

**MODULE 6****LESSON 6.26****SALARY AND ITS COMPUTATION****Exercise 1**

Compute taxable income and tax thereon from following information/ data in respect of Mr. A an employee of XYZ Company for tax year 2007

- Basic salary from 1<sup>st</sup> Jan-06 to 31<sup>st</sup> Dec-06 Rs 30,000 per month

**Solution to Exercise 1**

Tax payer: Mr. A

Tax year: 2007

Residential Status: Resident

NTN: 000111

Computation of taxable income and tax thereon:

In Rs

Particulars	Total income	Exempt Income	Taxable Income
Basic salary	180,000	Nil	180,000
<b>Total</b>			<b>180,000</b>

**Tax liability:**

Tax rate of 0.25 percent shall apply as given at serial #2 for taxable income exceeding Rs150,000 up to Rs 200,000.

$$\begin{aligned} \text{Income tax payable} &= 180,000 \times 0.25\% \\ &= \text{Rs. 450} \end{aligned}$$

**Note:**

Income received by Mr. A during calendar year 2006 (that is 01-01-06 to 31-12-2006) is Rs 360,000 but during tax year 2007, the income of Mr. A is Rs 180,000 (since tax year 2007 covers the period from 01-07-06 to 30-06-07)

**Exercise 2**

Compute taxable income & tax thereon from following information/ data pertaining to tax year,2007 in respect of Mr. X an employee of a private Company.

- Salary Rs 40,000 per month
- Bonuses Rs 80,000 for tax yr.
- Utilities paid by employer Rs 40,000 for tax yr.

**Solution to Exercise 2**

Tax payer: Mr. X

Tax year: 2007

Residential Status: Resident

NTN: 000111

Computation of taxable income and tax thereon:

In Rs

Particulars	Total income	Exempt Income	Taxable Income
Basic salary	480,000	Nil	480,000
Bonuses	80,000	Nil	80,000
Utilities (Note 1)	40,000	Nil	40,000
<b>Total</b>			<b>600,000</b>

**Tax liability:**

Tax rate of 4.50% percent as given at serial #8 for taxable income exceeding Rs 500,000 up to Rs 600,000

**Income tax payable:**

$$600,000 \times 4.50\% = \text{Rs 27,000}$$

**Note 1:**

Utilities were exempt up to 10% of MTS or Basic salary till 30<sup>th</sup> June, 2006, vide clause 38 of part 1 of Second Schedule. This clause has been omitted by Finance Act, 2006. Hence no exemption is available for tax year 2007.

**Exercise 3**

Compute taxable income from following information/ data in respect of Mr. Y an employee of a private Company for tax year 2007.

- MTS of Mr. Y Rs20,000—2000—30,000
- Salary Rs 24,000 per month
- House allowance Rs 2000 per month

**Solution to Exercise 3:**

Tax payer: Mr. Y

Tax year: 2007

Residential Status: Resident

NTN: 000111

Computation of taxable income and tax thereon:

In Rs			
Particulars	Total income	Exempt Income	Taxable Income
Basic salary	288,000	Nil	288,000
House Allowance	24,000	Nil	24,000
Utilities (Note 1)	36,000	Nil	36,000
<b>Total</b>			<b>348,000</b>

**Tax liability:**

Tax rate of 1.50% percent as given at serial #5 for taxable income exceeding Rs 300,000 up to Rs 350,000

**Income tax payable:**

$$348,000 \times 1.50\% = \text{Rs } 5,220$$

**Note 1:**

Utilities were exempt up to 10% of MTS or Basic salary till 30<sup>th</sup> June, 2006, vide clause 38 of part 1 of Second Schedule. This clause has been omitted by Finance Act, 2006. Hence no exemption is available for tax year 2007.

**Exercise 4:**

Compute taxable income from following information/ data in respect of Mr. A an employee of XYZ Company for tax year 2006

- MTS of Mr. A Rs 30,000--5000--50,000
- Basic salary Rs 40,000 per month
- House Allowance Rs120,000 p.a.
- Tax Deducted at Source Rs 6,000

**Solution to Exercise 4:**

Tax payer: Mr. A

Tax year: 2007

Residential Status: Resident

NTN: 000111

Computation of taxable income and tax thereon:

Particulars	Total income	Exempt Income	Taxable Income
Salary	480,000	Nil	480,000
House Allowance	120,000	Nil	120,000
<b>Total</b>			<b>600,000</b>

**Tax liability:**

Tax rate of 4.50% percent as given at serial #8 for taxable income exceeding Rs 500,000 up to Rs 600,000

**Income tax payable:**

$$600,000 \times 4.50\% = \text{Rs } 27,000$$

$$\text{Tax deducted at source} \quad \underline{\text{Rs } 6,000}$$

$$\text{Tax payable: } 27,000 - 6,000 = \text{Rs } 21,000$$

**Exercise 5:**

Compute taxable income and tax thereon in respect of Mr. Yasir (a salaried individual) for the tax year 2007 from the following information/ data:

- Basic salary Rs 20,000 pm
- House rent allowance Rs 5,000 pm

- Medical Allowance Rs 5,100 pm
- Free hospitalization services availed under terms of employment. Rs 40,000 pm
- Driver's salary paid by employer Rs 8,000 pm
- Dearness Allowance Rs 6,000 pm

**Solution to Exercise 5:**

Tax payer: Mr. Yasir

Tax year: 2007

Residential Status: Resident

NTN: 000111

Computation of taxable income and tax thereon:

In Rs

Particulars	Total income	Exempt Income	Taxable Income
Salary	240,000	Nil	240,000
House Allowance	60,000	Nil	60,000
Medical allowance (N-1)	61,200	Nil	61,200
Hospitalization	40,000	40,000	Nil
Driver's Salary	96,000	Nil	96,000
Dearness Allowance	72,000	Nil	72,000
<b>Total</b>			<b>529,200</b>

**Tax liability:**

Tax rate of 4.50% percent as given at serial #8 for taxable income exceeding Rs 500,000 up to Rs 600,000

**Income tax payable:**

$$529,000 \times 4.50\% = \text{Rs } 23,814$$

**Note:**

Clause 139(a) &amp; (b) of part 1 of second schedule:

- Free hospitalization services provided under the terms of employment are exempt.
- If (a) not available then 10% of basic salary is exempt in case medical allowance provided.