### Incomes which do not Form Part of Total Income

#### Key Points

<table>
<thead>
<tr>
<th>Section</th>
<th>Particulars</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>10(1)</strong></td>
<td>Agricultural income is exempt under section 10(1). However, agricultural income has to be aggregated with non-agricultural income for determining the rate at which non-agricultural income would be subject to tax, in case of individuals, HUFs, AOP &amp; BOIs etc., where the –</td>
</tr>
<tr>
<td></td>
<td>• agricultural income exceeds ₹ 5,000 p.a. and</td>
</tr>
<tr>
<td></td>
<td>• non-agricultural income exceeds basic exemption limit.</td>
</tr>
<tr>
<td></td>
<td>The following are the steps to be followed in computation of tax -</td>
</tr>
<tr>
<td></td>
<td><strong>Step 1:</strong> Tax on non-agricultural income plus agricultural income</td>
</tr>
<tr>
<td></td>
<td><strong>Step 2:</strong> Tax on agricultural income plus basic exemption limit</td>
</tr>
<tr>
<td></td>
<td><strong>Step 3:</strong> Tax payable by the assessee = Step 1 – Step 2</td>
</tr>
<tr>
<td></td>
<td><strong>Step 4:</strong> <em>Add Surcharge/Deduct</em> Rebate under section 87A, if applicable.</td>
</tr>
<tr>
<td></td>
<td><strong>Step 5:</strong> <em>Add</em> Education cess@2% and SHEC@1%.</td>
</tr>
<tr>
<td><strong>10(2)</strong></td>
<td>Since the HUF is taxed in respect of its income, the share income is exempt from tax in the hands of the member under section 10(2).</td>
</tr>
<tr>
<td><strong>10(2A)</strong></td>
<td>The partner’s share in the total income of the firm or LLP is exempt from tax.</td>
</tr>
<tr>
<td><strong>10(10BC)</strong></td>
<td>Compensation received by an individual or his legal heir on account of any disaster is exempt, if the same has been granted by the Central Government, State Government or a local authority.</td>
</tr>
<tr>
<td><strong>10(10D)</strong></td>
<td>Any sum received under a life insurance policy, including the sum allocated by way of bonus on such policy is exempt provided that –</td>
</tr>
<tr>
<td></td>
<td>In case of a policy issued between 1.4.2003 and 31.3.2012, the premium paid does not exceed 20% of the actual capital sum assured.</td>
</tr>
<tr>
<td></td>
<td>In case of a policy issued on or after 1.4.2012, the premium paid does not exceed 10% of the actual capital sum assured.</td>
</tr>
<tr>
<td></td>
<td>In case of a policy issued on or after 1.4.2013, the premium paid does not exceed 15% of the actual capital sum assured, if the insurance is on the life of a person with disability referred to in section 80U. In all other cases, the limit would be 10%.</td>
</tr>
<tr>
<td>Section</td>
<td>Description</td>
</tr>
<tr>
<td>----------</td>
<td>-------------</td>
</tr>
<tr>
<td>3.2</td>
<td>Incomes which do not form part of Total Income</td>
</tr>
<tr>
<td>10(11A)</td>
<td>Any payment from Sukanya Samriddhi Account.</td>
</tr>
<tr>
<td>10(18)</td>
<td>Pension received by individual who has been awarded “Param Vir Chakra” or “Maha Vir Chakra” or “Vir Chakra” such other gallantry award as the Central Government notifies is exempt from tax.</td>
</tr>
<tr>
<td>10(23BBH)</td>
<td>Any income of the Prasar Bharati established under section 3(1) of the Prasar Bharati Act, 1990 is exempt from tax.</td>
</tr>
<tr>
<td>10(26AAA)</td>
<td>Income from any source in the state of Sikkim, dividend income and interest on securities is exempt in the hands of a Sikkimese individual. This exemption is not available to a Sikkimese woman who, on or after 1st April, 2008, marries a non-Sikkimese individual.</td>
</tr>
<tr>
<td>10AA</td>
<td>Tax holiday for newly established units in Special Economic Zones (SEZs), which has begun or begins to manufacture or produce articles or things or computer software or provide any service on or after 1.4.2005 in any SEZ for 15 consecutive assessment years in respect of its profits from exports.</td>
</tr>
<tr>
<td>Amount of exemption =</td>
<td>Profits from business of the undertaking being the unit ×</td>
</tr>
<tr>
<td></td>
<td>[ \left( \frac{\text{Export turnover of the undertaking of such articles or things or computer software}}{\text{Total turnover of the business carried on by the undertaking}} \right) ]</td>
</tr>
<tr>
<td>100% of such profits would be exempt in the first five years, 50% in the next five years and in the last five years, 50% subject to transfer to special reserve.</td>
<td></td>
</tr>
<tr>
<td>11 to 13, 2(15) &amp; 115BBC</td>
<td>(i) Income derived from property held under trust wholly for public charitable or public religious purposes is exempt from tax under section 11 subject to fulfillment of the following conditions –</td>
</tr>
<tr>
<td></td>
<td>(1) the trust should be registered with the Commissioner of Income-tax under section 12AA;</td>
</tr>
</tbody>
</table>
3.3 Income-tax

