
UNIT 4 EXEMPTED INCOMES

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4.0 OBJECTIVES

After studying this unit, you should be able to:

- explain what exempted income is and give reasons for the same;
- classify exempted incomes;
- prepare the list of exempted incomes under Section 10;
- explain various exempted income in the hands of an individual; and
- explain the provisions regarding incomes of charitable and religious trust and political parties.

4.1 INTRODUCTION

In the earlier units, you have been familiarized with the important concepts that are commonly used in income tax. You have seen the impact of residential status on the scope of total income of the assessee. The nature of income also has an impact on the total income because certain incomes are exempt under the Income Tax Act. The exemption is granted with various objectives in mind. Some incomes are exempted for social reasons, others to attract foreign investment and foreign exchange earnings, still others are granted to encourage talent, bravery etc. Certain incomes are excluded because their inclusion would amount to taxing the same income twice. In this unit, you will study the incomes which are exempted from income tax. You will also learn in detail the exempted incomes of an individual and the provisions regarding the income of charitable and religious trust and political parties.

4.2 MEANING OF EXEMPTED INCOME

Exempted income is that income on which income tax is not chargeable. Such Incomes are classified as under:

- i) Incomes which do not form part of total income nor is income tax payable on them. They are called fully exempted incomes.
- ii) Incomes which are included in the total income but are exempt from income tax at the average rate of income tax applicable to the total income. They are called partially exempted incomes.
- iii) Incomes of certain Institutions or authorities are exempted subject to fulfillment of the required conditions.

4.3 LIST OF EXEMPTED INCOMES (Section 10)

1) Agricultural income [Sec.10 (1)]

Agricultural income from the land situated in India is fully exempted from income tax (Agricultural income definition given under Income Tax Act.)

2) Sum received by a member from Hindu undivided family [Sec.10 (2)]

Any sum received by a member of Hindu undivided family at the time of division is tax free.

3) Share of a partner in firm's income [Sec.10 (2A)]

The share of a partner in firms profit is fully tax free.

4) Profit of newly established industrial undertaking in free trade zone [Sec.10AA].

5) Compensation received by victims of Bhopal gas leak disaster [Sec.10 (10BB)]

Any compensation paid under any Plan of Bhopal Gas Leak Disaster (Processing of claims Act, 1985) is exempted from tax.

6) Sum received from life insurance [Sec.10 (10D)]

Any sum received from life insurance Corporation as the maturity of insurance policy is fully exempt from tax, even bonus received is also fully exempted. But, Keyman Insurance Policy and any sum received under u/s 80DD(3) will not be exempted.

7) Sum received from Public Provident Fund [Sec.10 (11)]

Any sum received from public provident fund (in state bank and head offices) is fully exempted.

8) Payment from Sukanya Samridhi account [Sec.10 (11A)]

Any sum received from Sukanya Samridhi Account rules, 2014 made under Government saving bank Act, 1873 is fully exempt from tax.

9) Payment from National Payment System Trust [Sec.10 (12A)]

Any payment from national payment system trust u/s 80(CCD), if it does not exceed 40% of total amount, payable to assessee at time of closure of the scheme is exempt from tax.

10) Partial withdrawal from National Pension System Trust [Sec.10 (12B)]

Any withdrawal by the assessee from national pension system trust, upto 25% of it is tax free.

11) Interest, premium or bonus on specified investments [Sec.10(15)]

Like Annuity certificates, National Saving Certificates, Post Office Savings, Bank Account, Interest on relief Bonds, Post office cash certificates etc are fully exempt from tax.

12) Scholarships [Sec.10 (16)]

Any fellowship or scholarship granted by Government for education and research work will be exempted.

13) Allowances of M.Ps and MLA's [Sec.10 (17)]

For example daily allowances, constituency allowance, shall be exempt fully.

14) Award or reward [Sec.10 (17A)]

Any award in form of cash or kind granted by Central or State Government for work of literature or scientific shall be exempted. Any award from any other institution apart from Government, shall be exempted from tax provided, such exemption is approved by Central Government.

15) Pension to an individual awarded by 'Vir Chakra' [Sec.10 (18)]

Any amount in form of pension received by an individual or family who had been a central or state Government employee and was awarded 'Param Veer Chakra, Vir Chakra, Mahavir Chakra, shall be exempted.

16) Family pension to family members of armed forces [Sec.10 (19)]

Family pension to widow or children or nominated pension of a member of the armed forces died during operational duty shall be exempted.

