

Advance learning on Allowances (Practical)

Various forms of salary :

Illustration

From the following information provided by Mr. Kumar, compute his income chargeable to tax under the head salaries.

- Basic salary per month Rs. 84,000
- Dearness allowance per month Rs. 66,000
- Taxable value of various allowances (per month) Rs. 25,000
- Value of perquisites provided by the employer (for the year) Rs. 1,00,000

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An employee gets salary in any of the following forms from his employer :

- Monthly basic salary (i.e., payment for the work done by the employee).
- Monthly allowances (i.e., payment for meeting any specific objective).
- Different perquisites (i.e., different facilities provided by the employer).
- Retirement benefits (like gratuity, provident fund payments, pension, etc).

In this case, taxable salary will be computed as follows :

<i>Particulars</i>	<i>(Rs.)</i>
Basic salary (Rs. 84,000 × 12)	10,08,000
Dearness allowance (Rs. 66,000 × 12)	7,92,000
Taxable allowances (Rs. 25,000 × 12)	3,00,000
Taxable value of perquisites	<u>1,00,000</u>
Taxable salary	22,00,000

Meaning of allowance

Allowance is generally a fixed amount given on regular basis to meet some particular requirement. From taxation point of view, allowance can be classified as taxable allowance and exempt allowance. Exempt allowance can be further classified as follows :

- Allowances for which exemption is based on lower of amount of allowance or amount spent for the purpose for which allowance is granted.
- Allowances for which exemption is based on lower of amount of allowance or prescribed amount.
- Allowances for which exemption is based on specific method of computation.

Allowance in respect of which exemption is based on lower of amount of allowance or amount spent for the purpose for which allowance is granted

Illustration (Amount spent less than amount received)

From the following information provided by Mr. Keshav, compute the taxable value of various allowances given to him by his employer.

<i>Name of the allowance</i>	<i>Amount of allowance (Rs.)</i>	<i>Amount spent (Rs.)</i>
Travelling allowance	8,400	7,400
Conveyance allowance	10,000	8,500
Daily allowance	12,000	10,000
Helper allowance	8,000	5,000
Research allowance	4,000	3,000
Uniform allowance	3,000	2,500

As per section 10(14), in case of following allowances (by whatever name called), exemption is lower of :

(a) The amount of allowance, or,

(b) The amount spent for the purpose for which allowance is granted.

- (1) *Travelling allowance/Transfer allowance* - Any allowance granted to meet the cost of travel on tour or transfer (including any sum paid in connection with transfer, packing and transportation of personal effects on transfer) is exempt under section 10(14).
- (2) *Conveyance allowance* - Conveyance allowance granted to meet the expenditure on conveyance in performing official duty is exempt under section 10(14).
- (3) *Daily allowance* - Any allowance granted to meet the ordinary daily expenditure incurred by the employee on account of his absence from normal place of duty, due to tour or journey in connection with his transfer is exempt from tax under section 10(14).
- (4) *Helper allowance* - Any allowance granted to meet the expenditure on a helper engaged for performing official duty is exempt from tax under section 10(14).
- (5) *Research allowance* - Any allowance granted to meet the expenditure on academic research and other professional pursuits is exempt from tax under section 10(14).
- (6) *Uniform allowance* - Any allowance granted to meet the expenditure on purchase or maintenance of uniform (for wearing during performance of official duty) is exempt from tax under section 10(14).

Considering the above provisions, the taxable value of allowance will be computed as follows :

<i>Name of the allowance</i>	<i>Amount of allowance (Rs.) (a)</i>	<i>Amount spent (Rs.) (b)</i>	<i>Exemption (Rs.) (c) = Lower of (a) or (b)</i>	<i>Taxable allowance (Rs.) (d) = (a) – (c)</i>
Travelling allowance	8,400	7,400	7,400	1,000
Conveyance allowance	10,000	8,500	8,500	1,500
Daily allowance	12,000	10,000	10,000	2,000
Helper allowance	8,000	5,000	5,000	3,000
Research allowance	4,000	3,000	3,000	1,000
Uniform allowance	3,000	2,500	2,500	<u>500</u>
Taxable value of allowance				9,000

Illustration (Amount spent more than amount received)

From the following information provided by Mr. Keshav, compute the taxable value of various allowances given to him by his employer.

<i>Name of the allowance</i>	<i>Amount of allowance (Rs.)</i>	<i>Amount spent (Rs.)</i>
Travelling allowance	8,400	17,400
Conveyance allowance	10,000	18,500
Daily allowance	12,000	15,000
Helper allowance	8,000	9,000
Research allowance	4,000	5,000
Uniform allowance	3,000	5,500

As per section 10(14), in case of following allowances (by whatever name called), exemption is lower of :

(a) The amount of allowance, or,

(b) The amount spent for the purpose for which allowance is granted.

- (1) *Travelling allowance/Transfer allowance* - Any allowance granted to meet the cost of travel on tour or transfer (including any sum paid in connection with transfer, packing and transportation of personal effects on transfer) is exempt under section 10(14).
- (2) *Conveyance allowance* - Conveyance allowance granted to meet the expenditure on conveyance in performing official duty is exempt under section 10(14).

- (3) *Daily allowance* - Any allowance granted to meet the ordinary daily expenditure incurred by the employee on account of his absence from normal place of duty, due to tour or journey in connection with his transfer, is exempt from tax under section 10(14).
- (4) *Helper allowance* - Any allowance granted to meet the expenditure on a helper engaged for performing official duty is exempt from tax under section 10(14).
- (5) *Research allowance* - Any allowance granted to meet the expenditure on academic research and other professional pursuits is exempt from tax under section 10(14).
- (6) *Uniform allowance* - Any allowance granted to meet the expenditure on purchase or maintenance of uniform (for wearing during performance of official duty) is exempt from tax under section 10(14).

Considering the above provisions, the taxable value of allowance will be computed as follows :

<i>Name of the allowance</i>	<i>Amount of allowance (Rs.) (a)</i>	<i>Amount spent (Rs.) (b)</i>	<i>Exemption (Rs.) (c) = Lower of (a) or (b)</i>	<i>Taxable allowance (Rs.) (d) = (a) – (c)</i>
Travelling allowance	8,400	17,400	8,400	<i>Nil</i>
Conveyance allowance	10,000	18,500	10,000	<i>Nil</i>
Daily allowance	12,000	15,000	12,000	<i>Nil</i>
Helper allowance	8,000	9,000	8,000	<i>Nil</i>
Research allowance	4,000	5,000	4,000	<i>Nil</i>
Uniform allowance	3,000	5,500	3,000	<u><i>Nil</i></u>
Taxable value of allowance				<i>Nil</i>

Allowance in respect of which exemption is based on lower of amount of allowance or prescribed amount

Illustration (Children's education allowance for two children)

Mr. Kapoor receives children's education allowance of Rs. 300 per month per child for his 2 children. What will be the taxable value of children's education allowance in the hands of Mr. Kapoor?

**

As per rule 2BB(2), an employee can claim exemption in respect of children's education allowance of lower of the amount of allowance or Rs. 100 per month per child (upto 2 children). In this case, the exemption will be as follows :

<i>Particulars</i>	<i>(Rs.)</i>
Total children's education allowance per month (Rs. 300 per child or Rs. 600 for 2 children)	600
(–) Exemption as per rule 2BB(2) (*)	<u>200</u>
Taxable value of allowance per month	400

(*) Exemption will be lower of the amount of allowance or Rs. 100 per month per child (upto 2 children). In this case, employee is receiving Rs. 300 per month per child. Exemption will be Rs. 100 per month per child and will be limited upto 2 children. Hence, exemption will be Rs. 200 per month.

Illustration (Children's education allowance for more than two children)

Mr. Kapoor receives children's education allowance of Rs. 50 per month per child for his 3 children. What will be the taxable value of children's education allowance in the hands of Mr. Kapoor?

**

As per rule 2BB(2), an employee can claim exemption in respect of children's education allowance of lower of the amount of allowance or Rs. 100 per month per child (upto 2 children). In this case the exemption will be as follows :

<i>Particulars</i>	<i>(Rs.)</i>
Total children's education allowance per month (Rs. 50 per child or Rs. 150 for 3 children)	150
(–) Exemption as per rule 2BB(2) (*)	<u>100</u>
Taxable value of allowance per month	50

(*) Exemption will be lower of the amount of allowance or Rs. 100 per month per child (upto 2 children). In this case, employee is receiving Rs. 50 per month per child. Thus, exemption will be Rs. 50 per month per child and will be limited to 2 children. Hence, exemption will be Rs. 100 per month (Rs. 50 × 2).

Illustration (Children's education allowance for more than two children)

Mr. Kapoor receives children's education allowance of Rs. 150 per month per child for his 3 children. What will be the taxable value of children's education allowance in the hands of Mr. Kapoor?

**

As per rule 2BB(2), an employee can claim exemption in respect of children's education allowance of lower of the amount of allowance or Rs. 100 per month per child (upto 2 children). In this case the exemption will be as follows :

<i>Particulars</i>	<i>(Rs.)</i>
Total children's education allowance per month (Rs. 150 per child or Rs. 450 for 3 children)	450
(–) Exemption as per rule 2BB(2) (*)	<u>200</u>
Taxable value of allowance per month	250

(*) Exemption will be lower of the amount of allowance or Rs. 100 per month per child (upto 2 children). In this case, employee is receiving Rs. 150 per month per child. Thus, exemption will be Rs. 100 per month per child and it will be limited to 2 children. Hence, exemption will be Rs. 200 per month (Rs. 100 × 2).

Illustration (Children's education allowance with details of amount spent by the employee on education of his children)

Mr. Kapoor receives children's education allowance of Rs. 1,500 per month per child for his 3 children. He actually spends Rs. 3,000 per month on education per child. What will be the taxable value of children's education allowance in the hands of Mr. Kapoor?

**

As per rule 2BB(2), an employee can claim exemption in respect of children's education allowance of lower of the amount of allowance or Rs. 100 per month per child (upto 2 children). The exemption will be limited to Rs. 100 per month, irrespective of the actual amount spent by the employee on education of his children. In this case, the exemption will be as follows :

<i>Particulars</i>	<i>(Rs.)</i>
Total children's education allowance per month (Rs. 1,500 per child or Rs. 4,500 for 3 children)	4,500
(–) Exemption as per rule 2BB(2) (*)	<u>200</u>
Taxable value of allowance per month	4,300

(*) Exemption will be lower of the amount of allowance or Rs. 100 per month per child (upto 2 children). In this case, employee is receiving Rs. 1,500 per month per child. Thus, exemption will be Rs. 100 per month per child and it will be limited to 2 children. Hence, exemption will be Rs. 200 per month (Rs. 100 × 2).

Illustration (Children's hostel allowance for two children)

Mr. Sunil receives hostel allowance for meeting the hostel expenditure of his children of Rs. 400 per month per child for his 2 children. What will be the taxable value of hostel allowance in the hands of Mr. Sunil?

**

As per rule 2BB(2), an employee can claim exemption in respect of allowance granted for meeting the hostel expenditure of his child. Exemption will be lower of the amount of allowance or Rs. 300 per month per child (upto 2 children). In this case, the exemption will be as follows :

<i>Particulars</i>	<i>(Rs.)</i>
Total children's hostel allowance per month (Rs. 400 per child or Rs. 800 for 2 children)	800
(–) Exemption as per rule 2BB(2) (*)	<u>600</u>
Taxable value of allowance per month	200

(*) Exemption will be lower of the amount of allowance or Rs. 300 per month per child (upto 2 children). In this case, employee is receiving Rs. 400 per month per child. Exemption will be Rs. 300 per month per child and will be limited to 2 children. Hence, exemption will be Rs. 600 per month (Rs. 300 × 2).

Illustration (Children's hostel allowance for more than two children)

Mr. Anurag receives hostel allowance for meeting the hostel expenditure of his children of Rs. 200 per month per child for his 3 children. What will be the taxable value of hostel allowance in the hands of Mr. Anurag?

**

As per rule 2BB(2), an employee can claim exemption in respect of allowance granted for meeting the hostel expenditure of his child. Exemption will be lower of the amount of allowance or Rs. 300 per month per child (upto 2 children). In this case, the exemption will be as follows :

<i>Particulars</i>	<i>(Rs.)</i>
Total children's hostel allowance per month (Rs. 200 per child or Rs. 600 for 3 children)	600
(-) Exemption as per rule 2BB(2) (*)	<u>400</u>
Taxable value of allowance per month	200

(*) Exemption will be lower of the amount of allowance or Rs. 300 per month per child (upto 2 children). In this case, employee is receiving Rs. 200 per month per child. Thus, exemption will be Rs. 200 per month per child and it will be limited to 2 children. Hence, exemption will be Rs. 400 per month (Rs. 200 × 2).

Illustration (Children's hostel allowance for more than two children)

Mr. Anurag receives hostel allowance for meeting the hostel expenditure of his children of Rs. 1,000 per month per child for his 3 children. What will be the taxable value of hostel allowance in the hands of Mr. Anurag?

**

As per rule 2BB(2), an employee can claim exemption in respect of allowance granted for meeting the hostel expenditure of his child. Exemption will be lower of the amount of allowance or Rs. 300 per month per child (upto 2 children). In this case, the exemption will be as follows :

<i>Particulars</i>	<i>(Rs.)</i>
Total children hostel allowance per month (Rs. 1,000 per child or Rs. 3,000 for 3 children)	3,000
(-) Exemption as per rule 2BB(2) (*)	<u>600</u>
Taxable value of allowance per month	2,400

(*) Exemption will be lower of the amount of allowance or Rs. 300 per month per child (upto 2 children). In this case, employee is receiving Rs. 1,000 per month per child. Thus,

exemption will be Rs. 300 per month per child and it will be limited to 2 children. Hence, exemption will be Rs. 600 per month (Rs. 300 × 2).

Illustration (Hostel allowance with details of amount spent by the employee on hostel expenditure of his children)

Mr. Anurag receives hostel allowance of Rs. 2,000 per month per child for his 3 children for meeting the hostel expenditure of his children. He actually spends Rs. 10,000 per month on hostel expenditure of his each child. What will be the taxable value of hostel allowance in the hands of Mr. Anurag?

**

As per rule 2BB(2), an employee can claim exemption in respect of allowance granted for meeting the hostel expenditure of his child. Exemption will be lower of the amount of allowance or Rs. 300 per month per child (upto 2 children). The exemption will be limited to Rs. 300 per month, irrespective of the actual amount spent by the employee on hostel expenditure of his children. In this case the exemption will be as follows :

<i>Particulars</i>	<i>(Rs.)</i>
Total children's hostel allowance per month (Rs. 2,000 per child or Rs. 6,000 for 3 children)	6,000
(–) Exemption as per rule 2BB(2) (*)	<u>600</u>
Taxable value of allowance per month	5,400

(*) Exemption will be lower of the amount of allowance or Rs. 300 per month per child (upto 2 children). In this case, employee is receiving Rs. 2,000 per month per child. Thus, exemption will be Rs. 300 per month per child and it will be limited upto 2 children. Hence, exemption will be Rs. 600 per month (Rs. 300 × 2).