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>(2)</td>
<td>the accounts of the trust should be audited, if the total income, before giving effect to the exemption under sections 11 and 12, exceeds the basic exemption limit;</td>
</tr>
<tr>
<td>(3)</td>
<td>at least 85% of the income is applied for the approved purposes; and</td>
</tr>
<tr>
<td>(4)</td>
<td>the unapplied income and the money accumulated or set apart should be invested or deposited in the specified forms and modes.</td>
</tr>
</tbody>
</table>

(ii) **Charitable purpose [Section 2(15)]**

The definition of “charitable purpose” under section 2(15) includes relief of the poor, education, Yoga, medical relief, preservation of environment (including watersheds, forests and wildlife) and preservation of monuments or places or objects of artistic or historic interest, and the advancement of any other object of general public utility.

“Advancement of any other object of general public utility” shall, however, not be a charitable purpose, if it involves the carrying on of any activity in the nature of trade, commerce or business or any activity of rendering any service in relation to any trade, commerce or business, for a cess or fee or any other consideration, irrespective of the nature of use or application or retention, of the income from such activity.

However, “advancement of any other object of general public utility” would continue to be a “charitable purpose”, if the aggregate receipts from any activity in the nature of trade, commerce or business, or any activity of rendering any service in relation to any trade, commerce or business does not exceed 20% of the total receipts of the trust or institution undertaking such activity or activities for the previous year.

(iii) **Anonymous donations [Section 115BBC]**

Anonymous donations received by charitable trusts/institutions would be subject to tax at 30% of the amount in excess of, 5% of the total donations received or Rs.1 lakh, whichever is higher, as per section 115BBC. The exemption provisions under section 11 and 12 would not apply to such anonymous donations.

Section 115BBC does not, however, apply to a trust or institution created or established wholly for religious purposes. Further, anonymous donations received by partly charitable
Incomes which do not form part of Total Income  

and partly religious trusts would be taxable under section 115BBC only if the same is made with a specific direction that such donation is for any university or other educational institution or any hospital or other medical institution run by such trust or institution.

| 13A | Any income from house property, income from other sources, capital gains and income by way of voluntary contributions received by the political parties from any person is exempt under section 13A, subject to satisfaction of the following conditions -
|     | (i) maintenance of such books and other documents as would enable the Assessing Officer to properly deduce the income of the political party;
|     | (ii) maintenance of record in respect of each such voluntary contribution in excess of ₹ 20,000;
|     | (iii) audit of accounts by a chartered accountant; and
|     | (iv) submission of a report under section 29C(3) of the Representation of People Act, 1951 for every financial year.

Question 1
State whether the following are chargeable to tax and the amount liable to tax:

(i) Arvind received ₹ 20,000 as his share from the income of the HUF.

(ii) Mr. Xavier, a ‘Param Vir Chakra’ awardee, who was formerly in the service of the Central Government, received a pension of ₹ 2,20,000 during the financial year 2016-17.

(iii) A political party registered under section 29A of the Representation of the People Act, 1951 earned rental income of ₹ 6,00,000 by letting out premises.

(iv) Agricultural income to a resident of India from a land situated in Malaysia.

(v) Allowance received by an employee working in a transport system at ₹ 10,000 per month to meet his personal expenditure while on duty. He is not receiving any daily allowance.

(vi) Amount withdrawn from Public Provident Fund as per relevant rules.

(vii) Rent of ₹ 72,000 received for letting out agricultural land for a movie shooting.