17) Annual value of a palace of the Ex-rulers [Sec.10 (19A)]**18) Incomes of scheduled tribes [Sec.10 (26)]**

Any income accrued to scheduled tribes living in tribal areas (as given in VI schedule of constitution) of State of Manipur, Sikkim, Tripura, Mizoram, Nagaland and Arunachal Pradesh shall be exempted.

19) Subsidy received from tea board [Sec.10(30)]

Any subsidy from tea Board, to the assessee, carrying on the business of growing and manufacturing tea in India, received shall be exempt from tax, provided, the certificate of exemption, has been presented to Income Tax officers.

20) Subsidy received by planters [Sec.10(31)]

Any subsidy from Rubber Board office or spice board, to the assessee, under any scheme for replantation of rubber plants or coffee plants etc. shall be exempt.

21) Income of minor child [Sec.10 (32)]

Income upto Rs.1,500/- in respect of minor is exempt from tax and any excess of that amount is included in parent's income whose income is greater.

22) Capital gain on transfer of units of US-64 [Sec.10(33)]

Any capital gain on transfer of units US-64 shall be exempted provided such transfer is done on or after 1/4/2002.

23) Any income received in respect of units of a mutual fund, Units from the administrator of the specified undertaking or units from the specified company [Sec.10 (35)]

This income is exempt with effect from AY 2004-05.

24) Long term capital gain on eligible equity shares [Sec.10(36)]

This exemption is applicable only when shares have been held for at least 12 months and when investment have been made on or after 1/3/2003 and not later on 31st March, 2004.

25) Exemption of capital gains on compensation received on compulsory acquisition of agricultural land situated within specified urban cities [Sec.10 (37)].

Such exemption is available to an individual or Hindu undivided family, on short or long term capital gain, provided such compensation should be received on or after 1/4/2004 and land is used in agriculture preceding 2 years from compulsory acquisition.

27) Exemption of long term capital gain arising from sale of shares and units (With effect from 1-10-2004) [Not applicable W.e.f. AY 2019-20] [Sec.10 (38)].

27) Exemption of specified income from international sporting event held in India (with effect from assessment year 2006-07) [Sec.10 (39)].

28) Exemption in respect of grant etc. received by a subsidiary company from its holding company engaged in business of distribution of power [Sec.10 (40)] (with effect from AY 2006-07).

29) Exemption of capital gain to undertakings engaged in business of generation of power (with effect from assessment year 2006-07) [Sec.10 (41)].

30) Exemption of specified income of certain bodies or authorities (with effect from assessment year 2006-07) [Sec.10 (42)].

31) Exemption of amount received by an individual as loan under reserve mortgage scheme [Sec.10 (43)]

Such exemption is available to senior citizen, who does not make payment of principal amount and interest throughout his life under the scheme.

32) Exemption of sum received by an individual on behalf of new pension scheme trust [Sec.10 (44)].**33) Exemption of a specified income of notified body or authority or trust or board or commission [Sec.10 (46)].****34) Income of infrastructure debt fund [Sec.10 (47)]**

Such exemption can be availed, only if return of income is filed as per section 139.

35) Income of foreign company [Sec.10 (48)]

Such exemption is allowed to a foreign company in India, only if any income is received by sale of crude oil (in Indian currency).

36) Income of foreign company on account of storage of crude oil [Sec.10 (48A)].**37) Income of National Financial Holdings Company Limited [Sec.10 (49)].**

Such company must have been set up by central Government relating to the AY on or before 1st April, 2014.

4.4 CERTAIN EXEMPTED INCOMES IN THE HANDS OF AN INDIVIDUAL

Income of a salaried personnel

The details of these incomes has been given under head 'Income from salaries'

- 1) Leave travel concession [Sec.10(5)]
- 2) Allowances and perquisites received abroad [Sec.10(7)]
- 3) Death-cum retirement gratuity [Sec.10(10)]
- 4) Commuted amount of pension [Sec.10(10A)]
- 5) Encashment of earned leave [Sec.10(10AA)]
- 6) Compensation due to retrenchment [Sec.10(10B)]
- 7) Income tax paid by employer on perquisites [Sec.10(10CC)]
- 8) Any sum received from statutory provident fund [Sec.10(11)]
- 9) Any income received from recognized provident fund [Sec.10(12)]
- 10) Payment from national pension system trust [Sec.10(12A)]
- 11) Tax exempt on partial withdraw from national pension system [Sec.10(12B)]
- 12) Any sum received from approved superannuation fund [Sec.10(13)]
- 13) Transfer of account of employee under pension scheme [Sec.10(13)(v)]

- 14) House rent allowance [Sec.10(13A)]
- 15) Special allowance for official duties [Sec.10(14)]