Illustration (Transport allowance, amount received more than specified amount)

Mr. Jay is receiving transport allowance of Rs. 2,000 per month from his employer (for meeting the expenditure of journey between home and office). What will be the tax treatment of transport allowance in the hands of Mr. Jay?

**

As per rule 2BB(2), exemption in respect of transport allowance will be lower of the amount of allowance or Rs. 800 per month. In this case the exemption will be as follows:

<i>Particulars</i>	<i>(Rs.)</i>
Actual amount of transport allowance	2,000
(–) Exemption as per rule 2BB(2) @ Rs. 800 per month	<u>800</u>
Taxable value of allowance per month	1,200

Illustration (Transport allowance, amount received less than specified amount)

Mr. Jay is receiving transport allowance of Rs. 500 per month from his employer (for meeting the expenditure of journey between home and office). What will be the tax treatment of transport allowance in the hands of Mr. Jay?

**

As per rule 2BB(2), exemption in respect of transport allowance will be lower of the amount of allowance or Rs. 800 per month. In this case the exemption will be as follows:

<i>Particulars</i>	<i>(Rs.)</i>
Actual amount of transport allowance	500
(–) Exemption as per rule 2BB(2) (lower of Rs. 800 per month or actual amount of allowance)	<u>500</u>
Taxable value of allowance per month	<i>Nil</i>

Illustration (Transport allowance, with details of amount spent by the employee)

Mr. Jay is receiving transport allowance of Rs. 1,500 per month from his employer (for meeting the expenditure of journey between home and office). He actually spends Rs. 3,000 per month on journey between office and his residence. What will be the tax treatment of transport allowance in the hands of Mr. Jay?

**

As per rule 2BB(2), exemption in respect of transport allowance will be lower of the amount of allowance or Rs. 800 per month. The exemption will be computed as above, irrespective of the actual amount spent by the employee. In this case the exemption will be as follows :

<i>Particulars</i>	<i>(Rs.)</i>
Actual amount of transport allowance	1,500
(–) Exemption as per rule 2BB(2) (lower of Rs. 800 per month or actual amount of allowance)	<u>800</u>
Taxable value of allowance per month	700

Illustration (Transport allowance for blind employee, amount received more than specified amount)

Mr. Jay (blind) is receiving transport allowance of Rs. 2,000 per month from his employer (for meeting the expenditure of journey between home and office). What will be the tax treatment of transport allowance in the hands of Mr. Jay?

**

As per rule 2BB(2), exemption in respect of transport allowance will be lower of the amount of allowance or Rs. 800 per month. However, in case of an employee who is

orthopaedically handicapped or blind, the exemption will be increased to Rs. 1,600 per month. In this case the exemption will be as follows :

<i>Particulars</i>	<i>(Rs.)</i>
Actual amount of transport allowance	2,000
(–) Exemption as per rule 2BB(2) @ Rs. 1,600 per month	<u>1,600</u>
Taxable value of allowance per month	400

Illustration (Transport allowance for orthopaedically handicapped, amount received less than specified amount)

Mr. Jay (orthopaedically handicapped) is receiving transport allowance of Rs. 1,000 per month from his employer (for meeting the expenditure of journey between home and office). What will be the tax treatment of transport allowance in the hands of Mr. Jay?

**

As per rule 2BB(2), exemption in respect of transport allowance will be lower of the amount of allowance or Rs. 800 per month. However, in case of an employee who is orthopaedically handicapped or blind, the exemption will be increased to Rs. 1,600 per month. In this case the exemption will be as follows :

<i>Particulars</i>	<i>(Rs.)</i>
Actual amount of transport allowance	1,000
(–) Exemption as per rule 2BB(2) (lower of Rs. 1,600 per month or actual amount of allowance)	<u>1,000</u>
Taxable value of allowance per month	<i>Nil</i>

Illustration (Transport allowance for blind employee, with details of amount spent by the employee)

Mr. Jay (blind) is receiving transport allowance of Rs. 2,500 per month from his employer (for meeting the expenditure of journey between home and office). He actually spends Rs. 3,000 per month of expenditure on journey between office and his residence. What will be the tax treatment of transport allowance in the hands of Mr. Jay?

**

As per rule 2BB(2), exemption in respect of transport allowance will be lower of the amount of allowance or Rs. 800 per month. However, in case of an employee who is orthopaedically handicapped or blind, the exemption will be increased to Rs. 1,600 per month. The exemption will be computed as above irrespective of the actual amount spent by the employee. In this case the exemption will be as follows :

<i>Particulars</i>	<i>(Rs.)</i>
Actual amount of transport allowance	2,500
(–) Exemption as per rule 2BB(2) (lower of Rs. 1,600 per month or	

actual amount of allowance)	<u>1,600</u>
Taxable value of allowance per month	900

Illustration (Transport allowance, with details of amount spent by the employee)

Mr. Jay is receiving transport allowance of Rs. 1,500 per month from his employer (for meeting the expenditure of journey between home and office). He actually spends Rs. 3,000 per month of expenditure on journey between office and his residence. What will be the tax treatment of transport allowance in the hands of Mr. Jay?

**

As per rule 2BB(2), exemption in respect of transport allowance will be lower of the amount of allowance or Rs. 800 per month. The exemption will be computed as above, irrespective of the actual amount spent by the employee. In this case the exemption will be as follows :

<i>Particulars</i>	<i>(Rs.)</i>
Actual amount of transport allowance	1,500
(–) Exemption as per rule 2BB(2) (lower of Rs. 800 per month or actual amount of allowance)	<u>800</u>
Taxable value of allowance per month	700

Illustration (Allowance granted to an employee working in any transport system to meet his personal expenditure)

Mr. Raja is working in a transport company. He receives Rs. 20,000 per month on account of allowance to meet his personal expenditure during his duty performed in the course of running of the transport vehicle from one place to another place. What will be the tax treatment of the allowance in the hands of Mr. Raja?

**

As per rule 2BB(2), an employee working in any transport system can claim exemption in respect of allowance granted to meet his personal expenditure during his duty performed in the course of running of such transport vehicle from one place to another place, provided he is not in receipt of daily allowance. Exemption in this case will be 70% of such allowance up to a maximum of Rs. 10,000 per month. In this case the exemption will be as follows :

<i>Particulars</i>	<i>(Rs.)</i>
Actual amount of allowance	20,000
(–) Exemption as per rule 2BB(2) (70% of the amount of allowance (i.e. Rs. 14,000 subject to maximum of Rs. 10,000)	<u>10,000</u>
Taxable value of allowance per month	10,000

Allowances in respect of which exemption is based on specific method of computation

Illustration (Entertainment allowance for Government employee)

Mr. Sujal is employed in SM Ltd. He is receiving entertainment allowance of Rs. 20,000 per month. He actually spends Rs. 5,000 per month on entertainment. His basic salary is Rs. 84,000 per month. What will be the amount of exemption in respect of entertainment allowance in the hands of Mr. Sujal?

**

Exemption in respect of entertainment allowance is available only to an employee of the Central Government or State Government. Entertainment allowance is first included in the salary and then a deduction is allowed of lower of the following:

- (a) 20% of salary (i.e., basic salary only) or
- (b) Rs. 5,000 or
- (c) Actual amount of allowance for the year.

This deduction is available only to an employee of the Central Government or the State Government. Entire amount of entertainment allowance is taxable in the hands of non-Government employees. In this case, Mr. Sujal is not a Government employee and, hence, he cannot claim exemption in respect of entertainment allowance. Hence, entire amount of entertainment allowance will be taxed in his hands.

Illustration (Entertainment allowance for Government employee)

Mr. Sunil is a Government employee. He is receiving entertainment allowance of Rs. 1,000 per month. His basic salary is Rs. 84,000 per month. What will be the amount of exemption in respect of entertainment allowance in the hands of Mr. Sunil?

**

Exemption in respect of entertainment allowance is available only to an employee of the Central Government or the State Government. Entertainment allowance is first included in the salary and then a deduction is allowed of lower of the following:

- (a) 20% of salary (i.e., basic salary only) or
- (b) Rs. 5,000 or
- (c) Actual amount of allowance for the year.

This deduction is available only to an employee of the Central Government or the State Government. In this case, Mr. Sunil is a Government employee and, hence, he can claim exemption in respect of entertainment allowance. The amount of exemption will be as follows :

(*) Exemption as per Section 16(ii) in respect of entertainment allowance will be computed as follows :

- Rs. 2,01,600 (being 20% of basic salary of Rs. 84,000 per month).
- Rs. 5,000
- Rs. 12,000 (Actual amount of allowance Rs. 1,000 × 12)

Exemption will be Rs. 5,000, being lower of above. This amount will be deductible from salary income.

Illustration (Entertainment allowance for Government employee)

Mr. Krunal is a Government employee. He is receiving entertainment allowance of Rs. 5,000 per month. His basic salary is Rs. 25,200 per month. He actually spends Rs. 6,000 per month on entertainment. What will be the amount of exemption in respect of entertainment allowance in the hands of Mr. Krunal?

**

Exemption in respect of entertainment allowance is available only to an employee of the Central Government or the State Government. Entertainment allowance is first included in the salary and then a deduction is allowed of lower of the following:

- (a) 20% of salary (i.e., basic salary only) or
- (b) Rs. 5,000 or
- (c) Actual amount of allowance for the year.

This deduction is available only to an employee of the Central Government or the State Government. The exemption will remain same, irrespective of the amount spent for the purpose of allowance. In this case, Mr. Sunil is a Government employee and, hence, he can claim exemption in respect of entertainment allowance. The amount of exemption will be as follows :

Exemption as per Section 16(ii) in respect of entertainment allowance will be computed as follows :

- Rs. 60,480 (being 20% of basic salary of Rs. 25,200 per month).
- Rs. 5,000
- Rs. 60,000 (Actual amount of allowance Rs. 5,000 \times 12)

Exemption will be Rs. 5,000, being lower of above. This amount will be deductible from salary income.

Illustration (Exemption in case of house rent allowance in case of Government and non-Government employee)

Mr. Amit (place of posting Bhatinda) has provided following information regarding his salary structure for the year 2012-13:

<i>Particulars</i>	<i>(Rs.)</i>
Basic salary	2,52,000
Dearness allowance forming part of salary while computing all retirement benefits	2,48,000
Commission (Rs. 5,000 per month)	60,000
House rent allowance (Rs. 10,000 per month)	1,20,000
Other allowance (fully taxable)	40,000
Value of perquisites provided by the employer	1,00,000

He has taken a residential accommodation on rent at a monthly rent of Rs. 12,000. From the above information compute the amount of taxable house rent allowance if Mr. Amit is a: (i) Government employee, (ii) non-Government employee.

**

House rent allowance is given to an employee to meet the expenditure incurred by the employee on account of rent of residential accommodation.

As per section 10(13A) and Rule 2A, exemption in respect of HRA is least of the following amounts:

- 50% of salary, when residential house is situated at Mumbai, Kolkata, Delhi or Chennai and 40% of salary where residential house is situated at any other place.
- HRA actually received by the employee in respect of the period during which rental accommodation is occupied by the employee and rent is incurred by the employee, during the previous year.
- Rent paid in excess of 10% of salary.

The above discussed exemption will remain same in the case of a Government employee as well as a non-Government employee. In other words, the method of computation of exemption in respect of house rent allowance will remain same in the case of a Government employee as well as non-Government employee. Based on the above discussed provisions, exemption in respect of house rent allowance will be lower of the following :

- 40% of salary since residential house is situated at Bhatinda, this will come to Rs. 2,00,000 (See note 1).
- Actual amount of HRA received by the employee for the year Rs. 1,20,000.
- Rent paid in excess of 10% of salary. This will amount to Rs. 94,000 (See note 2).

Exemption in respect of HRA will be Rs. 94,000, being least of the above computed amounts. Taxable HRA for the year will be computed as follows :

<i>Particulars</i>	<i>(Rs.)</i>
Annual HRA	1,20,000
<i>Less: Exemption in respect of HRA as computed above</i>	<i>(94,000)</i>
Taxable HRA	26,000

Note 1:

Salary for the purpose of computation of exemption in respect of house rent allowance will come to Rs. 5,00,000 per annum (Rs. 2,52,000 basic salary and Rs. 2,48,000 dearness allowance). 40% of salary will come to Rs. 2,00,000.

Note 2:

Rent paid in excess of 10% of salary will be computed as follows :

<i>Particulars</i>	<i>(Rs.)</i>
Annual rent (Rs. 12,000 × 12)	1,44,000
<i>Less : 10% of annual salary of Rs. 5,00,000</i>	<i>(50,000)</i>
Rent in excess of 10% of salary	94,000

Illustration (Exemption in case of house rent allowance when the items to be used to compute exemption differ during the year)

Mr. Sunil (place of posting Mumbai) has provided following information regarding his salary structure per month for the year 2012-13:

<i>Particulars</i>	<i>April to June (Rs.)</i>	<i>July to October (Rs.)</i>	<i>November to December (Rs.)</i>	<i>January to March (Rs.)</i>
Basic salary	84,000	90,000	90,000	90,000
Dearness allowance forming part of salary while computing all retirement benefits	16,000	30,000	30,000	30,000
Commission (fixed)	1,000	1,000	1,000	1,000
House rent allowance	8,000	8,000	10,000	10,000
Other allowance (fully taxable)	10,000	10,000	20,000	20,000
Value of perquisites provided by the employer	20,000	20,000	20,000	20,000
Rent paid at Mumbai	20,000	20,000	20,000	25,000

From the above information compute the amount of taxable house rent allowance.

**

As per section 10(13A) and Rule 2A, exemption in respect of HRA is least of the following amounts:

- 50% of salary, when residential house is situated at Mumbai, Kolkata, Delhi or Chennai and 40% of salary where residential house is situated at any other place.
- HRA actually received by the employee in respect of the period during which rental accommodation is occupied by the employee and rent expenditure is incurred by the employee, during the previous year.
- Rent paid in excess of 10% of salary.

The exemption is based on following 4 items :

- The salary of the employee.
- The amount of house rent allowance.
- The place at which the accommodation is rented.
- The rent of the accommodation.

