

INCOME FROM SALARY(RETIREMENT) IX.

(leave Encashment)

25 years and 7 months in a company, rest of the details are as follows:

His salary is (from 1.02.2018 to 1.02.2019) Rs.20,000. Per month. He gets two months' leave for each completed year of service. He took leave of 20 months during service tenure. Remaining leave 30 months. Amount of encashment of leave received on retirement Rs.6,00,000.

Calculate taxable amount of encashment of earned leave.

SOLUTION:

Computation of taxable amount of leave encashment of

1	Actual amount of leave encashment received.	6,00,000
2	10 months' average salary(20,000 x 10)	2,00,000
3	Average salary for approved period of earned leave not availed of.(25-20)=5x20,000.	1,00,000
4	Maximum Limit.	3,00,000

Exempted amount of leave encashment= Least of the above.

=1,00,000

Taxable amount of earned leave=RS. 6,00,000-1,00,000

=Rs.5,00,000

NOTE: According to Income-tax rule maximum period of leave allowed per year is one month. Assessee has already

taken leave for 20 months. Therefore Remaining leave $(25 - 20) = 5$.