4.5 EXEMPTED INCOMES OF CERTAIN INSTITUTIONS AND FUNDS

- 1) **Income of a Local Authority.** [Sec.10 (20)]- It includes municipality, Nagar Nigam, village panchayat etc.
- 2) **Income of Scientific Research Association** [Sec.10 (21)] -Such exemption is allowed only when the association is approved by the central Government and it utilizes its income to achieve its objectives.
- 3) **Income of News Agency** [Sec. 10(22B)] -Such news agency must be notified by the central Government and is established in India.
- 4) **Income of certain Professional Institutions** [Sec.10 (23A)]-Exemption is allowed only when such professional institutions of medical, engineering, advocacy etc. are approved by Central Government.
- 5) **Income of regimental fund of the Armed Forces** [Sec.10 (23AA)] - Such income is exempt only if such fund is set up for the welfare of past and present members or their dependents.
- 6) **Income of funds established for the welfare of employees and their dependents** [Sec.10(23AAA)]
- 7) **Income of funds set-up by Life Insurance Corporation of India** [Sec.10 (23AAB)] -Such exemption is allowed only when the receiver of the pension contributes in this fund.
- 8) **Income of Khadi and Village Industries Association** [Sec.10 (23B)] - Such exemption is allowed only when such association is non-profit and is approved by khadi and village industries commissions.
- 9) **Income of an authority known as Khadi and Village Industries Board etc.** [Sec.10 (23BB)]-This exemption is allowed only when such authority is established under state or provincial Act.
- 10) **Income of statutory authority administering public religious activities** [Sec.10 (23BBA)] -Such authorities or trusts like temples, mosques, church, Gurudwara etc. must be established under central or state act.
- 11) **Income of European Economic Community** [Sec.10 (23BBB)] -Such community must have been established under treaty of Rome on 25th March, 1957. Such exemption can be availed only when income is received through interest or dividend.
- 12) **Income of South Asian Association of Republican Countries (SAARC) fund** [Sec.10 (23BBC)](With effect from AY 1992-93) -Any such income is exempt only when such income is used in local projects of SAARC Fund.
- 13) **Income of Insurance Regulatory and Development Authority (IDRA)** [Sec.10 (23BBE)].

- 14) **Income of the Central Electricity Regulatory Commission [Sec.10 (23BBG)].**
- 15) **Income of Prasar Bharti [Sec.10 (23BBH)](with effect from AY 2013-2014).**
- 16) **Income of the certain National Funds [Sec.10(23C)]**-It includes National Foundation for communal harmony, Prime minister's relief fund, Prime minister's Student Aid fund, Income from Swachh Bharat Kosh and Clean Ganga fund, Prime minister's fund for Promotion of Folk Art, etc.
- 17) **Income of notified Mutual Funds [Sec.10(23D)]**-Such mutual funds should be authorized by bank of public sector, public financial institution or India reserve Bank and is registered under SEBI Act, 1992.
- 18) **Income of notified Investor's Protection Fund [Sec.10 (23EA)]** -Such fund should be set up by a recognized stock exchange in India.
- 19) **Income of a Venture Capital Fund or a Venture Capital Company (if investment done in venture capital undertaking) [Sec.10 (23FB)] (with effect from AY 2002-03)** - Such income is exempted only when the venture capital fund is approved by prescribed authority and the fund or company has purchased equity shares. This exemption is not allowed if such shares are not transferred within 3 years of purchase.
- 20) **Income of Registered Trade Unions [Sec.10 (24)]** - Such trade unions shall be registered under Trade Unions Act, 1926.
- 21) **Income of Provident Funds [Sec.10(25)]**- It includes income of deposit linked insurance fund, income of recognized provident fund, approved gratuity fund, approved superannuation fund and interest on securities purchased under statutory provident fund and capital gain on sale of those securities.
- 22) **Income of Employees' State Insurance Fund [Sec.10 (25A)]** -This provision is with effect from 1/4/1962 and was brought under finance Act, 1995.
- 23) **Income of member of Scheduled Tribe of certain specified areas [Sec.10 (26)]**- Such exemption is allowed to the member of scheduled tribe under the Article 366(25) of the constitution.
- 24) **Income of a Corporation or a Body established for Scheduled Caste and Tribes [Sec.10 (26B)]**- This exemption is allowed only when such corporation is set up under central or provincial Act and work for the welfare of above mentioned castes.
- 25) **Income of a Corporation established for promoting the interests of members of a Minority Community [Sec.10 (26BB)]** - Such community must have been notified by Central Government.
- 26) **Income of Corporation established for upliftment of Ex-servicemen [Sec.10(26BBB)]**
- 27) **Income of Cooperative Societies [Sec.10 (27)]** - Such society should have been established for the interests of schedule castes and schedule tribes and their financial arrangements must have been done by the Government.

