Provident Fund is exempt

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Today, I would answer some of the generally asked questions about income-tax.

Q 1. I am an Indian citizen. I was a Research Fellow from 1976 to 1979 in the University of Wales in U.K. For that period, I have been granted now on attainment of my age of 65, a pension of 6.26 pounds per week by them. This amount is remitted to me by the U.K government through the State Bank of India Branch in U.K. Could you guide me if this pension amount is taxable here in India or not? If not, kindly quote the relevant section of Income Tax Act under which pension from U.K is exempt from payment of Income-tax.

2. I had purchased Units under the UTI Banking Sector Scheme for Rs.78,691 on 17.04.2004 which I sold for Rs.94,114 on 27.12.2004. Similarly under PSU Fund (Income) Scheme UTI units purchased for Rs.84,839 on 17.04.2004 were sold for Rs. 94,850 on 15.12.2004. The income gain is to be taxed or not and if it is to be taxed at what rate?

Jagdish Parshad Yadav,Chandigarh

Ans :1. Any pension paid by the Government of a Contracting state (U.K.) to any Individual in respect of services rendered to the government shall be taxable only in that contracting state (U.K.).

As stated,the UK Govt is paying pension to you,therefore the same is not taxable in India

2. As units are purchased on 17.04.04 and sold on 27.12.2004 there will be short term capital gain.

If on sale of these shares security transaction tax has been paid then short term capital gain will be charged to tax at the rate of 10% with appropriate surcharge and 2% education cess.

If on sale of these shares security transaction tax is not paid then short term capital gain will be added to your total income and charged to normal rate of tax.

Q : 2 I have taken VRS from a Government Company and received compensation amount of Rs. 8,00,000. In addition to the exemption of Rs.5,00,000/- available under section 10(10C),will I be entitled to additional relief under section 89 of the Income Tax Act.

Yashwant Singh, Chandigarh

Ans :Yes, in addition to the Rs.5,00,000/-exempt under section 10(10C) you will also be entitled to relief under section 89 of the Income Tax Act,1961.In this case, Form 10E Annexure III is to be filled. The relief will be calculated as follows:

1. Compute the average rate of tax on the total income including the compensation in the year of receipt.
2. Find out the Tax on compensation at average rate of tax computed at (1) above.
3. Compute the average rate of tax by adding one third of the compensation to the other income of each of the preceding three years.
4. Find out average of the three Average rates computed in the manner specified in (3) above & compute tax on compensation at such rate.
5. Difference between tax on compensation computed at (2) and that at (4) will be relief available u/s 89.

Q.3.I left my previous organization after putting in two years of service. I am made to understand that the amount of provident fund (employers as well as employee's share) would be taxable in the year of my leaving the job. Is this correct?

Bhanuprakash, Chandigarh

Ans : The accumulated balance due and becoming payable to an employee participating in a RPF shall be exempt in the following cases-

(i) if the employee has rendered continuous service with his employer for a period of 5 years or more

(ii) If, though he has not rendered such continuous services for 5 years, service has been terminated
   (a) by reason of such employee's ill health
   (b) by the contraction or discontinuous of employer's business.
   (c) or other cause beyond the control of employee or;

(iii) If on cessation of his employment, employee obtain employment with any other employer, to the extent the accumulated balance due & becoming payable to him is transferred to his individual account in any recognized fund maintained by such other employer.

Therefore what you have been made to understand, is correct.