The computation can be clubbed together for a period during which all the above items are same. If any of these items change during the year, then the computation is to be made for different periods. In this case, the above discussed items change and we will bifurcate our computation into following parts :

- Computation for April to June period.
- Computation for July to October period
- Computation for November to December period
- Computation for January to March period

Based on the above discussed provisions, exemption in respect of house rent allowance will be computed as follows :

<i>Particulars</i>	<i>April to June (Rs.)</i>	<i>July to October (Rs.)</i>	<i>November to December (Rs.)</i>	<i>January to March (Rs.)</i>
50% of salary (Note 1)	50,000	60,000	60,000	60,000
Actual amount of HRA	8,000	8,000	10,000	10,000
Rent paid in excess of 10% of salary (Note 2)	10,000	8,000	8,000	13,000
Amount of exemption (lower of above amounts) (A)	8,000	8,000	8,000	10,000
HRA for the month (B)	8,000	8,000	10,000	10,000
Taxable HRA (B – A)	Nil	Nil	2,000	Nil
(×) No. of months in period	<u>3</u>	<u>4</u>	<u>2</u>	<u>3</u>
Taxable HRA for the period	Nil	Nil	4,000	Nil
Taxable HRA for the year				4,000

Note 1:

<i>Particulars</i>	<i>April to June</i>	<i>July to October</i>	<i>November to</i>	<i>January to</i>
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	<i>(Rs.)</i>	<i>(Rs.)</i>	<i>December (Rs.)</i>	<i>March (Rs.)</i>
Basic salary per month	84,000	90,000	90,000	90,000
Dearness allowance forming part of salary while computing all retirement benefits	<u>16,000</u>	<u>30,000</u>	<u>30,000</u>	<u>30,000</u>
Monthly salary to be used for computation of exemption	1,00,000	1,20,000	1,20,000	1,20,000
50% of monthly salary	50,000	60,000	60,000	60,000

Note 2:

Rent paid in excess of 10% of salary will be computed as follows :

<i>Particulars</i>	<i>April to June (Rs.)</i>	<i>July to October (Rs.)</i>	<i>November to December (Rs.)</i>	<i>January to March (Rs.)</i>
Rent paid per month	20,000	20,000	20,000	25,000
10% of salary	<u>10,000</u>	<u>12,000</u>	<u>12,000</u>	<u>12,000</u>
Rent in excess of 10% of salary	10,000	8,000	8,000	13,000

FAQ

1. What are the various forms of salary?

Following illustration will explain various forms of salary :

Illustration

From the following information provided by Mr. Kumar, compute his income chargeable to tax under the head salaries.

- Basic salary per month Rs. 84,000
- Dearness allowance per month Rs. 66,000
- Taxable value of various allowances (per month) Rs. 25,000
- Value of perquisites provided by the employer (for the year) Rs. 1,00,000

**

An employee gets salary in any of the following forms from his employer :

- Monthly basic salary (i.e., payment for the work done by the employee).
- Monthly allowances (i.e., payment for meeting any specific objective).
- Different perquisites (i.e., different facilities provided by the employer).
- Retirement benefits (like gratuity, provident fund payments, pension, etc).

In this case, taxable salary will be computed as follows :

<i>Particulars</i>	<i>(Rs.)</i>
Basic salary (Rs. 84,000 × 12)	10,08,000
Dearness allowance (Rs. 66,000 × 12)	7,92,000
Taxable allowances (Rs. 25,000 × 12)	3,00,000
Taxable value of perquisites	<u>1,00,000</u>
Taxable salary	22,00,000

2. What is the meaning of allowance?

Allowance is generally a fixed amount given on regular basis to meet some particular requirement. From taxation point of view, allowance can be classified as taxable allowance and exempt allowance. Exempt allowance can be further classified as follows :

- Allowances for which exemption is based on lower of amount of allowance or amount spent for the purpose for which allowance is granted.
- Allowances for which exemption is based on lower of amount of allowance or prescribed amount.
- Allowances for which exemption is based on specific method of computation.

3. What are the allowances in respect of which exemption is based on lower of amount of allowance or amount spent for the purpose for which allowance is granted?

Following illustrations will explain various allowances in respect of which exemption is based on lower of amount of allowance or amount spent for the purpose for which allowance is granted :

Illustration (Amount spent less than amount received)

From the following information provided by Mr. Keshav, compute the taxable value of various allowances given to him by his employer.

<i>Name of the allowance</i>	<i>Amount of allowance (Rs.)</i>	<i>Amount spent (Rs.)</i>
Travelling allowance	8,400	7,400
Conveyance allowance	10,000	8,500
Daily allowance	12,000	10,000
Helper allowance	8,000	5,000
Research allowance	4,000	3,000
Uniform allowance	3,000	2,500

As per section 10(14), in case of following allowances (by whatever name called), exemption is lower of :

- (a) The amount of allowance, or,
 - (b) The amount spent for the purpose for which allowance is granted.
- (1) *Travelling allowance/Transfer allowance* - Any allowance granted to meet the cost of travel on tour or transfer (including any sum paid in connection with transfer, packing and transportation of personal effects on transfer) is exempt under section 10(14).
 - (2) *Conveyance allowance* - Conveyance allowance granted to meet the expenditure on conveyance in performing official duty is exempt under section 10(14).
 - (3) *Daily allowance* - Any allowance granted to meet the ordinary daily expenditure incurred by the employee on account of his absence from normal place of duty, due to tour or journey in connection with his transfer is exempt from tax under section 10(14).
 - (4) *Helper allowance* - Any allowance granted to meet the expenditure on a helper engaged for performing official duty is exempt from tax under section 10(14).
 - (5) *Research allowance* - Any allowance granted to meet the expenditure on academic research and other professional pursuits is exempt from tax under section 10(14).
 - (6) *Uniform allowance* - Any allowance granted to meet the expenditure on purchase or maintenance of uniform (for wearing during performance of official duty) is exempt from tax under section 10(14).

Considering the above provisions, the taxable value of allowance will be computed as follows :

<i>Name of the allowance</i>	<i>Amount of allowance</i>	<i>Amount spent (Rs.)</i>	<i>Exemption (Rs.)</i>	<i>Taxable allowance</i>
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	(Rs.) (a)	(b)	(c) = Lower of (a) or (b)	(Rs.) (d) = (a) – (c)
Travelling allowance	8,400	7,400	7,400	1,000
Conveyance allowance	10,000	8,500	8,500	1,500
Daily allowance	12,000	10,000	10,000	2,000
Helper allowance	8,000	5,000	5,000	3,000
Research allowance	4,000	3,000	3,000	1,000
Uniform allowance	3,000	2,500	2,500	<u>500</u>
Taxable value of allowance				9,000

Illustration (Amount spent more than amount received)

From the following information provided by Mr. Keshav, compute the taxable value of various allowances given to him by his employer.

<i>Name of the allowance</i>	<i>Amount of allowance (Rs.)</i>	<i>Amount spent (Rs.)</i>
Travelling allowance	8,400	17,400
Conveyance allowance	10,000	18,500
Daily allowance	12,000	15,000
Helper allowance	8,000	9,000
Research allowance	4,000	5,000
Uniform allowance	3,000	5,500

As per section 10(14), in case of following allowances (by whatever name called), exemption is lower of :

(a) The amount of allowance, or,

(b) The amount spent for the purpose for which allowance is granted.

- (1) *Travelling allowance/Transfer allowance* - Any allowance granted to meet the cost of travel on tour or transfer (including any sum paid in connection with transfer, packing and transportation of personal effects on transfer) is exempt under section 10(14).
- (2) *Conveyance allowance* - Conveyance allowance granted to meet the expenditure on conveyance in performing official duty is exempt under section 10(14).
- (3) *Daily allowance* - Any allowance granted to meet the ordinary daily expenditure incurred by the employee on account of his absence from normal place of duty, due

to tour or journey in connection with his transfer, is exempt from tax under section 10(14).

- (4) *Helper allowance* - Any allowance granted to meet the expenditure on a helper engaged for performing official duty is exempt from tax under section 10(14).
- (5) *Research allowance* - Any allowance granted to meet the expenditure on academic research and other professional pursuits is exempt from tax under section 10(14).
- (6) *Uniform allowance* - Any allowance granted to meet the expenditure on purchase or maintenance of uniform (for wearing during performance of official duty) is exempt from tax under section 10(14).

Considering the above provisions, the taxable value of allowance will be computed as follows :

<i>Name of the allowance</i>	<i>Amount of allowance (Rs.) (a)</i>	<i>Amount spent (Rs.) (b)</i>	<i>Exemption (Rs.) (c) = Lower of (a) or (b)</i>	<i>Taxable allowance (Rs.) (d) = (a) – (c)</i>
Travelling allowance	8,400	17,400	8,400	<i>Nil</i>
Conveyance allowance	10,000	18,500	10,000	<i>Nil</i>
Daily allowance	12,000	15,000	12,000	<i>Nil</i>
Helper allowance	8,000	9,000	8,000	<i>Nil</i>
Research allowance	4,000	5,000	4,000	<i>Nil</i>
Uniform allowance	3,000	5,500	3,000	<i>Nil</i>
Taxable value of allowance				<i>Nil</i>

4. What are the allowances in respect of which exemption is based on lower of amount of allowance or prescribed amount?

Following illustrations will explain various allowances in respect of which exemption is based on lower of amount of allowance or prescribed amount:

Illustration (Children's education allowance for two children)

Mr. Kapoor receives children's education allowance of Rs. 300 per month per child for his 2 children. What will be the taxable value of children's education allowance in the hands of Mr. Kapoor?

**

As per rule 2BB(2), an employee can claim exemption in respect of children's education allowance of lower of the amount of allowance or Rs. 100 per month per child (upto 2 children). In this case, the exemption will be as follows :

<i>Particulars</i>	<i>(Rs.)</i>
Total children's education allowance per month (Rs. 300 per child or Rs. 600 for 2 children)	600

(–) Exemption as per rule 2BB(2) (*)	<u>200</u>
Taxable value of allowance per month	400

(*) Exemption will be lower of the amount of allowance or Rs. 100 per month per child (upto 2 children). In this case, employee is receiving Rs. 300 per month per child. Exemption will be Rs. 100 per month per child and will be limited upto 2 children. Hence, exemption will be Rs. 200 per month.

Illustration (Children's education allowance for more than two children)

Mr. Kapoor receives children's education allowance of Rs. 50 per month per child for his 3 children. What will be the taxable value of children's education allowance in the hands of Mr. Kapoor?

**

As per rule 2BB(2), an employee can claim exemption in respect of children's education allowance of lower of the amount of allowance or Rs. 100 per month per child (upto 2 children). In this case the exemption will be as follows :

<i>Particulars</i>	<i>(Rs.)</i>
Total children's education allowance per month (Rs. 50 per child or Rs. 150 for 3 children)	150
(–) Exemption as per rule 2BB(2) (*)	<u>100</u>
Taxable value of allowance per month	50

(*) Exemption will be lower of the amount of allowance or Rs. 100 per month per child (upto 2 children). In this case, employee is receiving Rs. 50 per month per child. Thus, exemption will be Rs. 50 per month per child and will be limited to 2 children. Hence, exemption will be Rs. 100 per month (Rs. 50 × 2).

Illustration (Children's education allowance for more than two children)

Mr. Kapoor receives children's education allowance of Rs. 150 per month per child for his 3 children. What will be the taxable value of children's education allowance in the hands of Mr. Kapoor?

**

As per rule 2BB(2), an employee can claim exemption in respect of children's education allowance of lower of the amount of allowance or Rs. 100 per month per child (upto 2 children). In this case the exemption will be as follows :

<i>Particulars</i>	<i>(Rs.)</i>
Total children's education allowance per month (Rs. 150 per child or Rs. 450 for 3 children)	450
(–) Exemption as per rule 2BB(2) (*)	<u>200</u>
Taxable value of allowance per month	250

(*) Exemption will be lower of the amount of allowance or Rs. 100 per month per child (upto 2 children). In this case, employee is receiving Rs. 150 per month per child. Thus,

exemption will be Rs. 100 per month per child and it will be limited to 2 children. Hence, exemption will be Rs. 200 per month (Rs. 100 × 2).

Illustration (Children's education allowance with details of amount spent by the employee on education of his children)

Mr. Kapoor receives children's education allowance of Rs. 1,500 per month per child for his 3 children. He actually spends Rs. 3,000 per month on education per child. What will be the taxable value of children's education allowance in the hands of Mr. Kapoor?

**

As per rule 2BB(2), an employee can claim exemption in respect of children's education allowance of lower of the amount of allowance or Rs. 100 per month per child (upto 2 children). The exemption will be limited to Rs. 100 per month, irrespective of the actual amount spent by the employee on education of his children. In this case, the exemption will be as follows :

<i>Particulars</i>	<i>(Rs.)</i>
Total children's education allowance per month (Rs. 1,500 per child or Rs. 4,500 for 3 children)	4,500
(–) Exemption as per rule 2BB(2) (*)	<u>200</u>
Taxable value of allowance per month	4,300

(*) Exemption will be lower of the amount of allowance or Rs. 100 per month per child (upto 2 children). In this case, employee is receiving Rs. 1,500 per month per child. Thus, exemption will be Rs. 100 per month per child and it will be limited to 2 children. Hence, exemption will be Rs. 200 per month (Rs. 100 × 2).

Illustration (Children's hostel allowance for two children)

Mr. Sunil receives hostel allowance for meeting the hostel expenditure of his children of Rs. 400 per month per child for his 2 children. What will be the taxable value of hostel allowance in the hands of Mr. Sunil?

**

As per rule 2BB(2), an employee can claim exemption in respect of allowance granted for meeting the hostel expenditure of his child. Exemption will be lower of the amount of allowance or Rs. 300 per month per child (upto 2 children). In this case, the exemption will be as follows :

<i>Particulars</i>	<i>(Rs.)</i>
Total children's hostel allowance per month (Rs. 400 per child or Rs. 800 for 2 children)	800
(–) Exemption as per rule 2BB(2) (*)	<u>600</u>
Taxable value of allowance per month	200

(*) Exemption will be lower of the amount of allowance or Rs. 300 per month per child (upto 2 children). In this case, employee is receiving Rs. 400 per month per child. Exemption will be Rs. 300 per month per child and will be limited to 2 children. Hence, exemption will be Rs. 600 per month (Rs. 300 × 2).

Illustration (Children's hostel allowance for more than two children)

Mr. Anurag receives hostel allowance for meeting the hostel expenditure of his children of Rs. 200 per month per child for his 3 children. What will be the taxable value of hostel allowance in the hands of Mr. Anurag?

**

As per rule 2BB(2), an employee can claim exemption in respect of allowance granted for meeting the hostel expenditure of his child. Exemption will be lower of the amount of allowance or Rs. 300 per month per child (upto 2 children). In this case, the exemption will be as follows :

<i>Particulars</i>	<i>(Rs.)</i>
Total children's hostel allowance per month (Rs. 200 per child or Rs. 600 for 3 children)	600
(-) Exemption as per rule 2BB(2) (*)	<u>400</u>
Taxable value of allowance per month	200

(*) Exemption will be lower of the amount of allowance or Rs. 300 per month per child (upto 2 children). In this case, employee is receiving Rs. 200 per month per child. Thus, exemption will be Rs. 200 per month per child and it will be limited to 2 children. Hence, exemption will be Rs. 400 per month (Rs. 200 × 2).

Illustration (Children's hostel allowance for more than two children)

Mr. Anurag receives hostel allowance for meeting the hostel expenditure of his children of Rs. 1,000 per month per child for his 3 children. What will be the taxable value of hostel allowance in the hands of Mr. Anurag?

**

As per rule 2BB(2), an employee can claim exemption in respect of allowance granted for meeting the hostel expenditure of his child. Exemption will be lower of the amount of allowance or Rs. 300 per month per child (upto 2 children). In this case, the exemption will be as follows :

<i>Particulars</i>	<i>(Rs.)</i>
Total children hostel allowance per month (Rs. 1,000 per child or Rs. 3,000 for 3 children)	3,000
(-) Exemption as per rule 2BB(2) (*)	<u>600</u>
Taxable value of allowance per month	2,400

(*) Exemption will be lower of the amount of allowance or Rs. 300 per month per child (upto 2 children). In this case, employee is receiving Rs. 1,000 per month per child. Thus, exemption will be Rs. 300 per month per child and it will be limited to 2 children. Hence, exemption will be Rs. 600 per month (Rs. 300 × 2).