- 28) Income of Foreign Company in Foreign Currency [Sec. 10(48)]** -Such income should be under an agreement as approved by the central Government.
- 29) Payment from an Approved Superannuation Fund [Sec. 10(13)]** -Such payment is made under a pension scheme as u/s 80CCD or on the death of beneficiary or on retirement etc.
- 30) Income of certain Boards [Sec.10 (29)]** -It includes the spice Board (Spice Board Act, 1986), the coffee board (Coffee Act, 1942), the tobacco Board (Tobacco Board Act, 1975), the rubber Board (Rubber Board Act, 1947) and the tea Board (Tea Board Act, 1953).

4.6 INCOME OF CHARITABLE AND RELIGIOUS TRUSTS AND POLITICAL PARTIES

Sections 11, 12, 13 and 13A deal with the incomes of charitable and religious trusts and the income of political parties. The income of Charitable and religious trust and political parties are exempt under 'Income Tax Act'. Let us now explain in detail the provisions of Sec. 11, 12, 13 and 13A.

4.6.1 Income of Charitable and Religious Trusts

With a view to encouraging public charitable and religious trusts special provisions have been made in the Income Tax Act for granting exemption to the income of such trusts, Sections 11, 12 and 13 of the Act deal mainly with the exemption and assessment of the income of Public Charitable Trusts.

Charitable purposes Sec. 2(15)

Charitable purposes include the following:

- i) Relief to the poor ii) Promotion of Education or literacy - iii) Hospital or Medical facilities to general public at no cost iv) any other activity in the category of charitable purpose.

Religious purposes

Religious purposes mean a trust for the advancement, support, or propagation of a particular religion. But it must be a public religious trust.

Formation of Religious and Charitable Trusts

It is not compulsory that the trust should have a deed but it is better if it has an agreement between trustees or members of the trust. The trust should work for

Charitable or religious purposes then only the income of the 'Public Charitable Trust is entitled for exemption from' tax provided the following conditions are satisfied:

- i) The trust should get itself registered with the Commissioner of income tax within' one year from the establishment of the trust.
- ii) If the total income of the trust exceeds Rs. 25,000 in any previous year, the accounts must be audited by a chartered accountant and the report of such audit should be attached with the return of the income.

- iii) The funds of the trust should be invested or deposited in any one or more of the specified modes mentioned in Sec. 11(5) of the Act.

Tax Exemption for Trusts - (Section 11 and 12)

The following incomes of a trust are exempt from tax:

- 1) Income derived from property held under trust or any other legal obligation for charitable or religious purposes.
- 2) Income derived from voluntary contributions made with a specific direction that they shall form part of the corpus of the trust or institution.

The above said incomes are exempt from tax, provided the following conditions are satisfied:

- a) The property from which the income is derived must be held under trust or other legal obligation. But, the profit and gains of any business carried on by such trusts, institutions, etc. is not exempt from tax unless:
 - i) The business consists of printing and publishing of religious books and other materials.
 - ii) The business carried on by the trust is wholly for charitable purpose.
 - iii) The books of accounts of such business are maintained separately by the trust or institution.
- b) The income from property held under trust will be exempt from tax only when at least 75% of such income is actually applied to the charitable or religious purposes of the trust in India either during the year in which the income is received or in the next year.
- c) However, in case where at least 75% of the income has not been applied for religious or charitable purposes in India during the prescribed period but is accumulated or set apart either wholly or in part, the amount of income so accumulated will be exempt from tax provided the accumulation is not intended for a period of more than 10 years and the trustees have given written notice to Assessment Officer giving details of accumulation: It is also necessary that the Accumulated money has to be deposited in Central/ State Government securities, post office, savings-bank account, any bank, Unit Trust of India, Industrial Development Bank of India or immovable property etc. Otherwise the income of trust will be taxable.

Any voluntary contribution received by a trust created wholly for charitable or religious purposes is exempt if the trust fulfills the above three conditions (a, b, c)

4.6.2 Income of Political Parties - Section 13(A)

Political Party means “an association or body of individual citizens of India registered with the Election Commission of India as a political party and includes a political party deemed to be registered with the Commission.”