Answer

<table>
<thead>
<tr>
<th>S.No.</th>
<th>Taxable/Not Taxable</th>
<th>Amount liable to tax (₹)</th>
<th>Reason</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i)</td>
<td>Not Taxable</td>
<td>-</td>
<td>Share received by member out of the income of the HUF is exempt under section 10(2).</td>
</tr>
</tbody>
</table>
### 3.5 Income-tax

<table>
<thead>
<tr>
<th></th>
<th>Status</th>
<th>Amount</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>(ii)</td>
<td>Not Taxable</td>
<td></td>
<td>Pension received by Mr. Xavier, a former Central Government employee who is a ‘Param Vir Chakra’ awardee, is exempt under section 10(18).</td>
</tr>
<tr>
<td>(iii)</td>
<td>Not Taxable</td>
<td></td>
<td>Any income of a political party registered under section 29A of the Representation of the People Act, 1951 which is chargeable, <em>inter alia</em>, under the head “Income from house property” is exempt under section 13A provided the political party maintains such books of account as would enable the Assessing Officer to properly deduce its income therefrom and the accounts are audited by a chartered accountant.</td>
</tr>
<tr>
<td>(iv)</td>
<td>Taxable</td>
<td></td>
<td>Agricultural income from a land in any foreign country is taxable in the case of a resident taxpayer as income under the head “Income from other sources”. Exemption under section 10(1) is not available in respect of such income.</td>
</tr>
<tr>
<td>(v)</td>
<td>Partly taxable</td>
<td>36,000</td>
<td>Under section 10(14), any allowance granted to an employee working in a transport system to meet his personal expenditure during his duty is exempt, provided he is not in receipt of daily allowance. The exemption is 70% of such allowance (i.e., ₹ 7,000 per month, being 70% of ₹ 10,000) or ₹ 10,000 per month, whichever is less. Hence, ₹ 84,000 (i.e., ₹ 7,000 × 12) is allowable as deduction under section 10(14). Balance ₹ 36,000 (₹ 1,20,000 - ₹ 84,000) shall be taxable.</td>
</tr>
<tr>
<td>(vi)</td>
<td>Not taxable</td>
<td></td>
<td>Any amount withdrawn from public provident fund as per relevant rules is not exigible to tax. Such exemption is provided in section 10(11).</td>
</tr>
<tr>
<td>(vii)</td>
<td>Taxable</td>
<td>72,000</td>
<td>Agricultural income is exempt from tax as per section 10(1). Agricultural income means, <em>inter alia</em>, any rent or revenue derived from land which is situated in India and is used for agricultural purposes. In the present case, rent is being derived from letting out of agricultural land for a movie shoot, which is not an agricultural purpose. In effect, the land is not being put to use for agricultural purposes. Therefore, ₹ 72,000, being rent received from letting out of agricultural land for movie shooting, is not exempt under section 10(1). The same is chargeable to tax under the head “Income from other sources”.</td>
</tr>
</tbody>
</table>
Question 2

Discuss the taxability of agricultural income under the Income-tax Act, 1961. How will income be computed where an individual derives agricultural and non-agricultural income?

Answer

Agricultural income is exempt from tax as per section 10(1). However, aggregation of agricultural and non-agricultural income is to be done to determine the rate at which the non-agricultural income shall be chargeable to tax. In case the agricultural income is not more than ₹ 5,000 or the tax-payer has non-agricultural income less than the basic exemption limit, then no such aggregation needs to be done. Further, such aggregation has to be done only if the tax-payer is an individual, HUF, AOP, BOI or an artificial judicial person, since the Finance Act prescribes slab rates of income-tax for these assesses. In the case of other assesses such as partnership firms, companies etc, whose income is chargeable to tax at a flat rate, aggregation of agricultural income would have no effect.

Since the second part of the question requires the manner of computation of income where an individual derives agricultural and non-agricultural income, the same can be answered on the basis of Rules 7A, 7B and 8 of the Income-tax Rules, 1962 dealing with composite income.