Illustration (Hostel allowance with details of amount spent by the employee on hostel expenditure of his children)

Mr. Anurag receives hostel allowance of Rs. 2,000 per month per child for his 3 children for meeting the hostel expenditure of his children. He actually spends Rs. 10,000 per

month on hostel expenditure of his each child. What will be the taxable value of hostel allowance in the hands of Mr. Anurag?

**

As per rule 2BB(2), an employee can claim exemption in respect of allowance granted for meeting the hostel expenditure of his child. Exemption will be lower of the amount of allowance or Rs. 300 per month per child (upto 2 children). The exemption will be limited to Rs. 300 per month, irrespective of the actual amount spent by the employee on hostel expenditure of his children. In this case the exemption will be as follows :

<i>Particulars</i>	<i>(Rs.)</i>
Total children's hostel allowance per month (Rs. 2,000 per child or Rs. 6,000 for 3 children)	6,000
(-) Exemption as per rule 2BB(2) (*)	<u>600</u>
Taxable value of allowance per month	5,400

(*) Exemption will be lower of the amount of allowance or Rs. 300 per month per child (upto 2 children). In this case, employee is receiving Rs. 2,000 per month per child. Thus, exemption will be Rs. 300 per month per child and it will be limited upto 2 children. Hence, exemption will be Rs. 600 per month (Rs. 300 × 2).

Illustration (Transport allowance, amount received more than specified amount)

Mr. Jay is receiving transport allowance of Rs. 2,000 per month from his employer (for meeting the expenditure of journey between home and office). What will be the tax treatment of transport allowance in the hands of Mr. Jay?

**

As per rule 2BB(2), exemption in respect of transport allowance will be lower of the amount of allowance or Rs. 800 per month. In this case the exemption will be as follows:

<i>Particulars</i>	<i>(Rs.)</i>
Actual amount of transport allowance	2,000
(-) Exemption as per rule 2BB(2) @ Rs. 800 per month	<u>800</u>
Taxable value of allowance per month	1,200

Illustration (Transport allowance, amount received less than specified amount)

Mr. Jay is receiving transport allowance of Rs. 500 per month from his employer (for meeting the expenditure of journey between home and office). What will be the tax treatment of transport allowance in the hands of Mr. Jay?

**

As per rule 2BB(2), exemption in respect of transport allowance will be lower of the amount of allowance or Rs. 800 per month. In this case the exemption will be as follows:

<i>Particulars</i>	<i>(Rs.)</i>
Actual amount of transport allowance	500
(-) Exemption as per rule 2BB(2) (lower of Rs. 800 per month or	

actual amount of allowance)	<u>500</u>
Taxable value of allowance per month	<i>Nil</i>

Illustration (Transport allowance, with details of amount spent by the employee)

Mr. Jay is receiving transport allowance of Rs. 1,500 per month from his employer (for meeting the expenditure of journey between home and office). He actually spends Rs. 3,000 per month on journey between office and his residence. What will be the tax treatment of transport allowance in the hands of Mr. Jay?

**

As per rule 2BB(2), exemption in respect of transport allowance will be lower of the amount of allowance or Rs. 800 per month. The exemption will be computed as above, irrespective of the actual amount spent by the employee. In this case the exemption will be as follows :

<i>Particulars</i>	<i>(Rs.)</i>
Actual amount of transport allowance	1,500
(–) Exemption as per rule 2BB(2) (lower of Rs. 800 per month or actual amount of allowance)	<u>800</u>
Taxable value of allowance per month	700

Illustration (Transport allowance for blind employee, amount received more than specified amount)

Mr. Jay (blind) is receiving transport allowance of Rs. 2,000 per month from his employer (for meeting the expenditure of journey between home and office). What will be the tax treatment of transport allowance in the hands of Mr. Jay?

**

As per rule 2BB(2), exemption in respect of transport allowance will be lower of the amount of allowance or Rs. 800 per month. However, in case of an employee who is orthopaedically handicapped or blind, the exemption will be increased to Rs. 1,600 per month. In this case the exemption will be as follows :

<i>Particulars</i>	<i>(Rs.)</i>
Actual amount of transport allowance	2,000
(–) Exemption as per rule 2BB(2) @ Rs. 1,600 per month	<u>1,600</u>
Taxable value of allowance per month	400

Illustration (Transport allowance for orthopaedically handicapped, amount received less than specified amount)

Mr. Jay (orthopaedically handicapped) is receiving transport allowance of Rs. 1,000 per month from his employer (for meeting the expenditure of journey between home and office). What will be the tax treatment of transport allowance in the hands of Mr. Jay?

**

As per rule 2BB(2), exemption in respect of transport allowance will be lower of the amount of allowance or Rs. 800 per month. However, in case of an employee who is orthopaedically handicapped or blind, the exemption will be increased to Rs. 1,600 per month. In this case the exemption will be as follows :

<i>Particulars</i>	<i>(Rs.)</i>
Actual amount of transport allowance	1,000
(–) Exemption as per rule 2BB(2) (lower of Rs. 1,600 per month or actual amount of allowance)	<u>1,000</u>
Taxable value of allowance per month	<i>Nil</i>

Illustration (Transport allowance for blind employee, with details of amount spent by the employee)

Mr. Jay (blind) is receiving transport allowance of Rs. 2,500 per month from his employer (for meeting the expenditure of journey between home and office). He actually spends Rs. 3,000 per month of expenditure on journey between office and his residence. What will be the tax treatment of transport allowance in the hands of Mr. Jay?

**

As per rule 2BB(2), exemption in respect of transport allowance will be lower of the amount of allowance or Rs. 800 per month. However, in case of an employee who is orthopaedically handicapped or blind, the exemption will be increased to Rs. 1,600 per month. The exemption will be computed as above irrespective of the actual amount spent by the employee. In this case the exemption will be as follows :

<i>Particulars</i>	<i>(Rs.)</i>
Actual amount of transport allowance	2,500
(–) Exemption as per rule 2BB(2) (lower of Rs. 1,600 per month or actual amount of allowance)	<u>1,600</u>
Taxable value of allowance per month	900

Illustration (Transport allowance, with details of amount spent by the employee)

Mr. Jay is receiving transport allowance of Rs. 1,500 per month from his employer (for meeting the expenditure of journey between home and office). He actually spends Rs. 3,000 per month of expenditure on journey between office and his residence. What will be the tax treatment of transport allowance in the hands of Mr. Jay?

**

As per rule 2BB(2), exemption in respect of transport allowance will be lower of the amount of allowance or Rs. 800 per month. The exemption will be computed as above, irrespective of the actual amount spent by the employee. In this case the exemption will be as follows :

<i>Particulars</i>	<i>(Rs.)</i>
Actual amount of transport allowance	1,500
(–) Exemption as per rule 2BB(2) (lower of Rs. 800 per month or actual amount of allowance)	<u>800</u>
Taxable value of allowance per month	700

Illustration (Allowance granted to an employee working in any transport system to meet his personal expenditure)

Mr. Raja is working in a transport company. He receives Rs. 20,000 per month on account of allowance to meet his personal expenditure during his duty performed in the course of running of the transport vehicle from one place to another place. What will be the tax treatment of the allowance in the hands of Mr. Raja?

**

As per rule 2BB(2), an employee working in any transport system can claim exemption in respect of allowance granted to meet his personal expenditure during his duty performed in the course of running of such transport vehicle from one place to another place, provided he is not in receipt of daily allowance. Exemption in this case will be 70% of such allowance up to a maximum of Rs. 10,000 per month. In this case the exemption will be as follows :

<i>Particulars</i>	<i>(Rs.)</i>
Actual amount of allowance	20,000
(–) Exemption as per rule 2BB(2) (70% of the amount of allowance (i.e. Rs. 14,000 subject to maximum of Rs. 10,000)	<u>10,000</u>
Taxable value of allowance per month	10,000

5. What are the allowances in respect of which exemption is based on specific method of computation?

Following illustrations will explain various allowances in respect of which exemption is based on specific method of computation :

Illustration (Entertainment allowance for Government employee)

Mr. Sujal is employed in SM Ltd. He is receiving entertainment allowance of Rs. 20,000 per month. He actually spends Rs. 5,000 per month on entertainment. His basic salary is Rs. 84,000 per month. What will be the amount of exemption in respect of entertainment allowance in the hands of Mr. Sujal?

**

Exemption in respect of entertainment allowance is available only to an employee of the Central Government or State Government. Entertainment allowance is first included in the salary and then a deduction is allowed of lower of the following:

(a) 20% of salary (i.e., basic salary only) or

(b) Rs. 5,000 or

(c) Actual amount of allowance for the year.

This deduction is available only to an employee of the Central Government or the State Government. Entire amount of entertainment allowance is taxable in the hands of non-Government employees. In this case, Mr. Sujal is not a Government employee and, hence, he cannot claim exemption in respect of entertainment allowance. Hence, entire amount of entertainment allowance will be taxed in his hands.

Illustration (Entertainment allowance for Government employee)

Mr. Sunil is a Government employee. He is receiving entertainment allowance of Rs. 1,000 per month. His basic salary is Rs. 84,000 per month. What will be the amount of exemption in respect of entertainment allowance in the hands of Mr. Sunil?

**

Exemption in respect of entertainment allowance is available only to an employee of the Central Government or the State Government. Entertainment allowance is first included in the salary and then a deduction is allowed of lower of the following:

(a) 20% of salary (i.e., basic salary only) or

(b) Rs. 5,000 or

(c) Actual amount of allowance for the year.

This deduction is available only to an employee of the Central Government or the State Government. In this case, Mr. Sunil is a Government employee and, hence, he can claim exemption in respect of entertainment allowance. The amount of exemption will be as follows :

(*) Exemption as per Section 16(ii) in respect of entertainment allowance will be computed as follows :

- Rs. 2,01,600 (being 20% of basic salary of Rs. 84,000 per month).
- Rs. 5,000
- Rs. 12,000 (Actual amount of allowance Rs. 1,000 × 12)

Exemption will be Rs. 5,000, being lower of above. This amount will be deductible from salary income.

Illustration (Entertainment allowance for Government employee)

Mr. Krunal is a Government employee. He is receiving entertainment allowance of Rs. 5,000 per month. His basic salary is Rs. 25,200 per month. He actually spends Rs. 6,000 per month on entertainment. What will be the amount of exemption in respect of entertainment allowance in the hands of Mr. Krunal?

**

Exemption in respect of entertainment allowance is available only to an employee of the Central Government or the State Government. Entertainment allowance is first included in the salary and then a deduction is allowed of lower of the following:

(a) 20% of salary (i.e., basic salary only) or

(b) Rs. 5,000 or

(c) Actual amount of allowance for the year.

This deduction is available only to an employee of the Central Government or the State Government. The exemption will remain same, irrespective of the amount spent for the purpose of allowance. In this case, Mr. Sunil is a Government employee and, hence, he can claim exemption in respect of entertainment allowance. The amount of exemption will be as follows :

Exemption as per Section 16(ii) in respect of entertainment allowance will be computed as follows :

- Rs. 60,480 (being 20% of basic salary of Rs. 25,200 per month).
- Rs. 5,000
- Rs. 60,000 (Actual amount of allowance Rs. 5,000 \times 12)

Exemption will be Rs. 5,000, being lower of above. This amount will be deductible from salary income.

Illustration (Exemption in case of house rent allowance in case of Government and non-Government employee)

Mr. Amit (place of posting Bhatinda) has provided following information regarding his salary structure for the year 2012-13:

<i>Particulars</i>	<i>(Rs.)</i>
Basic salary	2,52,000
Dearness allowance forming part of salary while computing all retirement benefits	2,48,000
Commission (Rs. 5,000 per month)	60,000
House rent allowance (Rs. 10,000 per month)	1,20,000
Other allowance (fully taxable)	40,000
Value of perquisites provided by the employer	1,00,000

He has taken a residential accommodation on rent at a monthly rent of Rs. 12,000. From the above information compute the amount of taxable house rent allowance if Mr. Amit is a: (i) Government employee, (ii) non-Government employee.

**

House rent allowance is given to an employee to meet the expenditure incurred by the employee on account of rent of residential accommodation.

As per section 10(13A) and Rule 2A, exemption in respect of HRA is least of the following amounts:

- 50% of salary, when residential house is situated at Mumbai, Kolkata, Delhi or Chennai and 40% of salary where residential house is situated at any other place.
- HRA actually received by the employee in respect of the period during which rental accommodation is occupied by the employee and rent is incurred by the employee, during the previous year.
- Rent paid in excess of 10% of salary.

The above discussed exemption will remain same in the case of a Government employee as well as a non-Government employee. In other words, the method of computation of exemption in respect of house rent allowance will remain same in the case of a Government employee as well as non-Government employee. Based on the above discussed provisions, exemption in respect of house rent allowance will be lower of the following :

- 40% of salary since residential house is situated at Bhatinda, this will come to Rs. 2,00,000 (See note 1).
- Actual amount of HRA received by the employee for the year Rs. 1,20,000.
- Rent paid in excess of 10% of salary. This will amount to Rs. 94,000 (See note 2).

Exemption in respect of HRA will be Rs. 94,000, being least of the above computed amounts. Taxable HRA for the year will be computed as follows :

<i>Particulars</i>	<i>(Rs.)</i>
Annual HRA	1,20,000
Less: Exemption in respect of HRA as computed above	<u>(94,000)</u>
Taxable HRA	26,000

Note 1:

Salary for the purpose of computation of exemption in respect of house rent allowance will come to Rs. 5,00,000 per annum (Rs. 2,52,000 basic salary and Rs. 2,48,000 dearness allowance). 40% of salary will come to Rs. 2,00,000.

Note 2:

Rent paid in excess of 10% of salary will be computed as follows :

<i>Particulars</i>	<i>(Rs.)</i>
Annual rent (Rs. 12,000 × 12)	1,44,000
Less : 10% of annual salary of Rs. 5,00,000	<u>(50,000)</u>
Rent in excess of 10% of salary	94,000

Illustration (Exemption in case of house rent allowance when the items to be used to compute exemption differ during the year)

Mr. Sunil (place of posting Mumbai) has provided following information regarding his salary structure per month for the year 2012-13:

<i>Particulars</i>	<i>April to June (Rs.)</i>	<i>July to October (Rs.)</i>	<i>November to December (Rs.)</i>	<i>January to March (Rs.)</i>
Basic salary	84,000	90,000	90,000	90,000

Dearness allowance forming part of salary while computing all retirement benefits	16,000	30,000	30,000	30,000
Commission (fixed)	1,000	1,000	1,000	1,000
House rent allowance	8,000	8,000	10,000	10,000
Other allowance (fully taxable)	10,000	10,000	20,000	20,000
Value of perquisites provided by the employer	20,000	20,000	20,000	20,000
Rent paid at Mumbai	20,000	20,000	20,000	25,000

From the above information compute the amount of taxable house rent allowance.

