

## RETIRMENT BENEFITS

An employee may get the following kinds of retirement benefits

- Gratuity
- Pension
- Encashment of earned leave
- Retrenchment compensation
- VRS compensation
- Provident fund

### **Gratuity: Section 10(10):**

Govt. employees – Fully exempted

### **Non-govt. employees – Covered by payment of Gratuity Act 1972**

The least of the following is exempted

- Actual gratuity received
- 15 days salary (15/26) for every completed year of service in excess of six months
- Rs.10,00,000/- (the amount notified by the Government)

Salary here means salary last drawn i.e. Basic pay + Dearness allowance

**Q9]** Compute the taxable gratuity for the Assessment year 2013-14 from the following information

	<b>Seshyan</b>	<b>Pandiyan</b>
Duration of service	23 years 7 months	32 years 5 months
Basic salary	15000 per month	20000 per month
Dearness allowance (50% forms part)	5000per month	8000 per month
Commission 5% on sales achieved	80000	150000
Gratuity received	446731	665000

### **Non-govt. employees – Not covered by payment of Gratuity Act 1972**

The least of the following is exempted

- Actual gratuity received
- Half month salary for every completed year of service
- Rs.10,00,000/- (the amount notified by the Government)

Salary here means average salary during 10 months immediately preceding retirement i.e. Basic pay + Dearness allowance (FP)+ % of commission

**Q9]** Diwakar is the marketing manager of Philips India limited. He retires on Nov.2010 after service of 32 years and 10 months. At the time of retirement he has been paid Rs.780000/- as death cum retirement gratuity, although Philips Limited is not covered by Payment of Gratuity Act 1972. Find out his salary chargeable to tax for the assessment year 2011-2012.

Basic salary at the time of retirement Rs.21000/- per month

Month from which increment allowed June and Annual increment is Rs.1000/-

Dearness allowance (30% forms part of salary for retirement) Rs.6000/- per month

Commission (fixed from the Month of Jan 2008) Rs.1000/- per month

He gets 5% commission on turnover achieved by him (Turnover during the last 10 months Rs.1000000)

### **Pension – Section 10(10A)**

Un-commuted pension (received monthly) taxable for both Govt. and Non-Govt.

Commuted pension (received in lump-sum) for Govt. employee – fully exempted

Non- govt. Employees – if gratuity received =  $\frac{1}{3}^{\text{rd}}$  of full pension is exempted

Non- govt. Employees – if gratuity not received =  $\frac{1}{2}^{\text{of}}$  the full pension is exempted

Contributory pension scheme with effect from 01/04/2004 – The amount contributed by employer shall first be included in the salary of the employee. However, both employer and employee contribution will be allowed as deduction under section 80C

**Q10]** Mr. Ravichandar received Rs.17500/- per month as pension from the Government of Karnataka for the previous year 2010-11. Compute the amount pension exempted from tax?

**Q10A]** Mr. Chandar retired from Central Government service on 30 June 2011. He gets pension of Rs.12000/- per month upto 31<sup>st</sup> December 2011. On 01<sup>st</sup> January 12, he gets 50% of the pension commuted for Rs.328000/-. Calculate the taxable pension

**Q10B]** Mr. Rahul retired from ABB Limited on 30 June 2011. He gets pension of Rs.12000/- per month upto 31<sup>st</sup> December 2011. On 01<sup>st</sup> January 12, he gets 50% of the pension commuted for Rs.328000/-. Calculate the taxable pension. What difference will it make if he gets Rs.450000/- as gratuity alongwith pension.

**Provident fund** – both employer and employee contribute to provident fund and which accrued with interest.

Statutory provident fund (**SPF**) – only employee contribution (in case of Govt. employee), the maturity value is exempted. Contribution allowed as deduction under section 80C.

Recognised provident fund (**RPF**): employer contribution upto 12% is exempted. Interest on employer contribution exempted upto 9.5%. Maturity value fully exempted. Employee contribution allowed as deduction under section 80C.

Unrecognised provident fund (**URPF**): at the time contribution nothing is taxable and deductible under section 80C

At the time of maturity employer contribution and interest on it is taxed as income from salary,

Employee contribution exempted

Interest on employee contribution taxed as income from other sources.

**Public provident fund (PPF)**: anybody can contribute to this fund. Contribution qualifies for deduction under section 80C. Maturity value exempted. Contribution minimum Rs.500/- maximum Rs.100000/-

**Earned leave encashment:**

Earned leave en-cashed while in service is taxable for both Govt. and non-Govt. employees

**E L** en-cashed at the time of retirement for Govt. employees - fully exempted

**E L** en-cashed at the time of retirement for Non- Govt. employees

The least of the following is exempted

1] Rs.3,00,000/- (amount Specified by the Govt.)

2] 10 months average salary

3] Period of earned leave (in months) to the credit of employees at the time of retirement x AM Salary

Average monthly salary means Salary, dearness allowance and commission based on fixed percentage of turnover. Salary drawn during 10 months immediately preceding the date of retirement shall be considered.

Earned leave entitlement cannot exceed 30 days for every year of actual service rendered.

**Q11]** Mr. Vajawat who retired from V and Co, on 31<sup>st</sup> August 2012 after serving 23 years and 8 months received Rs.450000/- as earned leave encashment at the time retirement. Salary at the time of retirement is Rs.15000/- per month. He got increment of Rs.2000/- on 01<sup>st</sup> January 2012. Every year he is entitled for a leave of 40 days and during the service he availed 5 months leave. Compute the taxable leave salary.

**Q12]** Mr. Kumar is employed in HCL limited at Bangalore. He gets the following emoluments

Basic salary Rs.12500/- per month      DA (form part of salary) Rs.6000/- p m  
Bonus Rs.10000/-      Fees Rs.8000/-  
2% commission on turnover achieved by him (Turnover achieved 800000/-)  
House rent allowance Rs.7250/-per month (rent paid by him Rs.6500/- per month)  
Entertainment allowance Rs.4000/- pm      City Compensatory allowance Rs1000/-pm

Calculate his salary income after considering the fact that he paid premium Rs.10000/- on the life of his spouse (policy value 200000), and contributed to recognized provident fund Rs.60000/- during the year.

**Q13]** Calculate salary income of Mahesh for the Assessment year 2012-13 who is working in Balmar and co at Mumbai.

Basic salary Rs.10000/- per month      DA Rs.6000/-pm(Rs.3000/-forms part)  
City compensatory allow. Rs.500/-pm      Project allowance Rs.200/- per month  
Servant allowance Rs.100/- per month      Uniform allowance Rs.125/-pm (amount spent Rs.100 per month)  
Entertainment allowance Rs.1500/- pm  
Academic research allowance Rs.3000/- per month (amount spent Rs.55000)

The employer met the following expenses of Mahesh

LIC premium Rs. 6000/-, Electricity Bill Rs.4000/- and Professional tax Rs.3000/-

He and his employer contribute 17.5% to Recognized Provident Fund. Interest credited at the rate of 12.5% comes to be Rs. 55500/-. He provided with a rent free house. The house is taken on lease and lease rent paid by the company amounts to Rs.7000/- per month. Further, the company reimbursed Rs.30000/- for taking treatment to his spouse in a private hospital during the year.

During the year, he also paid Rs.15000/- as tuition fees for his son and 70000/- towards housing loan principal.