



JAGATPUR P.G. COLLEGE, VARANASI
(Affiliated TO M G K V P VARANASI)



SUBJECT : **COMMERCE**

CLASS : **B.Com**

YEAR : **III - YEAR**

NAME OF THE PAPER : **Ist Paper- Income tax law &
Accounts**

NAME OF TOPIC : **Exempted Income, Pension &
Gratuity.**

KEY WORDS : **Name of some exempted Income which are not
including in Income and Calculation of Taxable
Gratuity and Pension**

Dr. Bali Ram Tiwari
Assistant Professor
Department of Commerce
Jagatpur P.G. College Varanasi-221302
E-mail : brtemailid@gmail.com
Mob: 9415269435

Exempted Income

There are certain Incomes of an Assessee which are accrued or received during the previous year. But they are not included at the time of computing taxable income. It means those incomes are not taxable or exempted income.

Income tax Act 1961- Some of the following Income are exempted.

1. Agricultural Income – Sec-10 (1)
2. Sum Received by a member 10 (2) from HUF from H.U.F.
3. Share of a Partner in Firm's Income
4. Profit of Newly established Industrial undertakings in free Trade Zone- (Sec. 10 AA)
5. Compensation Received by victims of Bhopal Gas leak Disaster- 10 (10(10BB))
6. Sum Received from Life Insurance
7. Sum Received from Public Provident fund.
8. Payment from Sukanya Samriddhi Account – Sec. 10 (11A)
9. Payment from National Payment system Trust – Sec -10 (12A)
10. Partial withdrawal from National Pension system Trust & Sec 10 (12 B)
11. Interest Premium or Bonus on specified Investments

12. Scholarships.
13. Awards or Reward
14. Family Pension
15. Income of Minor Child
16. Dividend from Domestic Company or Private Company

Gratuity

Meaning of Gratuity

Gratuity is a Lum-sum payment which is made by an Employer to his Employee for his past services during service period. If an Employee retires from the service or he expires during the service , his Employer gives him gratuity.

As per Income tax Rules, Gratuity is a partly taxable and partly exempted. So calculation of Taxable Gratuity are as under.

Calculation of Taxable Gratuity

For calculation of Taxable gratuity the employees have been divided into two categories :

- i. Government Employee
- ii. Other Employee or non Govt. Employee

1. Government Employees

The whole Amount of Gratuity Received by these Employees is Exempt.

II. Other Employees

The Gratuity Received by Non Government Employee shall be Exempt under a limit. We will study the rules of Exemption of Gratuity. For calculation of Exempted Gratuity there are two Rules will be apply :

- i. Covered (payment of Gratuity Act 1972)
- ii. Not Covered (Payment of Gratuity Act 1972)

1. Covered The Calculation of Taxable Gratuity are as under.

Least of the following will be exempted

1. Actual Amount of Gratuity Received
2. Salary of 15 days for the service of each completed year
3. Maximum Limit – 20, 00, 000.

For Calculation of Taxable Gratuity Salary Means –

Basic Salary of last Month

+

Dearness Pay

+

Dearness Allowances

(Whether it is under terms of Employment or not)

Salary of 15 days will be computed as under –

Salary for last month (including D.A.) × 15

26

ii) Not covered

Least of the following will be exempted

- i. Actual Amount of Gratuity Received

ii. Salary for the service Period on the basis of Half month Salary

iii. Maximum Limit 20,00,000

Meaning of Salary – for the Purpose of Computation of Gratuity Average Salary of preceding 10 month immediately Retirement shall be taken

Salary Means- Basic Salary

+

D.P.

+

D.A. (if given as term of Employment)

+

Commission (Base on Fixed % on sales)

Pension

An Employee is paid pension by the Employer after his Retirement it is taxable under Income from Salary which pension is given to his family. After the death of Employee it is called family pension it is not taxable under the salary it is taxable under the income from other sources.

Calculation of Taxable Pension

If Pension paid by Employer to his employees after Retirement than it is partly taxable & partly exempted.

Calculation of Taxable Pension are as under :

The pension is given in two forms-

- (1) **Uncommuted Pension** – Pension given on monthly Basis is called uncommuted Pension. it is taxable under the head income from salary.
- (2) **Commutated Pension** – Some Employers given pension to the employees in commuted form. It means some part of whole pension is discounted in cash. The Lum-Sum Amount is given in Cash to the employee by the Employer. its remaining part is given monthly.

Calculation of Commuted Pension

Govt. Employees – Exempt

Other Employees – Least of the following will be exempted

1. Pension Received
2. Full value of Pension
3. If Gratuity Received than $\frac{1}{3}$ of full pension or $\frac{1}{2}$ of the full pension.

Related questions :

1. What is Gratuity?
2. What is Rules in Income tax Act far calculation of Taxable Gratuity.
3. What is the Pension?.
4. Explain the Rules of Commuted value of Pension?

References :

1. H.C. Mehrotra-Income tax law &
Accounts
2. R.K. Jain- Income tax law & Accounts.

SELF DECLARATION

"The content is exclusively meant for academic purpose and for enhancing teaching and learning. Any other use for economic/commercial purpose is strictly prohibited. The users of the content shall not distribute-disseminate or share it with any one else and its use is restricted to advancement of individual knowledge. The information provided in this e-content is authentic and best as per my knowledge."

Dr. Baliram Tiwari
Assistant Professor
Department of Commerce
Jagatpur P.G. College
Jagatpur,
Varanasi-221302

THANK YOU