**

As per section 10(13A) and Rule 2A, exemption in respect of HRA is least of the following amounts:

- 50% of salary, when residential house is situated at Mumbai, Kolkata, Delhi or Chennai and 40% of salary where residential house is situated at any other place.
- HRA actually received by the employee in respect of the period during which rental accommodation is occupied by the employee and rent expenditure is incurred by the employee, during the previous year.
- Rent paid in excess of 10% of salary.

The exemption is based on following 4 items :

- The salary of the employee.
- The amount of house rent allowance.
- The place at which the accommodation is rented.
- The rent of the accommodation.

The computation can be clubbed together for a period during which all the above items are same. If any of these items change during the year, then the computation is to be made for different periods. In this case, the above discussed items change and we will bifurcate our computation into following parts :

- Computation for April to June period.
- Computation for July to October period
- Computation for November to December period
- Computation for January to March period

Based on the above discussed provisions, exemption in respect of house rent allowance will be computed as follows :

<i>Particulars</i>	<i>April to June (Rs.)</i>	<i>July to October (Rs.)</i>	<i>November to December</i>	<i>January to March</i>

			(Rs.)	(Rs.)
50% of salary (Note 1)	50,000	60,000	60,000	60,000
Actual amount of HRA	8,000	8,000	10,000	10,000
Rent paid in excess of 10% of salary (Note 2)	10,000	8,000	8,000	13,000
Amount of exemption (lower of above amounts) (A)	8,000	8,000	8,000	10,000
HRA for the month (B)	8,000	8,000	10,000	10,000
Taxable HRA (B – A)	Nil	Nil	2,000	Nil
(×) No. of months in period	<u>3</u>	<u>4</u>	<u>2</u>	<u>3</u>
Taxable HRA for the period	Nil	Nil	4,000	Nil
Taxable HRA for the year				4,000

Note 1:

<i>Particulars</i>	<i>April to June (Rs.)</i>	<i>July to October (Rs.)</i>	<i>November to December (Rs.)</i>	<i>January to March (Rs.)</i>
Basic salary per month	84,000	90,000	90,000	90,000
Dearness allowance forming part of salary while computing all retirement benefits	<u>16,000</u>	<u>30,000</u>	<u>30,000</u>	<u>30,000</u>
Monthly salary to be used for computation of exemption	1,00,000	1,20,000	1,20,000	1,20,000
50% of monthly salary	50,000	60,000	60,000	60,000

Note 2:

Rent paid in excess of 10% of salary will be computed as follows :

<i>Particulars</i>	<i>April to June (Rs.)</i>	<i>July to October (Rs.)</i>	<i>November to December (Rs.)</i>	<i>January to March (Rs.)</i>
Rent paid per month	20,000	20,000	20,000	25,000
10% of salary	<u>10,000</u>	<u>12,000</u>	<u>12,000</u>	<u>12,000</u>
Rent in excess of 10% of salary	10,000	8,000	8,000	13,000

MCQ

Q1. Beside other items, Mr. Kumar received travelling allowance of Rs. 2,520 from his employer. He has spent nothing on account of travelling. What will be the tax treatment of travelling allowance in the hands of Mr. Kumar?

- (a) Rs. 800 will be exempt
- (b) Rs. 800 will be taxed
- (c) Rs. 2,520 will be exempt
- (d) Rs. 2,520 will be taxed

Correct answer (d)

Justification of correct answer

Travelling allowance is exempt to the extent of lower of the amount of allowance or amount spent for the purpose for which it is granted. In this case, Rs. 2,520 is received as travelling allowance and nothing is spent, hence, Rs. 2,520 will be taxed. Thus, option (d) is the correct option.

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

Q2. Beside other items, Mr. Kumar (blind) received travelling allowance of Rs. 2,520 from his employer. He has spent nothing on account of travelling. What will be the tax treatment of travelling allowance in the hands of Mr. Kumar?

- (a) Rs. 800 will be exempt
- (b) Rs. 800 will be taxed
- (c) Rs. 2,520 will be exempt
- (d) Rs. 2,520 will be taxed

Correct answer (d)

Justification of correct answer

Travelling allowance is exempt to the extent of lower of the amount of allowance or amount spent for the purpose for which it is granted. In this case, Rs. 2,520 is received as travelling allowance and nothing is spent, hence, Rs. 2,520 will be taxed. Thus, option (d) is the correct option.

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

Q3. Beside other items, Mr. Kumar (orthopaedically handicapped) received travelling allowance of Rs. 2,520 from his employer. He has spent nothing on account of travelling. What will be the tax treatment of travelling allowance in the hands of Mr. Kumar?

- (a) Rs. 800 will be exempt
- (b) Rs. 800 will be taxed

- (c) Rs. 2,520 will be exempt
- (d) Rs. 2,520 will be taxed

Correct answer (d)

Justification of correct answer

Travelling allowance is exempt to the extent of lower of the amount of allowance or amount spent for the purpose for which it is granted. In this case, Rs. 2,520 is received as travelling allowance and nothing is spent for the purpose of the allowance, hence, Rs. 2,520 will be taxed. Thus, option (d) is the correct option.

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

Q4. Beside other items, Mr. Kumar received travelling allowance of Rs. 2,520 from his employer. He has spent Rs. 2,000 on account of travelling. What will be the tax treatment of travelling allowance in the hands of Mr. Kumar?

- (a) Rs. 800 will be exempt
- (b) Rs. 800 will be taxed
- (c) Rs. 2,520 will be exempt
- (d) Rs. 2,000 will be exempt from tax

Correct answer (d)

Justification of correct answer

Travelling allowance is exempt to the extent of lower of the amount of allowance or amount spent for the purpose of the allowance. In this case, Rs. 2,520 is received as travelling allowance and Rs. 2,000 is spent for the purpose for which it is granted, hence, Rs. 2,000 will be exempt from tax. Thus, option (d) is the correct option.

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

Q5. Beside other items, Mr. Kumar (blind) received travelling allowance of Rs. 2,520 from his employer. He has spent Rs. 1,000 on account of travelling. What will be the tax treatment of travelling allowance in the hands of Mr. Kumar?

- (a) Rs. 800 will be exempt
- (b) Rs. 800 will be taxed
- (c) Rs. 2,520 will be exempt
- (d) Rs. 1,000 will be exempt from tax

Correct answer (d)

Justification of correct answer

Travelling allowance is exempt to the extent of lower of the amount of allowance or amount spent for the purpose for which it is granted. In this case, Rs. 2,520 is received as travelling allowance and Rs. 1,000 is spent for the purpose of the allowance, hence, Rs. 1,000 will be exempt from tax. Thus, option (d) is the correct option.

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

Q6. Beside other items, Mr. Kumar (orthopaedically handicapped) received travelling allowance of Rs. 8,400 from his employer. He has spent Rs. 2,000 on account of travelling. What will be the tax treatment of travelling allowance in the hands of Mr. Kumar?

- (a) Rs. 800 will be exempt
- (b) Rs. 800 will be taxed
- (c) Rs. 2,520 will be exempt
- (d) Rs. 2,000 will be exempt from tax

Correct answer (d)

Justification of correct answer

Travelling allowance is exempt to the extent of lower of the amount of allowance or amount spent for the purpose for which it is granted. In this case, Rs. 8,400 is received as travelling allowance and Rs. 2,000 is spent for the purpose of the allowance, hence, Rs. 2,000 will be exempt from tax. Thus, option (d) is the correct option.

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

Q7. Beside other items, Mr. Kumar received travelling allowance of Rs. 2,520 from his employer. He has spent Rs. 3,000 on account of travelling. What will be the tax treatment of travelling allowance in the hands of Mr. Kumar?

- (a) Rs. 800 will be exempt
- (b) Rs. 800 will be taxed
- (c) Rs. 2,520 will be exempt
- (d) Rs. 3,000 will be exempt from tax

Correct answer (c)

Justification of correct answer

Travelling allowance is exempt to the extent of lower of the amount of allowance or amount spent for the purpose of the allowance. In this case, Rs. 2,520 is received as travelling allowance and Rs. 3,000 is spent for the purpose of the allowance, hence, Rs. 2,520 will be exempt from tax. Thus, option (c) is the correct option.

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

Q8. Beside other items, Mr. Kumar (blind) received travelling allowance of Rs. 840 from his employer. He has spent Rs. 1,000 on account of travelling. What will be the tax treatment of travelling allowance in the hands of Mr. Kumar?

- (a) Rs. 800 will be exempt

- (b) Rs. 800 will be taxed
- (c) Rs. 840 will be exempt
- (d) Rs. 1,000 will be exempt from tax

Correct answer (c)

Justification of correct answer

Travelling allowance is exempt to the extent of lower of the amount of allowance or amount spent for the purpose of the allowance. In this case, Rs. 840 is received as travelling allowance and Rs. 1,000 is spent for the purpose for which it is granted, hence, Rs. 840 will be exempt from tax. Thus, option (c) is the correct option.

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

Q9. Beside other items, Mr. Kumar (orthopaedically handicapped) received travelling allowance of Rs. 8,400 from his employer. He has spent Rs. 10,000 on account of travelling. What will be the tax treatment of travelling allowance in the hands of Mr. Kumar?

- (a) Rs. 800 will be exempt
- (b) Rs. 800 will be taxed
- (c) Rs. 8,400 will be exempt
- (d) Rs. 10,000 will be exempt from tax

Correct answer (c)

Justification of correct answer

Travelling allowance is exempt to the extent of lower of the amount of allowance or amount spent for the purpose for which it is granted. In this case, Rs. 8,400 is received as travelling allowance and Rs. 10,000 is spent for the purpose for which it is granted, hence, Rs. 8,400 will be exempt from tax. Thus, option (c) is the correct option.

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

Q10. Mr. Janak received conveyance allowance of Rs. 8,400 from his employer for meeting the expenditure on visit to clients. He has spent Rs. 12,000 on account of conveyance. What will be the tax treatment of conveyance allowance in the hands of Mr. Janak?

- (a) Entire amount of allowance will be taxed.
- (b) Entire amount of allowance will be exempt from tax.
- (c) Rs. 800 per month will be exempt and balance will be taxed.
- (d) Rs. 3,600 will be taxed.

Correct answer (b)

Justification of correct answer

Conveyance allowance is exempt to the extent of lower of the amount of allowance or amount spent for the purpose for which it is granted. In this case, Rs. 8,400 is received as conveyance allowance and Rs. 12,000 is the amount spent for the purpose for which it is granted, hence, Rs. 8,400 will be exempt, *i.e.*, entire amount of allowance will be exempt from tax. 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 conveyance allowance, hence, other options, *viz.*, options (a), (c) and (d) giving incorrect tax treatment of conveyance allowance are not correct.

Q11. Mr. Jasmin received conveyance allowance of Rs. 2,520 from his employer for meeting the expenditure on visit to clients. He has spent Rs. 1,000 on account of conveyance. What will be the tax treatment of conveyance allowance in the hands of Mr. Jasmin?

- (a) Entire amount of allowance will be taxed.
- (b) Entire amount of allowance will be exempt from tax.
- (c) Rs. 800 per month will be exempt and balance will be taxed.
- (d) Rs. 1,520 will be taxed.

Correct answer (d)

Justification of correct answer

Conveyance allowance is exempt to the extent of lower of the amount of allowance or amount spent for the purpose for which it is granted. In this case, Rs. 2,520 is received as conveyance allowance and Rs. 1,000 is the amount spent for the purpose for which it is granted, hence, Rs. 1,000 will be exempt and Rs. 1,520 will be charged to tax. Thus, option (d) is the correct option.

Comment on incorrect answer : Option (d) is the correct option since it gives the correct tax treatment of conveyance allowance, hence, other options, *viz.*, options (a), (b) and (c) giving incorrect tax treatment of conveyance allowance are not correct.

Q12. Mrs. Kapoor is working in SM Ltd. she received helper allowance of Rs. 18,400 from her employer. She has deputed a servant at a monthly salary of Rs. 1,000 to help her at her home. What will be the tax treatment of helper allowance in the hands of Mrs. Kapoor?

- (a) Entire amount of allowance will be taxed.
- (b) Entire amount of allowance will be exempt from tax.
- (c) Rs. 6,400 will be charged to tax.
- (d) None of the above.

Correct answer (a)

Justification of correct answer

Helper allowance (for deputing helper for official work) is exempt to the extent of lower of the amount of allowance or amount spent for the purpose for which it is granted. In this case, helper is deputed for personal purpose and not for official purpose, hence entire amount of helper allowance will be charged to tax. 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 helper allowance, hence, other options, viz., options (b), (c) and (d) giving incorrect tax treatment of helper allowance are not correct.

Q13. Besides other allowances, Mr. X received helper allowance of Rs. 18,400 per annum from his employer. He has deputed an office assistant at a monthly salary of Rs. 2,000 to help him in computer data entry. What will be the tax treatment of helper allowance in the hands of Mr. X?

- (a) Entire amount of allowance will be taxed.
- (b) Entire amount of allowance will be exempt from tax.
- (c) Rs. 5,600 will be exempt and balance will be charged to tax.
- (d) Exemption will be Rs. 2,000 per month.

Correct answer (b)

Justification of correct answer

Helper allowance (for deputing helper for official work) is exempt to the extent of lower of the amount of allowance or amount spent for the purpose for which it is granted. In this case, Rs. 18,400 is received as helper allowance and Rs. 24,000 ($2,000 \times 12$) is the amount spent for the purpose for which it is granted, hence, Rs. 18,400 will be exempt or entire amount will be exempt. 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 helper allowance, hence, other options, viz., options (a), (c) and (d) giving incorrect tax treatment of helper allowance are not correct.

Q14. Mr. Krunal received research allowance of Rs. 1,25,200 from his employer. He had incurred an expenditure of Rs. 25,200 on account of research. What will be the tax treatment of research allowance in the hands of Mr. Krunal?

- (a) Entire amount of allowance will be taxed
- (b) Entire amount of allowance will be exempt from tax
- (c) Rs. 25,200 will be exempt and balance will be charged to tax
- (d) Rs. 25,200 will be charged to tax

Correct answer (c)

Justification of correct answer

Research allowance is exempt to the extent of lower of the amount of allowance or amount spent for the purpose for which it is granted. In this case, Rs. 1,25,200 is received as research allowance and Rs. 25,200 is the amount spent for the purpose for which it is granted, hence, Rs. 25,200 will be exempt and balance will be charged to tax. Thus, option (c) is the correct option.

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

Q15. Mr. Krunal received research allowance of Rs. 25,200 from his employer. He had incurred an expenditure of Rs. 30,000 on account of research. What will be the tax treatment of research allowance in the hands of Mr. Krunal?

- (a) Entire amount of allowance will be taxed
- (b) Entire amount of allowance will be exempt from tax
- (c) Rs. 25,200 will be exempt and balance will be charged to tax
- (d) Rs. 4,800 will be charged to tax

Correct answer (b)

Justification of correct answer

Research allowance is exempt to the extent of lower of the amount of allowance or amount spent for the purpose for which it is granted. In this case, Rs. 25,200 is received as research allowance and Rs. 30,000 is the amount spent for the purpose of the allowance, hence, Rs. 25,200, i.e., the entire amount of allowance will be exempt. 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 research allowance, hence, other options, viz., options (a), (c) and (d) giving incorrect tax treatment of research allowance are not correct.