Political parties are liable to pay tax on their income and they are assessed as ‘an association of persons’ However, the income derived by these parties as donations and subscriptions is treated as receipt meant for mutual benefits or capital receipts

and hence, not liable to tax. Further, Sec. 13A exempts the following income of a political party:

- a) Income from House Property
- b) Income from other sources
- c) Voluntary contribution from any person.

However, the income shall be exempt subject to the following conditions:

- i) The party keeps and maintains its books of accounts and other documents properly.
- ii) The accounts of the party are audited by a chartered accountant.
- iii) In respect of each contribution in excess of Rs. 20,000, the party keeps and maintains a record of such contributions and the name and addresses of the persons who have made such contributions.

4.7 EXEMPTED INCOME FOR NON-CITIZEN AND/OR NON-RESIDENT ASSESSEE

- 1) **Income of interest on some securities or bonds by a non-resident [Sec.10 (4)] (with effect from 2006-07).**
- 2) **Interest on saving certificates [Sec.10 (4B)]** -This exemption is available to non-resident individuals of Indian origin or Indian citizens who has purchased saving certificates from outside India by foreign currency.
- 3) **Tax paid on remuneration to foreign technicians [Sec.10 (5B)]** -Now it's not exemption with effect from AY 2003-04.
- 4) **Income as an employee of a foreign enterprise[Sec.10(6)(vi)]**-This exemption is allowed if such employee stays in India for more than 90 days during PY and such enterprise has no trade of foreign concern in India.
- 5) **Remuneration during training period [Sec.10 (6) (xi)]** -It should be received by an employee of foreign company from foreign Government.
- 6) **Tax paid on behalf of foreign companies in respect of certain income [Sec.10 (6)]** -Such income should be received between 1/4/1976 and 31/3/2002 and the tax liability should be in form of royalty or technical fee received from Indian Government.
- 7) **Income of foreign companies for providing technical services in enterprises connected security in India [Sec.10(6c)]**
- 8) **Allowances or perquisites outside India [Sec.10 (7)]** - Such allowance or perquisites is given by Government of India to citizen of India.
- 9) **Remuneration received from Foreign Government under Cooperative Technical Assistance Programme [Sec.10 (8)].**
- 10) **Income of an advisor [Sec. 10(8A)]**

This exemption is allowed for the appointment of advisor under agreement between International Organization and Central Government and remuneration is paid to him is out of its technical Assistance grant.

Check Your Progress A

- 1) What do you mean by exempted income?

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- 2) Why are certain incomes exempt?

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- 3) List out any ten exempted incomes.

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4.8 LET US SUM UP

Exempted income is that income on which income tax is not chargeable. There are three types of exempted incomes namely:

- a) Fully exempted incomes
- b) Partially exempted incomes
- c) Income of charitable and religious trusts and Political Parties.

Fully exempted incomes are those incomes which are neither included in total income nor income tax is payable on them. The fully exempted incomes are further classified in the following categories:

- i) Income in the hands of an individual
- ii) Income of certain authorities
- iii) Income of non-citizens
- iv) Income of non-residents
- v) Miscellaneous incomes.

Partially exempted incomes are those incomes which are included in the total income but are exempt from income tax at the average rate of income tax applicable to the total income. These are:

- a) Income of a partner in an unregistered firm
- b) Income of a Member of an Association of persons.

Income of charitable and Religious Trusts and Political Parties are also exempt (under Income Tax Act) provided they fulfill the purpose for which they are established.

4.9 KEY WORDS

Casual Income: Casual income means any receipts which are of casual and non-recurring nature.

Exempted incomes: Incomes which are not included in the total income nor the income tax is payable on them.

Non-Citizen: A person who is not a citizen of India as per Sec 6 of Income tax Act.

Political party: An association or body of individual citizens of India as a political party registered with the Election Commission.

4.10 TERMINAL QUESTIONS/ EXERCISES

- 1) Explain the following briefly:
 - a) Exempted incomes for non-citizen and /or non-resident assessee.
 - b) Provisions of Section 10(18).
- 2) Discuss the provisions of Income Tax Act dealing with the exemption of income of political parties.
- 3) Explain the provisions of Income Tax Act applicable to Charitable or religious trusts?

4) Match the following:

1)	Section 10(1)	A)	House rent allowance
2)	Section 10(13A)	B)	Tax exemption for Trust
3)	Section (11)	C)	Assessment of income of political parties.
4)	Section 13 (A)	D)	Charitable purpose
5)	Section 2(15)	E)	Agricultural income

Answer: 1) (E) 2(A) 3(B) 4) (C) 5(D)

Note: These questions and exercises will help you to understand the unit better. Try to write answers for them, but do not submit your answers to the University. These are for your practice only.



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