schemes.

B) In case of a Hindu Undivided Family

A Hindu Undivided Family may make following payments in previous year:

1) Amount of premium on the life insurance of any member of family. Premium to be included in deductible amount for deduction shall be restricted to 20% of sum assured. (if policy is taken before 01.04.2012 and 10% if policy is taken after 31.03.2012)

2) Contribution in Public Provident Fund in the name of any member of the family

3) Contribution in Notified Central Government Securities or Notified Deposit Scheme. It includes 6 year National Saving Certificates VII Issue and National Saving Scheme, 1992.

4) Contribution in Mutual Fund established u/s 10(23D).

5) National Saving Certificate, VII Issue.

6) Accrued interest on NSC VIII Issue.

7) Deferred Annuity, Annuity paid by an assessee on self, on spouse, children or under deferred annuity agreement.

8) Contribution in any deposit scheme of the following:

   a) Company of Public Sector, which provides long-term loans for the purchase and construction of residential houses, or

   b) Any authority established in India under any Act, whose formation was made for solving the residential problem or for the betterment and improvement of cities, village or towns or for both the purposes.

9) Amount paid on the purchase or construction of New Residential House. Any amount paid for the purpose of purchase or construction of a residential house property, the income of which is taxable under head 'Income from House Property'. Such payment may be made by way of:

   a) An installment or part payment of the amount due under any self-financing or other scheme of any development authority, housing board or other authority engaged in the construction and sale of house property; or

   b) Payment of any installment or its part to any company or co-operative society of which the assessee is a member for allotment of the house.

   c) Repayment of borrowed money by the assessee taken from the following.

      i) Central or State Government, or

      ii) Bank (including co-operative bank)

      iii) Life Insurance Corporation, or

      iv) National Housing Bank or

v) Such public company whose main object is to provide long-term finance for purchase/construction of houses for residential purposes.

vi) Assessee's employer, if such employer is in the form of an authority or a board or a corporation or any other body established under a Central or State Act.

d) Stamp duty, registration fee and other expenses for the purpose of transfer of such house to possess ownership (But expenses of repair and renew shall not be included).

10) Contribution in National Housing Bank Deposit Scheme or contribution in any pension fund established by it, e.g. Housing Loan Scheme.

11) Contribution in Mutual Fund established u/s 10(23D) or in units of Equity Linked Saving Scheme or Unit Trust of India.

12) Investment in Term Deposit:

a) Investment in scheduled bank for not less than 5 years.

b) Such investment must be in accordance with a scheme framed and notified by the Central Government in the official Gazette.

13) Any sum paid or deposited in name of girl child under the Sukanya Samridhi account scheme W.e.f AY 2015-16.

14) Payment made by an HUF for notified annuity plan of the life insurance corporation or any other insurer. New jeevan dhara, New jeevan dhara-I and New jeevan Akshay, New jeevan Akshay-I and New jeevan Akshay-II are notified schemes.

Note:

i) Investment/Deposits are qualified on payment basis u/s 80 C, the amount paid are eligible for rebate. Thus, the payment made in previous year is eligible for deduction, whether such payments are related to last year or next year. Hence, if the payment is due but outstanding, no deduction will be admissible on it.

ii) If Joint Life Premium is paid by the assessee on the joint life of self or spouse or children, the deduction on payment of premium is admissible, but if joint life policy is with other outsiders, no such deduction will be allowed.

Interest Table accrued on N.S.C. (VIII Issue)
Interest accruing on a certificate of Rs. 100

The year for which interest accrued	01/03/03 To 30/11/11	01/12/11 To 31/03/12	01/04/12 To 31/03/13	01/04/2013 To 31/03/2016
Rate %	08.00	-	8.60	8.50
First year	08.16	8.58	8.78	8.68
Second year	08.83	9.31	9.56	9.43
Third year	09.55	10.11	10.40	10.25
Fourth year	10.33	10.98	11.31	11.24
Fifth year	11.17	11.92	12.30	12.11
Sixth year	12.08	NA	NA	NA

