

FROM SALARY(RETIREMENT) X.

Leave encashment.

EXAMPLE:

Sri Ram Prakash was the manager in a company. He sought premature retirement from the service on 1st November 2018 after completing 25 year of service .From 1st August 2017 his pay scale was Rs. 18,000-900-24300. And he was getting dearness allowance of RS.2200 P.M. Which was treated as salary for the purpose of retirement benefits. He has 7 months earned leave to his credit(on the basis of 30 days per year) which was approved, hence he was paid Rs.1,53,000 as salary and Rs.15,400 as dearness allowance.

Compute the amount exempt regarding encashment of earned leave for the assessment year 2019-20.,if he joined another company on 1st January 2019 at Rs.25,500 p.m.

SOLUTION:

Computation of Taxable Earned leave of Mr.Ram Prakash.

For the assessment year 2019-20.

Calculation of Average salary:

Salary @ Rs. 18,900 p.m. for 3 months. (from Aug.2018 – Oct. 2018)	Rs.56,700
Salary @ Rs. 18,000. p.m. for 7 months (from Jan. 2018 to Jul. 2018)	Rs.1,26,000
D.A. (10 x2200)	Rs. 22,000

Total

Rs.2,04,700.

Average Salary= $2,04,700/10 = 20,470$.

Least of the following will be exempt.

a	Actual amount of earned leave received($153,000+15,400$)	1,68,400
b	10 months average salary($10 \times 20,470$)	2,04,700
c	7 months average salary($7 \times 20,470$)	1,43,290
d	Maximum limit.	3,00,000

Hence least of the above will be exempted= $1,43,290$

Therefore Taxable amount of earned leave= $1,68,400-1,43,290$

= Rs.25,110.