Q16. Mr. Sunil received uniform allowance of Rs. 12,000 from his employer. He had incurred an expenditure of Rs. 1,200 on account of maintenance of uniform. What will be the tax treatment of uniform allowance in the hands of Mr. Sunil?

- (a) Entire amount of allowance will be taxed.
- (b) Entire amount of allowance will be exempt from tax.
- (c) Rs. 1,200 will be exempt and balance will be charged to tax.
- (d) None of the above.

Correct answer (c)

Justification of correct answer

Uniform allowance is exempt to the extent of lower of the amount of allowance or amount spent for the purpose for which it is granted. In this case, Rs. 12,000 is received as uniform allowance and Rs. 1,200 is the amount spent for the purpose for which it is granted, hence, Rs. 1,200 will be exempt and balance will be charged to tax. Thus, option (c) is the correct option.

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

Q17. Mr. Sunil received uniform allowance of Rs. 15,000 from his employer. He had incurred an expenditure of Rs. 25,200 on account of maintenance of uniform. What will be the tax treatment of uniform allowance in the hands of Mr. Sunil?

- (a) Entire amount of allowance will be taxed.
- (b) Entire amount of allowance will be exempt from tax.
- (c) Rs. 15,000 will be exempt and balance will be charged to tax.
- (d) Rs. 10,200 will be charged to tax

Correct answer (b)

Justification of correct answer

Uniform allowance is exempt to the extent of lower of the amount of allowance or amount spent for the purpose for which it is granted. In this case, Rs. 15,000 is received as uniform allowance and Rs. 25,200 is the amount spent for the purpose for which it is granted, hence, Rs. 15,000, i.e., the entire amount of allowance will be exempt. 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 uniform allowance, hence, other options, viz., options (a), (c) and (d) giving incorrect tax treatment of uniform allowance are not correct.

Q18. Exemption in respect of conveyance allowance received for meeting the expenditure on client visits will be Rs. 800 per month.

(a) True

(b) False

Correct answer (b)

Justification of correct answer

Conveyance allowance granted for visit to clients is exempt to the extent of lower of the amount of allowance or amount spent for the purpose for which it is granted. There is no fixed amount of exemption in respect of conveyance allowance granted for visit to clients. 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.

Q19. Exemption in respect of house rent allowance in case of metro cities is _____ of the following :

(1) 50% of salary.

(2) HRA actually received by the employee in respect of the period during which rental accommodation is occupied by the employee and rent expenditure is incurred by the employee, during the previous year.

(3) Rent paid in excess of 10% of salary.

(a) Lower

(b) Higher

Correct answer (a)

Justification of correct answer

Exemption in respect of house rent allowance in case of metro cities is lower of the amounts given in (1) to (3). Thus, option (a) is the correct option.

Comment on incorrect answer : Option (a) is the correct option since it gives the lower amount, hence, option (b) giving higher amount is not correct.

Q20. Exemption in respect of house rent allowance in case of non-metro cities is lower of the following :

(1) _____% of salary.

(2) HRA actually received by the employee in respect of the period during which rental accommodation is occupied by the employee and rent expenditure is incurred by the employee, during the previous year.

(3) Rent paid in excess of 10% of salary.

- (a) 50% (b) 40%
(c) 10% (d) 15%

Correct answer (b)

Justification of correct answer

Exemption in respect of house rent allowance in case of non-metro cities is lower of the following :

- (1) 40% of salary.
- (2) HRA actually received by the employee in respect of the period during which rental accommodation is occupied by the employee and rent expenditure is incurred by the employee, during the previous year.
- (3) Rent paid in excess of 10% of salary.

Thus, option (b) is the correct option.

Comment on incorrect answer : Option (b) is the correct option since it gives the correct percentage, hence, options (a), (c) and (d) giving incorrect percentages are not correct.

Q21. Basic salary Rs. 1,84,000 per annum, dearness allowance forming part of salary Rs. 2,16,000, fixed monthly commission Rs. 10,000 per month and house rent allowance (HRA) Rs. 1,00,000 per annum. Annual rent paid at Mumbai Rs. 1,00,000. Taxable HRA will be Rs. ____.

- (a) Rs. 2,00,000 (b) Rs. 1,00,000
(c) Rs. 60,000 (d) Rs. 40,000

Correct answer (d)

Justification of correct answer

Exemption in respect of house rent allowance in case of metro cities is lower of the following :

- (1) 50% of salary.
- (2) HRA actually received by the employee in respect of the period during which rental accommodation is occupied by the employee and rent expenditure is incurred by the employee, during the previous year.
- (3) Rent paid in excess of 10% of salary.

Considering above provision, exemption in this case will come to Rs. 60,000 and taxable HRA will come to Rs. 40,000 (Rs. 1,00,000 – Rs. 60,000). Thus, option (d) is the correct option.

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

Q22. Basic salary Rs. 2,16,000 per annum, dearness allowance forming part of salary Rs. 1,84,000, fixed monthly commission Rs. 10,000 per month and house rent allowance (HRA) Rs. 2,00,000 per annum. Annual rent paid at Mumbai Rs. 1,00,000. Taxable HRA will be Rs. ____.

(a) Rs. 2,00,000

(b) Rs. 1,84,000

(c) Rs. 1,40,000

(d) Rs. 1,60,000

Correct answer (c)

Justification of correct answer

Exemption in respect of house rent allowance in case of metro cities is lower of the following :

- (1) 50% of salary.
- (2) HRA actually received by the employee in respect of the period during which rental accommodation is occupied by the employee and rent expenditure is incurred by the employee, during the previous year.
- (3) Rent paid in excess of 10% of salary.

Considering above provision, exemption in this case will come to Rs. 60,000 and taxable HRA will come to Rs. 1,40,000 (Rs. 2,00,000 – Rs. 60,000). Thus, option (c) is the correct option.

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

Q23. Basic salary Rs. 3,84,000 per annum, dearness allowance forming part of salary Rs. 1,16,000, fixed monthly commission Rs. 20,000 per month and house rent allowance (HRA) Rs. 1,00,000 per annum. Annual rent paid at Mumbai Rs. 2,00,000. Taxable HRA will be Rs. ____.

(a) Rs. 2,50,000

(b) Rs. 1,00,000

(c) Rs. 2,00,000

(d) Nil

Correct answer (d)

Justification of correct answer

Exemption in respect of house rent allowance in case of metro cities is lower of the following :

- (1) 50% of salary.
- (2) HRA actually received by the employee in respect of the period during which rental accommodation is occupied by the employee and rent expenditure is incurred by the employee, during the previous year.
- (3) Rent paid in excess of 10% of salary.

Considering above provision, exemption in this case will come to Rs. 1,00,000 and taxable HRA will come to Nil. Thus, option (d) is the correct option.

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

Q24. Basic salary Rs. 4,84,000 per annum, dearness allowance forming part of salary Rs. 1,16,000, fixed monthly commission Rs. 20,000 per month and house rent allowance

(HRA) Rs. 2,00,000 per annum. Annual rent paid at Mumbai Rs. 2,00,000. Taxable HRA will be Rs. ____.

(a) Rs. 2,50,000

(b) Rs. 1,00,000

(c) Rs. 2,00,000

(d) Rs. 60,000

Correct answer (d)

Justification of correct answer

Exemption in respect of house rent allowance in case of metro cities is lower of the following :

- (1) 50% of salary.
- (2) HRA actually received by the employee in respect of the period during which rental accommodation is occupied by the employee and rent expenditure is incurred by the employee, during the previous year.
- (3) Rent paid in excess of 10% of salary.

Considering above provision, exemption in this case will come to Rs. 1,40,000 and taxable HRA will come to Rs. 60,000 (Rs. 2,00,000 – Rs. 1,40,000). Thus, option (d) is the correct option.

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

Q25. Basic salary Rs. 4,84,000 per annum, dearness allowance forming part of salary Rs. 6,16,000, fixed monthly commission Rs. 20,000 per month and house rent allowance (HRA) Rs. 2,00,000 per annum. Annual rent paid at Mumbai Rs. 1,00,000. Taxable HRA will be Rs. ____.

(a) Rs. 2,50,000

(b) Rs. 1,00,000

(c) Rs. 2,00,000

(d) Rs. 1,40,000

Correct answer (c)

Justification of correct answer

Exemption in respect of house rent allowance in case of metro cities is lower of the following :

- (1) 50% of salary.
- (2) HRA actually received by the employee in respect of the period during which rental accommodation is occupied by the employee and rent expenditure is incurred by the employee, during the previous year.
- (3) Rent paid in excess of 10% of salary.

Considering above provision, exemption in this case will be *Nil* and entire HRA of Rs. 2,00,000 will be charged to tax. Thus, option (c) is the correct option.

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

Q26. Basic salary Rs. 1,84,000 per annum, dearness allowance forming part of salary Rs. 2,16,000, commission based on percentage of turnover achieved by the employee Rs. 1,00,000 (@ 10% of turnover of Rs. 10,00,000) and house rent allowance (HRA) Rs. 1,00,000 per annum. Annual rent paid at Mathura Rs. 1,00,000. Taxable HRA will be Rs. _____.

- | | |
|------------------|------------------|
| (a) Rs. 2,00,000 | (b) Rs. 1,00,000 |
| (c) Rs. 60,000 | (d) Rs. 50,000 |

Correct answer (d)

Justification of correct answer

Exemption in respect of house rent allowance in case of non-metro cities is lower of the following :

- (1) 40% of salary.
- (2) HRA actually received by the employee in respect of the period during which rental accommodation is occupied by the employee and rent expenditure is incurred by the employee, during the previous year.
- (3) Rent paid in excess of 10% of salary.

Considering above provision, exemption in this case will come to Rs. 50,000 and taxable HRA will come to Rs. 50,000 (Rs. 1,00,000 – Rs. 50,000). Thus, option (d) is the correct option.

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

Q27. Basic salary Rs. 1,84,000 per annum, dearness allowance forming part of salary Rs. 2,16,000. He is also entitled to commission @ 5% of the turnover achieved by him. He had achieved turnover of Rs. 20,00,000 during the year. He had received house rent allowance (HRA) of Rs. 1,50,000 for the year. Annual rent paid at Mathura was Rs. 1,00,000. Taxable HRA will be Rs. _____.

- | | |
|------------------|------------------|
| (a) Rs. 2,00,000 | (b) Rs. 1,50,000 |
| (c) Rs. 1,00,000 | (d) Rs. 50,000 |

Correct answer (c)

Justification of correct answer

Exemption in respect of house rent allowance in case of non-metro cities is lower of the following :

- (1) 40% of salary.
- (2) HRA actually received by the employee in respect of the period during which rental accommodation is occupied by the employee and rent expenditure is incurred by the employee, during the previous year.
- (3) Rent paid in excess of 10% of salary.

Considering above provision, exemption in this case will come to Rs. 50,000 and taxable HRA will come to Rs. 1,00,000 (Rs. 1,50,000 – Rs. 50,000). Thus, option (c) is the correct option.

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

Q28. Basic salary Rs. 2,84,000 per annum, dearness allowance forming part of salary Rs. 3,16,000, commission based on percentage of turnover achieved by the employee Rs. 2,00,000 (@ 10% of turnover of Rs. 20,00,000) and house rent allowance (HRA) Rs. 1,00,000 per annum. Annual rent paid at Mathura Rs. 1,20,000. Taxable HRA will be Rs. _____.

(a) Rs. 2,40,000

(b) Rs. 2,00,000

(c) Rs. 1,20,000

(d) Rs. 60,000

Correct answer (d)

Justification of correct answer

Exemption in respect of house rent allowance in case of non-metro cities is lower of the following :

- (1) 40% of salary.
- (2) HRA actually received by the employee in respect of the period during which rental accommodation is occupied by the employee and rent expenditure is incurred by the employee, during the previous year.
- (3) Rent paid in excess of 10% of salary.

Considering above provision, exemption in this case will come to Rs. 40,000 and taxable HRA will come to Rs. 60,000 (Rs. 1,00,000 – Rs. 40,000). Thus, option (d) is the correct option.

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

Q29. Basic salary Rs. 1,84,000 per annum, dearness allowance forming part of salary Rs. 2,16,000, commission based on percentage of turnover achieved by the employee Rs. 2,00,000 (@ 10% of turnover of Rs. 20,00,000) and house rent allowance (HRA) Rs. 1,80,000 per annum. Annual rent paid at Mathura Rs. 2,10,000. Taxable HRA will be Rs. _____.

(a) Rs. 2,00,000

(b) Rs. 1,80,000

(c) Rs. 30,000

(d) Rs. 1,60,000

Correct answer (c)

Justification of correct answer

Exemption in respect of house rent allowance in case of non-metro cities is lower of the following :

- (1) 40% of salary.
- (2) HRA actually received by the employee in respect of the period during which rental accommodation is occupied by the employee and rent expenditure is incurred by the employee, during the previous year.
- (3) Rent paid in excess of 10% of salary.

Considering above provision, exemption in this case will come to Rs. 1,50,000 and taxable HRA will come to Rs. 30,000 (Rs. 1,80,000 – Rs. 1,50,000). Thus, option (c) is the correct option.

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

Q30. Basic salary Rs. 1,84,000 per annum, dearness allowance forming part of salary Rs. 2,16,000, commission based on percentage of turnover achieved by the employee Rs. 1,00,000 (@ 10% of turnover of Rs. 10,00,000) and house rent allowance (HRA) Rs. 1,00,000 per annum. Annual rent paid at Mathura Rs. 48,000. Taxable HRA will be Rs. _____.

(a) Rs. 2,00,000

(b) Rs. 1,00,000

(c) Rs. 48,000

(d) Nil

Correct answer (b)

Justification of correct answer

Exemption in respect of house rent allowance in case of non-metro cities is lower of the following :

- (1) 40% of salary.
- (2) HRA actually received by the employee in respect of the period during which rental accommodation is occupied by the employee and rent expenditure is incurred by the employee, during the previous year.
- (3) Rent paid in excess of 10% of salary.

Considering above provision, exemption in this case will be Nil and entire HRA of Rs. 1,00,000 will be charged to tax. Thus, option (b) is the correct option.

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

Q31. Basic salary Rs. 1,84,000 per annum, dearness allowance forming part of salary Rs. 2,16,000, commission based on percentage of turnover achieved by the employee Rs. 1,00,000 (@ 10% of turnover of Rs. 10,00,000) and house rent allowance (HRA) Rs. 1,00,000 per annum. Annual rent paid at Mathura Rs. 48,000. Exemption in respect of HRA will be Rs. _____.

(a) Rs. 2,00,000

(b) Rs. 1,00,000

(c) Rs. 48,000

(d) Nil

Correct answer (d)

Justification of correct answer

Exemption in respect of house rent allowance in case of non-metro cities is lower of the following :

- (1) 40% of salary.