Interest accruing on a certificate of Rs. 100

	01/04/2016 to 30/09/2016	01/10/2016 to 31/03/2017	01/04/2017 to 31/06/2017	01/07/2017 to 31/12/2017	01/01/2018 to 31/03/2019
First year	8.10	8.00	7.90	7.80	7.60
Second year	8.76	8.64	8.52	8.41	8.18
Third year	9.46	9.33	9.20	9.06	8.80
Fourth year	10.23	10.08	9.92	9.77	9.47
Fifth year	11.06	10.88	10.71	10.53	10.19

NSC IX ISSUE

The table shows the amount of interest accrued at the end of each year:

	Interest accruing on a certificate of Rs. 100 when investment is made		
Year for which interest accrues	**W.e.f 01/12/2011 To 31/03/2012**	**04/01/2012 To 31/03/2013**	**On or after 04/01/2013**
1st year	8.89	9.10	8.99
2nd year	9.68	9.93	9.80
3rd year	10.54	10.83	10.68
4th year	11.48	11.81	11.64
5th year	12.50	12.89	12.69
6th year	13.61	14.06	13.83
7th year	14.82	15.34	15.08
8th year	16.13	16.74	16.43
9th year	17.57	18.26	17.91
10th year	19.13	19.92	19.52

Important Note: National Saving Certificates VIII become mature after 6 years accrued interest of 6th year is not treated re-invested. Hence, no deduction u/s 80C on this interest of 6th year is allowed.

Cancellation of deduction under Section 80 C: Under the following circumstance, the deduction shall be cancelled:

1) If after paying two years premium, the life policy is terminated on notice or the policy is terminated on account of non-payment of premium, the premium of that year will not be eligible for deduction u/s 80C and whatever deduction has been availed under this section earlier, such amount shall be added in the income of the assessee.

2) If this contribution is stopped before 5 years, the deduction will not be allowed in the year of closing. The deduction allowed in earlier year on such contribution shall be included in income in the year of its closing.

3) If an assessee has got deduction under section 80 C in connection with loan taken for purchase or construction of residential house and he sells that house within 5 years , the deduction already availed shall be cancelled .This cancelled deduction shall be included in taxable income of the years in which it is cancelled .

4) If an assessee has got deduction u/s 80 C by purchasing shares or debentures of an infrastructure company and he sells them within 3 years after date of purchase, the deduction already availed will be cancelled and such deduction shall be included in the income of the year in which it is cancelled.

Check Your Progress A

1) A person who is a Government employee saves the following amount.

   a) Rs. 2,000 as premium on LIC

   b) Rs. 3,000 as contribution to Statutory Provident fund.

   c) Rs. 4,000 in ULIP

   d) Rs. 12,000 as repayment of loan taken for the house

   e) Rs. 4,000 in Jeevan Mitra

   Calculate the Gross qualifying amount.

2) Fill in the blanks:

   a) Interest credited to a Statutory Provident Fund is ………… in the salary income.

   b) A person can deposit Rs. 500 to ………… in year in PPF.

   c) Contribution to Jeevan Dhara and Jeevan Akshay are entitled for deduction u/s………………

Computation of Taxable Salaries

Specimen of computation of taxable salaries of Mr………

For the assessment year……….

Salary @ Rs ……………p.m.	…………
Annuity of Pension	…………
Bonus, Fees, Commission etc	…………
Dearness Allowance or Dearness Pay	…………
Taxable salary of Gratuity	…………
Taxable part of encashment of earned leave	
Allowances	
Entertainment allowance	…………
Education allowance (Taxable portion)	…………
Any other taxable cash allowance	…………
House rent allowance (taxable portion)	…………
Special allowance (Actual- spent for employment purpose)	…………

Travelling allowance (Actual amount spent for business purpose)	…………
Employer's contribution to RPF in excess of 12% of salary	…………
Interest credited to RPF in excess of 9.5% rate	…………
Perquisites	
Valuation of rent free/concessional rent free accommodation	…………
Actual payment of employee's obligation paid by the employer	…………
Life or annuity premium paid by employer	…………
Valuation of perquisites, if any, to specific assessee	
Director or employee having substantial interest or having monetary salaries income in excess of Rs 50,000, if the assessee is not a specific assessee, these perquisites shall not be valued as these perquisites shall be deemed free or exempt	
Profit in Lieu of salary	
Compensation for modification in terms of or termination of services	…………
Taxable portion in transferred balance of unrecognized PF	…………
Gross Salaries	…………
Less: i. Standard Deduction	…………
ii. Entertainment Allowance	…………
iii. Professional or Employment Tax	…………
Taxable Salaries	…………

You have studied the provisions of Income Tax Act. Let us now take a few illustrations to clarify the treatment of various contributions for tax purpose.

