

INCOME FROM SALARY

Retirement and Retrenchment

On retirement or retrenchment the following payments may

Be received by an employee from his employer:

- A .Encashment of earned leave.
- B .Gratuity.
- C .Pension.
- D. Compensation received on retrenchment.
- E. Sum received on voluntary retirement.
- F. Received from Provident Fund.

A. ENCASHMENT OF EARNED LEAVE:

Every employee has got right to take leave during his service period. If he does not take leave then it may be expired and some of them may be converted into cash. It means the employee sells his earned leave to his employer for which the employer pays him certain amount for his leave not availed by him and those earned leave will be eliminated. This is known as the leave encashment or encashment of earned leave. Amount for earned leave received during the service period is fully taxable. If it is received at the time of retirement or at the time of resignation then the following rules will be applicable:

For the Government Employee:

Least of the following is exempt:

1. Actual amount of leave encashment received.
2. 10 month' Salary on the basis of the average salary drawn by the employee during 10 months immediately preceding the month of retirement
3. Amount of salary on the basis of average salary for the approved period for which leave has not been availed of.
4. Maximum limit prescribed the Government RS.3,00,000.

Note: Maximum period of 30 days for each completed year of service is approved for leave encashment.

In the next class we will discuss problems based on leave encashment:

I hope you must attend the class so that your concept could be cleared

THANK YOU.