

PAPER 4: TAXATION
SECTION A: INCOME TAX LAW

STATUTORY UPDATE FOR NOVEMBER, 2021 EXAMINATION

The October, 2020 edition of the Study Material, based on the provisions of Income-tax law, as amended by the Finance Act, 2020 and significant notifications/circulars issued upto 30.4.2021, are relevant for November, 2021 examinations. The relevant assessment year for November, 2021 examination is A.Y.2021-22. The significant notification issued upto 30th April, 2021, relevant for November, 2021 examination but not covered in the October, 2020 edition of the Study Material, is given hereunder:

Chapter 4 - Unit 1: Salaries

Manner for computation of taxable perquisite under section 17(2)(viiia) [Notification No. 11/2021, dated 5.3.2021]

The amount or aggregate of amounts of any contribution made in a recognised provident fund, in NPS referred to in section 80CCD(1) and in an approved superannuation fund by the employer to the account of the assessee, to the extent it exceeds Rs. 7,50,000 would be perquisite by virtue of section 17(2)(vii). Consequently, section 17(2)(viiia) provides that any annual accretion by way of interest, dividend or any other amount of similar nature during the previous year to the balance at the credit of the recognized provident fund or NPS or approved superannuation fund to the extent it relates to the employer's contribution which is included in total income in any previous year under section 17(2)(vii), computed in prescribed manner would also be perquisite taxable under the head "Salaries".

Accordingly, the CBDT has, vide this notification, prescribed the following formula to compute the annual accretion by way of interest, dividend or any other amount of similar nature during the current previous year to the balance to the credit of the recognized provident fund or NPS or approved superannuation fund to the extent it relates to the employer's contribution in excess of Rs. 7,50,000, included in total income in any previous year:

$TP = (PC/2)*R + (PC1+ TP1)*R$	
TP	Taxable perquisite under of section 17(2)(viiia) for the current previous year i.e. P.Y. 2020-21;
TP1	Aggregate of taxable perquisite under section 17(2)(viiia) for the previous year or years commencing on or after 1.4.2020 other than the current previous year (See Note)
PC	Amount or aggregate of amounts of employer's contribution in excess of Rs. 7.5 lakh to the specified fund or scheme during the previous year i.e., P.Y. 2020-21

PC1	Amount or aggregate of amounts of employer's contribution in excess of Rs. 7.5 lakh to the specified fund or scheme for the previous year or years commencing on or after 1st April, 2020 other than the current previous year (See Note)	
R	I/ Favg ;	
I	Amount or aggregate of amounts of income accrued during the current previous year in the specified fund or scheme account	
Favg	(Amount or aggregate of amounts of balance to the credit of the specified fund or scheme on the first day of the current previous year i.e., on 1 st April, 2020 + Amount or aggregate of amounts of balance to the credit of the specified fund or scheme on the last day of the current previous year i.e., on 31 st March, 2021)/2	

Specified fund or scheme means recognised provident fund, NPS referred to in section 80CCD(1) and an approved superannuation fund

Note: Where the amount or aggregate of amounts of TP1 and PC1 exceeds the amount or aggregate of amounts of balance to the credit of the specified fund or scheme on the first day of the current previous year, then, the amount in excess of the amount or aggregate of amounts of the said balance shall be ignored for the purpose of computing the amount or aggregate of amounts of TP1 and PC1.

It may be noted that the second part of the formula, namely $(PC1 + TP1) \times R$, will not be relevant for P.Y.2020-21, since this is the first previous year for which this perquisite valuation provision is applicable. Therefore, this part of the formula may be ignored while computing perquisite value for A.Y.2021-22.

Example: Suppose X Pvt. Ltd. contributed Rs. 8,50,000 during the previous year 2020-21 towards recognised provident fund to the account of Mr. A. Mr. A had also made an equivalent contribution. Balance in his RPF A/c as on 1.4.2020 is Rs. 32,00,000. Interest accrued in his RPF during the previous year 2020-21 is Rs. 3,44,250. The taxable perquisite under section 17(2)(viiia) for P.Y.2020-21 would be computed in the following manner:

$TP = (PC/2) \times R + (PC1 + TP1) \times R$ $= (1,00,000/2) \times 0.08153 + (Nil + Nil) \times 0.08153 =$		
TP	Taxable perquisite under of section 17(2)(viiia) for P.Y. 2020-21	4,077
TP1	Aggregate of taxable perquisite under section 17(2)(viiia) for the previous year or years commencing on or after 1.4.2020 other than the current previous year	Nil (since this is the first year of taxability of

		such perquisite)
PC	Amount or aggregate of amounts of employer's contribution in excess of Rs. 7.5 lakh to the RPF during the P.Y. 2020-21	Rs.1,00,000 (i.e., Rs.8,50,000 – Rs.7,50,000)
PC1	Amount or aggregate of amounts of employer's contribution in excess of Rs. 7.5 lakh to the RPF for the previous year or years commencing on or after 1st April, 2020 other than the current previous year.	Nil (Since this is the first previous year for taxability of such perquisite)
R	I/ Favg	0.08153 (3,44,250/42,22,125)
	I	Amount or aggregate of amounts of income accrued during the P.Y.2020-21 in the RPF
	Favg	(Amount or aggregate of amounts of balance to the credit of the RPF on 1.4.2020, being the first day of the current previous year + Amount or aggregate of amounts of balance to the credit of RPF on 31.3.2021, being the last day of the current previous year)/2
		(Rs. 32,00,000 + Rs. 52,44,250)/2 = Rs. 42,22,125 Note = Rs.32,00,000 + Rs.8,50,000 + Rs. 8,50,000 + Rs.3,44,250 = Rs.52,44,250

Note - The last date for intimating Aadhaar number under the Income-tax Act, 1961 for the purposes of linking Aadhaar with PAN has been extended from 31st March, 2021 to 30th June, 2021 [Section 139AA]