Illustration 2

Following particulars are furnished by Mr. Murari, a citizen and resident of India. Compute the taxable income of Mr. Murari for Assessment Year 2021-22

			Rs.
a)	Basic Salary		86,000
b)	House rent allowance (the house is at Kolar and Rent paid amount to Rs. 60,000)	42,000	
c)	LIC premium on his own life	5,000	
d)	Unit linked insurance plan contribution	1,000	
e)	Premium on his wife's life	2,500	
f)	Deposit in 10 years CTD of Post Office	2,000	
	Computation of Taxable income of Mr. Murari		

Solution:

Taxable salary of Mr Murari for AY 2021-22

	Rs.	Rs.
1) Basic Salary		86,000
2) House rent allowance:		
a) Actual HRA received	42,000	
b) Rent paid in excess of 10% of salary Rs. 60,000 – Rs. 8,600	51,400	
c) 40% of salary	34,400	
Taxable HRA (Rs. 42,000 – 34,400)		7,600
Gross Salary		93,600
Less: Standard deduction		50,000
		43,600
Deduction u/s 80 C		
Premium on own life	5,000	
Premium on wife's life	2,500	
Payment under unit linked plan	1,000	8,500
Taxable Income		**35,100**

Illustration 3

The following particulars are given by Mr. S. Rajan, Chennai, in respect of his annual income for the year ended 31.03.2021. Calculate taxable salary:

i) Salary (p.a.)	Rs. 1,70,000
ii) HRA	20% of salary
iii) Actual house rent paid	Rs. 1,200 p.m.
iv) Contribution to recognized provident fund	Rs. 20,000
v) LIP on his own life (sum assured Rs. 20,000)	Rs. 6,000
vi) Amount deposited in PPP account	Rs. 15,000

Solution:

Computation of income tax of Mr. S. Rajan for AY 2020-21

	Rs.	Rs.
Salary		1,70,000
House rent allowance		
i) Actual HRA received	34,000	
ii) Rent paid in excess of 10% of salary (17,000-14,400)	2,600	
iii) 50% of salary	85,000	
Taxable HRA (34,000 – 2,600)		31,400
Gross salary		2,01,400

Less: Standard Deduction	50,000	
Taxable Salary		**1,51,400**
Less – Deduction u/s 80 C		
LIP on his own life	6,000	
(Max 20% of sum assured)		
Contribution to RPF	20,000	
Contribution to PPF	15,000	41,000
Taxable Income		**1,10,400**

Illustration 4

Mr. Anurag is in a government service. His basic salary is Rs. 50,000 p.m. and getting dearness allowance @ 63% of the basic salary (it comes under the terms of employment). He contributes 10% of his salary in notified pension scheme. The central government contributes the same amount. He contributes Rs. 60,000 to public provident fund and paid Rs. 25,000 as premium on his life policy. Compute the taxable income of Mr. Anurag for the A.Y. 2021-22

Solution:

Computation of income tax of Mr. Anurag for AY 2021-22

	Rs,	Rs.
Basic salary @ 50,000 p.m.		6,00,000
Dearness allowance		3,78,000
Contribution towards pension scheme 10% on 9,78,000		97,800
Gross Salary		10,75,800
Less: Standard deduction		50,000
Net Salary		**10,25,800**
Less: Deduction u/s 80 C		
U/s 80 C for LIP & PPF (Rs. 25,000 + Rs. 60,000)	85,000	
U/s 80 CCD (1) contribution on to NPS	47,800	
(Being the amount contributed – Deduction allowed U/s 80 CCD (1B) i.e. 97,800 – 50,000 not exceeding 10% of salary)	1,32,800	
	1,32,800	
(Amount u/s 80 C, 80 CCC and 80 CCD (1) is limited to Rs. 1,50,000 hence u/s 80 CCD (1B) Amount Deposited in NPS [10% of salary or Rs. 50,000 (whichever is less) i.e. Rs. 97,800 of Rs. 50,000)	50,000	
U/s 80CCD (2) for employer's contribution to NPS upto 10% of salary of Mr. Anurag	97,800	2,80,600
Taxable Income		**7,45,200**

Illustration 5

Gross total income of Mrs. Neha is Rs. 6,75,000, she deposited in RPF Rs. 50,000. She paid donation to a Political Party Rs. 10,000 by cheque and Prime Minister National Relief Fund Rs. 15,000 by cheque. She paid medical insurance premia on the health of her spouse Rs. 27,000 by cheque. Compute her total taxable income for assessment year 2021-22.