- (2) HRA actually received by the employee in respect of the period during which rental accommodation is occupied by the employee and rent expenditure is incurred by the employee, during the previous year.
- (3) Rent paid in excess of 10% of salary.

Considering above provision, exemption in this case will be *Nil* and entire HRA of Rs. 1,00,000 will be charged to tax. Thus, option (d) is the correct option.

Comment on incorrect answer : Option (d) is the correct option since it gives the correct quantum of exemption in respect of HRA, hence, all the other options, viz., options (a), (b) and (c) giving incorrect quantum of exemption in respect of HRA are not correct.

Q32. Basic salary Rs. 2,84,000 per annum, dearness allowance forming part of salary Rs. 3,16,000, fixed monthly commission Rs. 1,000 per month and house rent allowance (HRA) Rs. 1,25,000 per annum. Annual rent paid at Delhi Rs. 1,00,000. Exemption in respect of HRA will be Rs. ____.

- (a) Rs. 3,00,000 (b) Rs. 1,25,000
(c) Rs. 40,000 (d) *Nil*

Correct answer (c)

Justification of correct answer

Exemption in respect of house rent allowance in case of metro cities is lower of the following :

- (1) 50% of salary.
- (2) HRA actually received by the employee in respect of the period during which rental accommodation is occupied by the employee and rent expenditure is incurred by the employee, during the previous year.
- (3) Rent paid in excess of 10% of salary.

Considering above provision, exemption in this case will come to Rs. 40,000. Thus, option (c) is the correct option.

Comment on incorrect answer : Option (c) is the correct option since it gives the correct quantum of exemption in respect of HRA, hence, all the other options, viz., options (a), (b) and (d) giving incorrect quantum of exemption in respect of HRA are not correct.

Q33. Basic salary Rs. 5,00,000 per annum, dearness allowance forming part of salary Rs. 6,00,000 and house rent allowance (HRA) Rs. 25,200 per annum. Annual rent paid at Chennai Rs. 2,40,000. Exemption in respect of HRA will be Rs. ____.

- (a) Rs. 5,50,000 (b) Rs. 2,40,000
(c) Rs. 25,200 (d) Rs. 1,30,000

Correct answer (c)

Justification of correct answer

Exemption in respect of house rent allowance in case of metro cities is lower of the following :

- (1) 50% of salary.
- (2) HRA actually received by the employee in respect of the period during which rental accommodation is occupied by the employee and rent expenditure is incurred by the employee, during the previous year.
- (3) Rent paid in excess of 10% of salary.

Considering above provision, exemption in this case will come to Rs. 25,200. Thus, option (c) is the correct option.

Comment on incorrect answer : Option (c) is the correct option since it gives the correct quantum of exemption in respect of HRA, hence, all the other options, viz., options (a), (b) and (d) giving incorrect quantum of exemption in respect of HRA are not correct.

Q34. Basic salary Rs. 2,84,000 per annum, dearness allowance not forming part of salary Rs. 1,16,000, fixed monthly commission Rs. 20,000 per month and house rent allowance (HRA) Rs. 84,000 per annum. Annual rent paid at Mumbai Rs. 1,28,400. Exemption in respect of HRA will be Rs. ____.

- | | |
|------------------|----------------|
| (a) Rs. 1,42,000 | (b) Rs. 84,000 |
| (c) Rs. 1,00,000 | (d) Rs. Nil |

Correct answer (b)

Justification of correct answer

Exemption in respect of house rent allowance in case of metro cities is lower of the following :

- (1) 50% of salary.
- (2) HRA actually received by the employee in respect of the period during which rental accommodation is occupied by the employee and rent expenditure is incurred by the employee, during the previous year.
- (3) Rent paid in excess of 10% of salary.

Considering above provision, exemption in this case will come to Rs. 84,000. Thus, option (b) is the correct option.

Comment on incorrect answer : Option (b) is the correct option since it gives the correct quantum of exemption in respect of HRA, hence, all the other options, viz., options (a), (c) and (d) giving incorrect quantum of exemption in respect of HRA are not correct.

Q35. Basic salary Rs. 4,84,000 per annum, dearness allowance forming part of salary Rs. 1,16,000, dearness allowance not forming part of salary Rs. 1,00,000, fixed monthly commission Rs. 20,000 per month and house rent allowance (HRA) Rs. 1,00,000 per annum. Annual rent paid at Kolkata Rs. 2,00,000. Exemption in respect of HRA will be Rs. ____.

- | | |
|------------------|------------------|
| (a) Rs. 2,50,000 | (b) Rs. 1,00,000 |
| (c) Rs. 2,00,000 | (d) Rs. 1,40,000 |

Correct answer (b)

Justification of correct answer

Exemption in respect of house rent allowance in case of metro cities is lower of the following :

- (1) 50% of salary.
- (2) HRA actually received by the employee in respect of the period during which rental accommodation is occupied by the employee and rent expenditure is incurred by the employee, during the previous year.
- (3) Rent paid in excess of 10% of salary.

Considering above provision, exemption in this case will come to Rs. 1,00,000. Thus, option (b) is the correct option.

Comment on incorrect answer : Option (b) is the correct option since it gives the correct quantum of exemption in respect of HRA, hence, all the other options, viz., options (a), (c) and (d) giving incorrect quantum of exemption in respect of HRA are not correct.

Q36. Basic salary Rs. 4,84,000 per annum, dearness allowance forming part of salary Rs. 6,00,000, commission based on percentage of turnover achieved by the employee amounted to Rs. 16,000 (being 10% of the turnover of Rs. 1,60,000) fixed monthly commission Rs. 20,000 per month and house rent allowance (HRA) Rs. 2,00,000 per annum. Annual rent paid at Mumbai Rs. 80,000. Exemption in respect of HRA will be Rs. ____.

- | | |
|------------------|------------------|
| (a) Rs. 2,50,000 | (b) Rs. 1,00,000 |
| (c) Nil | (d) Rs. 1,40,000 |

Correct answer (c)

Justification of correct answer

Exemption in respect of house rent allowance in case of metro cities is lower of the following :

- (1) 50% of salary.
- (2) HRA actually received by the employee in respect of the period during which rental accommodation is occupied by the employee and rent expenditure is incurred by the employee, during the previous year.
- (3) Rent paid in excess of 10% of salary.

Considering above provision, exemption in this case will be Nil. Thus, option (c) is the correct option.

Comment on incorrect answer : Option (c) is the correct option since it gives the correct quantum of exemption in respect of HRA, hence, all the other options, viz., options (a), (b) and (d) giving incorrect quantum of exemption in respect of HRA are not correct.

Q37. Basic salary Rs. 3,16,000 per annum, dearness allowance not forming part of salary 2,00,000, commission based on percentage of turnover achieved by the employee Rs. 84,000 (@ 10% of turnover of Rs. 8,40,000) and house rent allowance (HRA) Rs. 1,00,000 per annum. Annual rent paid at Mathura Rs. 1,20,000. Exemption in respect of HRA will be Rs. ____.

(a) Rs. 1,60,000

(b) Rs. 1,00,000

(c) Rs. 1,20,000

(d) Rs. 60,000

Correct answer (d)

Justification of correct answer

Exemption in respect of house rent allowance in case of non-metro cities is lower of the following :

- (1) 40% of salary.
- (2) HRA actually received by the employee in respect of the period during which rental accommodation is occupied by the employee and rent expenditure is incurred by the employee, during the previous year.
- (3) Rent paid in excess of 10% of salary.

Considering above provision, exemption in this case will come to Rs. 60,000. Thus, option (d) is the correct option.

Comment on incorrect answer : Option (d) is the correct option since it gives the correct quantum of exemption in respect of HRA, hence, all the other options, viz., options (a), (b) and (c) giving incorrect quantum of exemption in respect of HRA are not correct.

Q38. Basic salary Rs. 1,84,000 per annum, dearness allowance forming part of salary Rs. 2,16,000. He is also entitled to commission @ 5% of the turnover achieved by him. He had achieved turnover of Rs. 20,00,000 during the year. He has received house rent allowance (HRA) of Rs. 1,50,000 for the year. Annual rent paid at Jabalpur Rs. 1,00,000. Exemption in respect of HRA will be Rs. _____.

(a) Rs. 2,00,000

(b) Rs. 1,50,000

(c) Rs. 1,00,000

(d) Rs. 50,000

Correct answer (d)

Justification of correct answer

Exemption in respect of house rent allowance in case of non-metro cities is lower of the following :

- (1) 40% of salary.
- (2) HRA actually received by the employee in respect of the period during which rental accommodation is occupied by the employee and rent expenditure is incurred by the employee, during the previous year.
- (3) Rent paid in excess of 10% of salary.

Considering above provision, exemption in this case will come to Rs. 50,000. Thus, option (d) is the correct option.

Comment on incorrect answer : Option (d) is the correct option since it gives the correct quantum of exemption in respect of HRA, hence, all the other options, viz., options (a), (b) and (c) giving incorrect quantum of exemption in respect of HRA are not correct.

Q39. Basic salary Rs. 2,84,000 per annum, dearness allowance forming part of salary Rs. 3,16,000, commission based on percentage of turnover achieved by the employee Rs. 2,00,000 (@ 10% of turnover of Rs. 20,00,000) and house rent allowance (HRA) Rs. 2,00,000 per annum. The employee is residing in his own bungalow (at Baroda) and the fair rent of the bungalow is Rs. 1,20,000. Exemption in respect of HRA will be Rs. _____.

- (a) Nil (b) Rs. 2,00,000
(c) Rs. 1,20,000 (d) Rs. 60,000

Correct answer (a)

Justification of correct answer

Exemption in respect of house rent allowance in case of non-metro cities is lower of the following :

- (1) 40% of salary.
- (2) HRA actually received by the employee in respect of the period during which rental accommodation is occupied by the employee and rent expenditure is incurred by the employee, during the previous year.
- (3) Rent paid in excess of 10% of salary.

No exemption is available in this case, since no rent is paid by the employee. Thus, option (a) is the correct option.

Comment on incorrect answer : Option (a) is the correct option since it gives the correct quantum of exemption in respect of HRA, hence, all the other options, viz., options (b), (c) and (d) giving incorrect quantum of exemption in respect of HRA are not correct.

Q40. Basic salary Rs. 1,84,000 per annum, dearness allowance forming part of salary Rs. 2,16,000, commission based on percentage of turnover achieved by the employee Rs. 2,00,000 (@ 10% of turnover of Rs. 20,00,000) and house rent allowance (HRA) Rs. 1,80,000 per annum. Annual rent paid at Baroda Rs. 2,10,000. Exemption in respect of HRA will be Rs. _____.

- (a) Rs. 2,00,000 (b) Rs. 1,80,000
(c) Rs. 20,000 (d) Rs. 1,50,000

Correct answer (d)

Justification of correct answer

Exemption in respect of house rent allowance in case of non-metro cities is lower of the following :

- (1) 40% of salary.
- (2) HRA actually received by the employee in respect of the period during which rental accommodation is occupied by the employee and rent expenditure is incurred by the employee, during the previous year.
- (3) Rent paid in excess of 10% of salary.

Considering above provision, exemption in this case will come to Rs. 1,50,000. Thus, option (d) is the correct option.

Comment on incorrect answer : Option (d) is the correct option since it gives the correct quantum of exemption in respect of HRA, hence, all the other options, viz., options (a), (b) and (c) giving incorrect quantum of exemption in respect of HRA are not correct.

Q41. Basic salary Rs. 2,00,000 per annum, dearness allowance forming part of salary Rs. 1,00,000, commission based on percentage of turnover achieved by the employee Rs. 1,00,000 (@ 10% of turnover of Rs. 10,00,000) and house rent allowance (HRA) Rs. 1,20,000 per annum. Employee is residing in a bungalow (at Amritsar) owned by his brother for which he pays rent of Rs. 1,20,000 per year to his brother. Fair rent of the bungalow is Rs. 1,84,000. Taxable HRA will be Rs. ____.

- | | |
|------------------|------------------|
| (a) Rs. 1,60,000 | (b) Rs. 1,20,000 |
| (c) Rs. 80,000 | (d) Rs. 40,000 |

Correct answer (d)

Justification of correct answer

Exemption in respect of house rent allowance in case of non-metro cities is lower of the following :

- (1) 40% of salary.
- (2) HRA actually received by the employee in respect of the period during which rental accommodation is occupied by the employee and rent expenditure is incurred by the employee, during the previous year.
- (3) Rent paid in excess of 10% of salary.

Considering above provision, exemption in this case will be Rs. 80,000 and taxable HRA will come to Rs. 40,000 (Rs. 1,20,000 – Rs. 80,000). Thus, option (d) is the correct option.

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

Q42. Basic salary Rs. 2,00,000 per annum, dearness allowance forming part of salary Rs. 1,00,000, commission based on percentage of turnover achieved by the employee Rs. 1,00,000 (@ 10% of turnover of Rs. 10,00,000) and house rent allowance (HRA) Rs. 1,20,000 per annum. Employee is residing in a bungalow (at Mumbai) owned by his brother for which he pays no rent to his brother. Fair rent of the bungalow is Rs. 1,84,000. Taxable HRA will be Rs. ____.

- | | |
|----------------|------------------|
| (a) Nil | (b) Rs. 1,20,000 |
| (c) Rs. 80,000 | (d) Rs. 40,000 |

Correct answer (b)

Justification of correct answer

Exemption in respect of house rent allowance in case of metro cities is lower of the following :

- (1) 50% of salary.

- (2) HRA actually received by the employee in respect of the period during which rental accommodation is occupied by the employee and rent expenditure is incurred by the employee, during the previous year.
- (3) Rent paid in excess of 10% of salary.

Considering above provision, exemption in this case will be *Nil* and entire amount of HRA of Rs. 1,20,000 will be charged to tax. Thus, option (b) is the correct option.

Comment on incorrect answer : Option (b) is the correct option since it gives the correct quantum of taxable HRA. Hence, all the other options, *viz.*, options (a), (c) and (d) giving incorrect quantum of taxable HRA are not correct.

Q43. Mr. Rupesh is working in Essem Pvt. Ltd. He is receiving Rs. 840 per month on account of entertainment allowance. What will be the tax treatment of entertainment allowance in the hands of Mr. Rupesh?

- (a) Entire amount will be charged to tax.
- (b) Entire amount will be exempt.
- (c) Exemption in respect of entertainment allowance will be 20% of basic salary
- (d) Exemption in respect of entertainment allowance will be Rs. 5,000

Correct answer (a)

Justification of correct answer

Exemption in respect of entertainment allowance is not available to a non-Government employee. Hence, in this case entire amount of entertainment allowance will be charged to tax. 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 entertainment allowance. Hence, other options, *viz.*, options (b), (c) and (d) giving incorrect tax treatment of entertainment allowance are not correct.

Q44. Mr. Kumar is working in SM Ltd. (a public company). He is receiving Rs. 2,520 per month on account of entertainment allowance. What will be the tax treatment of entertainment allowance in the hands of Mr. Kumar?

