

## INCOME FROM SALARY (RETIREMENT) XII

### Gratuity.

Example:1.

Mr. Naveen Singh who comes under the payment of gratuity Act 1972, retires on 31<sup>st</sup> Aug.2018 after working for 25 years and two months in TATA LTD. The company paid him gratuity Rs.1,00,000.His salary at the time of retirement was Rs.5200 per month. Compute exempted and taxable amount of gratuity.

SOLUTION:

### Computation of Taxable amount of gratuity of Mr.Naveen

Mr.Naveen comes under the payment of gratuity Act 1972.

His service period: 25 years 2months or 25 years.

Average salary =  $5200 \times 15/26 = 3000$

- I) Actual amount of gratuity received Rs. 1,00,000
- II)  $\frac{1}{2}$  month average salary for each completed year of service= Rs.3000x25. =Rs.75,000.

- III) Maximum Limit. = Rs.20,00,000

Least of the above = Rs. 75000 will be exempt amount.

Hence Taxable amount of gratuity =  $1,00,000 - 75,000$   
= 25000

Rs.20,00,000 is for the employee, who covers the payment of gratuity Act 1972.

### Example:2

Mr.R.K.Agarwal retires from X LTD on 15<sup>th</sup> May. 2018, after the service for 30 years. Company paid him Rs.3,70,000 for gratuity. He received Rs. 15,000 Salary, Rs.4,000 dearness allowance and Rs.6,000 Commission on sale(5% on sale) in the last month. Find out taxable amount of gratuity if he comes under the gratuity Act.

### SOLUTION:

Salary of last month=  $15,000+4,000$   
 $= 19,000.$

15 days average salary=  $19,000 \times 15/26$   
 $=10,962$

- i) Actual amount of gratuity received Rs.3,70,000
- ii)  $\frac{1}{2}$  month average salary for each completed year of service= $10,962 \times 30 = 3,28,860.$
- iii) Maximum limit Rs.20,00,000  
Least of the above= Rs.3,28,860.(exempted)

Hence taxable amount of gratuity= $3,70,000 - 3,28,860 = \text{Rs.}41,140$

Note: In salary only D.A will be added nothing else.