Solution:

Computation of total taxable income of Mrs Neha for AY 2021-22

	Rs.	Rs.
Gross total income		6,75,000
Less: Deduction u/s 80 C RPF	50,000	
Deduction u/s 80 D		
Medical insurance premia		
(maximum deduction allowed Rs. 25,000)	25,000	
80G Donation to PMNRF	15,000	
Deduction u/s 80 GGC :		
Donation to political party	10,000	
		1,00,000
Rs. 6,75,000 – Rs. 1,00,000		
Taxable income		**5,75,000**

Illustration 6

An Indian citizen and not ordinarily resident Mr Rahul is an employee of an Indian company. He served in India for 4 months during the previous ended 31st march, 2021. For the balance of 8 months of the year he served in Singapore branch of the company. The particulars relevant to his assessment of this year were as under:

a) Salary @ Rs 15,000 per month for 4 months of service in India (April to July)

b) Salary @ Rs 20,000 per month for 8 months of service in Singapore (August to March)

c) Contribution to recognized provident fund @ 12% of salary for 4 months for service in India, the employer contributed at the same rate for the whole year.

d) Rahul was given free use of car of 1.4 liter cubic capacity, outside India; all expenses including those of a driver's salary were met by the employer.

e) Rahul was provided with rent free furnished accommodation throughout the period. The rent paid by the employer for the house was Rs 4,000 per month and Rs 4,500 per month in India and at Singapore respectively. The cost of furniture provided for Rahul's uses was Rs 15,000 at both places.

Compute Rahul's salary income for Assessment Year 2021-22.

Solution:

Computation of salary income of Mr Rahul for AY 2020-21

	Rs.	Rs.
Salary for 4 months @ Rs 15,000 p.m		60,000
Employer's contribution to RPF		
(12% of Rs 2,20,000	26,400	
Less: 12% of salary of Rs 60,000	7,200	19,200
Value of rent free furnished house in India	9,400	
Gross Salary		**88,6000**
Less: Deduction u/s 16		
Standard Deduction	50,000	
Income from Salary		**38,600**

Note:

1) Salary and allowance received in Singapore are not taxable as they have been earned and received in India, because Mr Rahul is not ordinary resident in India and he is not a government servant.

2) Salary for employer's contribution in PF :

4 months' salary in India (4×Rs 15,000)	Rs 60,000
8 month's salary in Singapore (8×Rs 20,000)	Rs 1,60,000
Total Salary for contribution	Rs 2,20,000

3) Valuation of house has been done as below:

15% of salary in India or rent paid by the employer in India	
Whichever is less (Rs 9,000 or Rs 16,000)	Rs 9,000
Add: 10% of cost of furniture (for 4 months)	
12,000×10% × 4/12	Rs 400

4) Employer's contribution in RPF is 12% of salary, but salary of 8 months accrued and received in Singapore shall not be taxable. Hence, whole amount of employer's contribution shall be treated for 4 months.12% of 4 month's salary in India shall be exempt. Remaining amount shall be taxable.

7.6 LET US SUM UP

Provident fund is an important fund in which a person contributes some amount and save income for future profit. Provident fund scheme applies in the most of the institutions. Under this, employer and employee both contribute some amount per month. At the time of retirement, the total amount of this fund along with the interest may be given to the employee.

Provident funds are five types:

i) Statutory Provident fund

ii) Recognized Provident fund

iii) Unrecognized Provident fund

iv) Public Provident fund

v) Approved Superannuation fund.

There are provisions in Income Tax Act, 1961 regarding the provident fund are related to the following:

i) Contribution of employee

ii) Contribution of employer

iii) Interest on balance

iv) Final payment

In Section 80 C, there are provisions regarding deductions related to saving from total income. Saving includes Life insurance premium, contribution in provident fund, contribution in ULIP, deposits in CTD, payment of residential housing loan, deposits in national banks, total of these savings are gross deductable amount. The amount of deduction may be calculated from gross deductable taxable amount for calculating taxable income. This amount is deducted from gross total income of the assessee.

