INCOME FROM SALARY(RETIREMENT)XIII

GRATUITY

EXAMPLE: 1. Employee not covered under the payment of gratuity Act 1972.

Mr. Ankur mittal took retirement on 1st January,2019, after serving for 26 years in a company. Average salary of last 10 months was Rs.15,000. He received Rs.4,20,000. As gratuity from the company. In past year he received Rs. 50,000 as gratuity from his former employer and he has received full exemotion regarding that .Compute Taxable amount of the gratuity received now.

SOLUTION:

COMPUTATION OF TAXABLE AMOUNT OF GRATUITY

1) Actual amount of gratuity received Rs.4,20,000
2) ½ month averagebsalary for each completed year of service = 15,000 x ½ x 26 = Rs. 1,95,000
3) Maximum limit. (10,00,000- 50,000) = Rs.9,50,000

   Least of the above =Rs.1,95,000 (exempted

   Taxable amount of gratuity = 4,20,000 – 1,95,000

   = 2,25,000.

EXAMPLE: 2.

After serving for 30 years and 8 months.Mr.M.K. Jain retired from service on 10th July, 2018.He received Rs.2,00,000. As gratuity. He is not covered under the payment of gratuity Act. He received :

Basic salary Rs.10,000 per month.Dearness allowance Rs. 3,000 per month (under the term of service). There is an increment of Rs.500 each year on 1st June in his Basic salary.

Compute taxable amount of his gratuity.

SOLUTION:

COMPUTATION OF TAXABLE AMOUNT OF GRATUITY.

Salary for this purpose:

1.Sept.2017 to 31st May 2019(9,500 x9)=85,500

2.for 30th June 2018 =10,000

Total Rs 95,000

D.A. 3,000x 10 Rs 30,000

Total Rs 1,25,000

Average Salary= 1,25,000/10= RS12,550

1)Actual amount of Gratuity received Rs.2,00,000

2)1/2 month average salary for each completed year of service =12,550 x1/2 x30 =Rs.1,88,250.

3)Maximum limit. Rs.10,00,000

Least of the above =1,88,250(exempted)

Hence Taxable amount of Gratuity= 2,00,000-1,88,250

= Rs11,750.