- (a) Entire amount will be exempt.
- (b) Entire amount will be charged to tax.
- (c) Exemption in respect of entertainment allowance will be Rs. 5,000
- (d) Exemption in respect of entertainment allowance will be 20% of basic salary

Correct answer (b)

Justification of correct answer

Exemption in respect of entertainment allowance is not available to a non-Government employee. Hence, in this case entire amount of entertainment allowance will be charged to tax. 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 entertainment allowance. Hence, other options, *viz.*, options (a), (c) and (d) giving incorrect tax treatment of entertainment allowance are not correct.

Q45. Mr. Kapoor is a Central Government employee. He is receiving Rs. 840 per month on account of entertainment allowance. His basic salary is Rs. 10,000 per month. What will be the tax treatment of entertainment allowance in the hands of Mr. Kapoor?

- (a) Entire amount will be exempt.
- (b) Entire amount will be charged to tax.
- (c) Rs. 5,000 will be exempt and balance will be charged to tax
- (d) 20% of basic salary will be exempt and balance will be charged to tax

Correct answer (c)

Justification of correct answer

Exemption in respect of entertainment allowance in respect of Government employee is lower of the following :

- (1) 20% of salary (Salary will include only basic salary) (Rs. 24,000), or,
- (2) Rs. 5,000 per annum, or,
- (3) Actual amount of allowance for the year.(Rs. 10,080)

Hence, in this case exemption will come to Rs. 5,000. Thus, option (c) is the correct option.

Comment on incorrect answer : Option (c) is the correct option since it gives the correct tax treatment of entertainment allowance. Hence, other options, viz., options (a), (b) and (d) giving incorrect tax treatment of entertainment allowance are not correct.

Q46. Mr. Krunal is a State Government employee. He is receiving Rs. 2,520 per month on account of entertainment allowance. His basic salary is Rs. 20,000 per month. What will be the tax treatment of entertainment allowance in the hands of Mr. Krunal?

- (a) Entire amount will be exempt.
- (b) Entire amount will be charged to tax.
- (c) 20% of basic salary will be exempt and balance will be charged to tax
- (d) Rs. 5,000 will be exempt and balance will be charged to tax

Correct answer (d)

Justification of correct answer

Exemption in respect of entertainment allowance in respect of Government employee is lower of the following :

- (1) 20% of salary (Salary will include only basic salary), or,
- (2) Rs. 5,000 per annum, or,
- (3) Actual amount of allowance for the year.

Hence, in this case exemption will come to Rs. 5,000. Thus, option (d) is the correct option.

Comment on incorrect answer : Option (d) is the correct option since it gives the correct tax treatment of entertainment allowance. Hence, other options, viz., options (a), (b) and (c) giving incorrect tax treatment of entertainment allowance are not correct.

Q47. Mr. Amit is a Government employee. He is receiving Rs. 200 per month on account of entertainment allowance. His basic salary is Rs. 10,000 per month. What will be the tax treatment of entertainment allowance in the hands of Mr. Amit?

- (a) Entire amount will be charged to tax.
- (b) Entire amount will be exempt.
- (c) Exemption will be Rs. 10,000 per month
- (d) Exemption will be 20% of basic salary

Correct answer (b)

Justification of correct answer

Exemption in respect of entertainment allowance in respect of Government employee is lower of the following :

- (1) 20% of salary (Salary will include only basic salary), or,
- (2) Rs. 5,000 per annum, or,
- (3) Actual amount of allowance for the year.

Hence, in this case exemption will come to Rs. 2,400 (*i.e.*, entire amount will be exempt from tax). 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 entertainment allowance, hence, other options, *viz.*, options (a), (c) and (d) giving incorrect tax treatment of entertainment allowance are not correct.

Q48. Mr. Sunil is a Central Government employee. He is receiving Rs. 5,000 per month on account of entertainment allowance. He has spent Rs. 8,400 per month on entertainment. His basic salary is Rs. 30,000 per month. What will be the tax treatment of entertainment allowance in the hands of Mr. Sunil?

- (a) Entire amount will be charged to tax
- (b) Entire amount will be exempt
- (c) Entire amount will be exempt provided he produces proof of spending Rs. 8,400
- (d) Rs. 5,000 will be exempt from tax and balance will be charged to tax

Correct answer (d)

Justification of correct answer

Exemption in respect of entertainment allowance in respect of Government employee is lower of the following :

- (1) 20% of salary (Salary will include only basic salary), or,
- (2) Rs. 5,000 per annum, or,
- (3) Actual amount of allowance for the year.

The exemption will be computed as above irrespective of the actual amount spent by the employee.

Hence, in this case exemption will come to Rs. 5,000. Thus, option (d) is the correct option.

Comment on incorrect answer : Option (d) is the correct option since it gives the correct tax treatment of entertainment allowance. Hence, other options, *viz.*, options (a), (b) and (c) giving incorrect tax treatment of entertainment allowance are not correct.

Q49. Mr. Sujal is a State Government employee. He is receiving transport allowance of Rs. 700 per month and entertainment allowance of Rs. 500. What will be the tax treatment of transport allowance in the hands of Mr. Sujal?

- (a) Entire amount will be exempt.
- (b) Rs. 200 per month will be exempt from tax and balance will be charged to tax
- (c) Rs. 800 per month will be exempt from tax
- (d) He cannot claim exemption since he is receiving entertainment allowance also

Correct answer (a)

Justification of correct answer

Exemption in respect of transport allowance will be lower of amount of allowance or Rs. 800 per month. Hence, in this case exemption will come to Rs. 700 per month (*i.e.*, entire amount will be exempt from tax). 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 transport allowance. Hence, other options, *viz.*, options (b), (c) and (d) giving incorrect tax treatment of transport allowance are not correct.

Q50. Mr. Sunil is a State Government employee. He is receiving tiffin allowance of Rs. 840 per month. What will be the tax treatment of tiffin allowance in the hands of Mr. Sunil?

- (a) Entire amount will be charged to tax
- (b) Entire amount will be exempt from tax
- (c) Rs. 800 per month will be exempt from tax
- (d) He cannot claim exemption since details of actual expenditure on lunch are not provided

Correct answer (a)

Justification of correct answer

Tiffin allowance is fully charged to tax in the hands of all employees (*i.e.*, Government employees as well as non-Government employees). 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 tiffin allowance. Hence, other options, *viz.*, options (b), (c) and (d) giving incorrect tax treatment of tiffin allowance are not correct.

Q51. Mrs. Kapoor is a Central Government employee. She is receiving tiffin allowance of Rs. 2,520 per month. What will be the tax treatment of tiffin allowance in the hands of Mrs. Kapoor?

- (a) Entire amount will be exempt from tax
- (b) Entire amount will be charged to tax
- (c) Rs. 1,600 per month will be exempt from tax
- (d) She cannot claim exemption since she is a Central Government employee

Correct answer (b)

Justification of correct answer

Tiffin allowance is fully charged to tax in the hands of all employees (*i.e.*, Government employees as well as non-Government employees). 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 tiffin allowance. Hence, other options, *viz.*, options (a), (c) and (d) giving incorrect tax treatment of tiffin allowance are not correct.

Q52. Mrs. Kapoor is working in SM Pvt. Ltd. She is receiving tiffin allowance of Rs. 1,840 per month. What will be the tax treatment of tiffin allowance in the hands of Mrs. Kapoor?

- (a) Entire amount will be charged to tax
- (b) Rs. 1,600 per month will be exempt from tax
- (c) Entire amount will be exempt from tax
- (d) She cannot claim exemption since she is not a Central Government employee

Correct answer (a)

Justification of correct answer

Tiffin allowance is fully charged to tax in the hands of all employees (*i.e.*, Government employees as well as non-Government employees). 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 tiffin allowance. Hence, other options, *viz.*, options (b), (c) and (d) giving incorrect tax treatment of tiffin allowance are not correct.

Q53. Mr. Kapoor is a State Government employee. He is receiving tiffin allowance of Rs. 2,840 per month. He is spending Rs. 3,000 on account of meal during office hours. What will be the tax treatment of tiffin allowance in the hands of Mr. Kapoor?

- (a) Rs. 1,000 per month will be exempt from tax
- (b) He cannot claim exemption since he is a Government employee
- (c) Entire amount will be charged to tax
- (d) Entire amount will be exempt from tax

Correct answer (c)

Justification of correct answer

Tiffin allowance is fully charged to tax in the hands of all employees (*i.e.*, Government employees as well as non-Government employees). This rule will remain same even if the employee spends any amount on account of meal during the office hours. Thus, option (c) is the correct option.

Comment on incorrect answer : Option (c) is the correct option since it gives the correct tax treatment of tiffin allowance. Hence, other options, *viz.*, options (a), (b) and (d) giving incorrect tax treatment of tiffin allowance are not correct.

Q54. Mr. Krunal is a Central Government employee. He is receiving tiffin allowance of Rs. 840 per month. He is spending Rs. 1,000 on account of meal during office hours. What will be the tax treatment of tiffin allowance in the hands of Mr. Krunal?

- (a) Rs. 200 per month will be exempt from tax
- (b) He cannot claim exemption since he is a Government employee
- (c) Entire amount will be charged to tax
- (d) Entire amount will be exempt from tax

Correct answer (c)

Justification of correct answer

Tiffin allowance is fully charged to tax in the hands of all employees (*i.e.*, Government employees as well as non-Government employees). This rule will remain same even if the employee spends any amount on account of meal during the office hours. Thus, option (c) is the correct option.

Comment on incorrect answer : Option (c) is the correct option since it gives the correct tax treatment of tiffin allowance. Hence, other options, *viz.*, options (a), (b) and (d) giving incorrect tax treatment of tiffin allowance are not correct.

Q55. Mr. Kapoor is working in SM Pvt. Ltd. He is receiving tiffin allowance of Rs. 1,840 per month. He is spending Rs. 1,000 on account of meal during office hours. What will be the tax treatment of tiffin allowance in the hands of Mr. Kapoor?

- (a) Rs. 1,600 per month will be exempt from tax
- (b) He cannot claim exemption since he is not a Government employee
- (c) Entire amount will be exempt from tax
- (d) Entire amount will be charged to tax

Correct answer (d)

Justification of correct answer

Tiffin allowance is fully charged to tax in the hands of all employees (*i.e.*, Government employees as well as non-Government employees). The rule will remain even if the employee spends any amount on account of meal during the office hours. Thus, option (d) is the correct option.

Comment on incorrect answer : Option (d) is the correct option since it gives the correct tax treatment of tiffin allowance. Hence, other options, *viz.*, options (a), (b) and (c) giving incorrect tax treatment of tiffin allowance are not correct.

Q56. Mr. Sunil is a State Government employee. He is receiving medical allowance of Rs. 8,400 per month. What will be the tax treatment of medical allowance in the hands of Mr. Sunil?

- (a) Entire amount will be charged to tax
- (b) Entire amount will be exempt from tax
- (c) Rs. 800 per month will be exempt from tax
- (d) He cannot claim exemption since details of actual expenditure on medical treatment are not provided

Correct answer (a)

Justification of correct answer

Medical allowance is fully charged to tax in the hands of all employees (*i.e.*, Government employees as well as non-Government employees). 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 medical allowance. Hence, other options, *viz.*, options (b), (c) and (d) giving incorrect tax treatment of medical allowance are not correct.

Q57. Mrs. Sinha is a Central Government employee. She is receiving medical allowance of Rs. 2,520 per month. What will be the tax treatment of medical allowance in the hands of Mrs. Sinha?

- (a) Entire amount will be exempt from tax
- (b) Entire amount will be charged to tax

- (c) Rs. 1,600 per month will be exempt from tax
- (d) She cannot claim exemption since she is a Central Government employee

Correct answer (b)

Justification of correct answer

Medical allowance is fully charged to tax in the hands of all employees (*i.e.*, Government employees as well as non-Government employees). 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 medical allowance. Hence, other options, *viz.*, options (a), (c) and (d) giving incorrect tax treatment of medical allowance are not correct.

Q58. Mrs. Kapoor is working in SM Pvt. Ltd. She is receiving medical allowance of Rs. 1,840 per month. What will be the tax treatment of medical allowance in the hands of Mrs. Kapoor?

- (a) Entire amount will be charged to tax
- (b) Rs. 1,600 per month will be exempt from tax
- (c) Entire amount will be exempt from tax
- (d) She cannot claim exemption since she is not a Central Government employee

Correct answer (a)

Justification of correct answer

Medical allowance is fully charged to tax in the hands of all employees (*i.e.*, Government employees as well as non-Government employees). 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 medical allowance. Hence, other options, *viz.*, options (b), (c) and (d) giving incorrect tax treatment of medical allowance are not correct.

Q59. Mr. Kapoor is a State Government employee. He is receiving medical allowance of Rs. 2,840 per month. He is spending Rs. 3,000 on account of medical treatment of his family. What will be the tax treatment of medical allowance in the hands of Mr. Kapoor?

- (a) Rs. 1,000 per month will be exempt from tax
- (b) He cannot claim exemption since he is a Government employee
- (c) Entire amount will be charged to tax
- (d) Entire amount will be exempt from tax

Correct answer (c)

Justification of correct answer

Medical allowance is fully charged to tax in the hands of all employees (*i.e.*, Government employees as well as non-Government employees). This rule will remain same even if the employee spends any amount on account of medical treatment. Thus, option (c) is the correct option.

Comment on incorrect answer : Option (c) is the correct option since it gives the correct tax treatment of medical allowance. Hence, other options, *viz.*, options (a), (b) and (d) giving incorrect tax treatment of medical allowance are not correct.

Q60. Mr. Krunal is a State Government employee. He is receiving medical allowance of Rs. 4,840 per month. He is spending Rs. 5,000 on account of medical treatment of his family. What will be the tax treatment of medical allowance in the hands of Mr. Krunal?

- (a) Rs. 2,000 per month will be exempt from tax

- (b) He cannot claim exemption since he is a Government employee
- (c) Entire amount will be exempt from tax
- (d) Entire amount will be charged to tax

Correct answer (d)

Justification of correct answer

Medical allowance is fully charged to tax in the hands of all employees (*i.e.*, Government employees as well as non-Government employees). This rule will remain same even if the employee spends any amount on account of medical treatment. Thus, option (d) is the correct option.

Comment on incorrect answer : Option (d) is the correct option since it gives the correct tax treatment of medical allowance. Hence, other options, *viz.*, options (a), (b) and (c) giving incorrect tax treatment of medical allowance are not correct.

Q61. Mr. Amit is a State Government employee. He is receiving medical allowance of Rs. 2,520 per month. He is spending Rs. 1,000 on account of medical treatment of his family. What will be the tax treatment of medical allowance in the hands of Mr. Amit?

- (a) Entire amount will be charged to tax
- (b) Entire amount will be exempt from tax
- (c) Rs. 1,000 per month will be exempt from tax
- (d) He cannot claim exemption since he is a Government employee

Correct answer (a)

Justification of correct answer

Medical allowance is fully charged to tax in the hands of all employees (*i.e.*, Government employees as well as non-Government employees). This rule will remain same even if the employee spends any amount on account of medical treatment. 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 medical allowance. Hence, other options, *viz.*, options (b), (c) and (d) giving incorrect tax treatment of medical allowance are not correct.