7.7 KEY WORDS

Provident Fund: Fund created for future financial help to the person.

Statutory Provident Fund: This provident fund is maintained by Government or Semi-Government offices or bodies local authorities, railways, universities, colleges, banks, etc.

Recognized Provident Fund: This is recognized by the chief commissioner or the commissioner of Income tax.

Unrecognized Provident Fund: Provident fund which is maintained by private sector and not recognized by the chief commissioner or the commissioner of income tax.

Public Provident Fund: This is a fund which can be maintained by non salaried persons, any person salaried as well as self-employed can open this fund in S.B.I. and any nationalized bank.

Gross qualifying amount: Total saving amount which is deductible under Section 80C.

7.8 ANSWER TO CHECK YOUR PROGRESS

Check Your Progress A

1) Rs. 25,000

2) i) not included ii) Rs. 1, 50,000 iii) Sec 80 C

7.9 TERMINAL QUESTIONS/EXERCISES

1) What are the provisions regarding unrecognized provident fund in Income Tax Act, 1961.

2) Explain the rules for refund of loan taken for the construction of house.

3) Sri Suresh retired from Government service. During previous year he received the following. Rs.

1)	Salary from Government	2,00,000
2)	D.A. from Government	2,00,000
3)	Gratuity	10,00,000
4)	Commuted pension	12,00,000
5)	Encashment of earned leave	6,00,000
6)	Pension	4,32,000
7)	Provident fund	4,00,000

He contributed to LIC pension fund u/s 80 CCC Rs. 1,20,000 and deposited Rs. 60,000 in PPF. Compute his total income for the assessment year 2021-22.

[Answer: Rs. 6,32,000]

[**Note:** The incomes under point No. 3,4,5 and 7 in the above question is tax free]

4) Mr. Basu lives in Bhopal submit the following information in P.Y. 2020-21.

1)	Net salary after deduction on P.F. and deduction of tax at source	Rs. 2,40,000
2)	Income tax deducted at source on salary	8,000
3)	Employer's contribution to P.F.	12,000
4)	Employee contribution of P.F.	12,000
5)	Gross dividend from Indian company	8,000

Compute the taxable income of Mr. Basu for A.Y.2021-22

[Answer: Rs. 1,98,000]

[**Note:** Dividend from Indian company is exempt]

5) Mr Amit is employed in XYZ Ltd, getting basic pay Rs 15,000 p.m. and dearness allowance Rs 5,500 p.m. forming part of salary. He has contributed Rs 3,000 p.m. to the recognized provident fund and employer has also contributed an equal amount. During the year interest of Rs 25,000 was credited @ 8.5 % p.a

Employer has provided rent free accommodation to the employee for which rent paid by the employer is Rs 6,000 p.m. The employee has enchased one month leave and was allowed leave salary of Rs 17,000. Compute his income under the head salary for Assessment year 2021-22.

[Answer: Gross salary = Rs 3,13,970]

(**Hint:** Population of the city of accommodation is above 25 lakhs)

6) Mr. Jagdish is an employee of a company furnishes following particulars for previous year 2020-21

a)	Basic salary	1,2000 p.m.
b)	Dearness allowance	1,200 p.m.
	(Not for retirement benefits)	
c)	Employee's contribution to RPF	10% of basic salary
d)	Employer's contribution to RPF	15% of basic salary
e)	Interest credited to P.F. on 31-10-2020	11% p.a. Rs. 5,500.
f)	Professional tax deducted to his salary Rs. 110 p.a. He has been provided with a rent free house for which he paid Rs. 1,000 p.m. The fair rent of the house is Rs. 8,000 p.a. He received Rs. 20,000 on 01-10-2020 for encashment of leave. Compute his taxable salary for A.Y. 2021-22 Assuming the population of city is 15 lakh.	

[Answer: Taxable salary = 1,36,550, Concessional Rent Rs. 4,400]

Note: These questions and illustrations are helpful to understand this unit. Do efforts for writing the answer of these questions but do not send your answer to university. It is only for yours practice.