<table>
<thead>
<tr>
<th>Rule</th>
<th>Particulars</th>
<th>Business Income</th>
<th>Agricultural Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rule 7A</td>
<td>Income from manufacture of rubber in India</td>
<td>35%</td>
<td>65%</td>
</tr>
<tr>
<td>Rule 7B</td>
<td>Income from manufacture of coffee</td>
<td>25%</td>
<td>75%</td>
</tr>
<tr>
<td></td>
<td>- grown and cured by the seller in India</td>
<td>40%</td>
<td>60%</td>
</tr>
<tr>
<td></td>
<td>- grown, cured, roasted and grounded by the seller in India</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rule 8</td>
<td>Income from manufacture of tea in India</td>
<td>40%</td>
<td>60%</td>
</tr>
</tbody>
</table>

Thereafter, income-tax shall be computed by aggregating the agricultural income and the non-agricultural income in the manner described below:

1. Aggregate the agricultural income with non-agricultural income and determine tax payable on such amount.

2. Aggregate the agricultural income with the basic exemption limit of the assessee i.e., ₹ 2,50,000 / ₹ 3,00,000 / ₹ 5,00,000, as the case may be, and determine tax on such amount.

3. Compute the difference between the tax computed in Step (1) and Step (2), which shall be the tax payable in respect of non-agricultural income.

4. The tax payable so computed in step (3) shall be increased by surcharge @15%, if the total income exceeds ₹ 1 crore or reduced by rebate under section 87A, if the total income does not exceed ₹ 5 lakh. Thereafter, education cess of 2% and secondary and higher education cess of 1% has to be added to compute the total tax liability.
3.7 Income-tax

Question 3

Whether the income derived from saplings or seedlings grown in a nursery is taxable under the Income-tax Act, 1961?

Answer

As per Explanation 3 to section 2(1A) of the Act, income derived from saplings or seedlings grown in a nursery shall be deemed to be agricultural income and exempt from tax, whether or not the basic operations were carried out on land.

Question 4

State with reasons in brief whether the following statements are true or false with reference to the provisions of the Income-tax Act, 1961:

(i) Exemption is available to a Sikkimese individual, only in respect of income from any source in the State of Sikkim.

(ii) Where it is noticed that the income of the charitable trust is applied for the benefit of the author of the trust, the Principal Commissioner of Income-tax can cancel the registration by passing an order in writing.

(iii) In respect of voluntary contributions in excess of ₹ 20,000 received by a political party, exemption under section 13A is available where proper details about the donations are maintained; there is no need to maintain books of account.

(iv) Pension received by a recipient of gallantry award is exempt from income-tax.

(v) Mr. A, a member of a HUF, received ₹ 10,000 as his share from the income of the HUF. The same is to be included in his chargeable income.

(vi) Mr. Roy received a sum of ₹ 20 lakh on 31.3.2017 from Life Insurance Corporation of India in respect of a policy, where the sum assured was ₹ 15 lakh, taken on 1.10.2003 and for which a one time premium of ₹ 10 lakh was paid. Mr. Roy claims that the amount is totally exempt under section 10(10D)(c) of the Income-tax Act, 1961.

(vii) Voluntary contributions received by charitable trusts, universities and educational institutions are not taxable as the definition of income in section 2(24) does not cover the same.

(viii) Compensation on account of disaster received from a local authority by an individual or his/her legal heir is taxable.

(ix) Mr. P, a shareholder of a closely held company, holding 16% shares, received advances from that company which is to be deemed as dividend from an Indian Company, hence exempted under section 10(34) of the Income-tax Act, 1961.

(x) Payment of ₹ 10 lakh from an approved superannuation fund made by XYZ Ltd. by way of transfer to the account of Mr. Satish, an employee, under Atal Pension Yojana is taxable in the hands of Mr. Satish.
Answer

(i) **False**: Exemption under section 10(26AAA) is available to a Sikkimese individual not only in respect of the said income, but also in respect of income by way of dividend or interest on securities.

(ii) **True**: As per section 12AA(4), the Commissioner or the Principal Commissioner has power to cancel the registration of the trust, by passing a written order, where it is noticed that, inter alia, the income of the trust is applied for the benefit of specified persons, including the author of the trust. However, the registration shall not be cancelled if the trust proves that there was reasonable cause for application of income in such manner.

(iii) **False**: The obligation under section 13A to maintain proper details of voluntary contributions in excess of ₹ 20,000 is over and above the obligation to maintain such books of account and other documents as would enable the Assessing Officer to properly deduce its income therefrom.

(iv) **True**: Section 10(18) exempts any income by way of pension received by individual who has been awarded “Param Vir Chakra” or “Maha Vir Chakra” or “Vir Chakra” or such other gallantry award as the Central Government, may, by notification in the Official Gazette, specify in this behalf.

(v) **False**: Section 10(2) exempts any sum received by an individual as a member of a HUF where such sum has been paid out of the income of the family. Therefore, ₹ 10,000 should not be included in Mr. A’s chargeable income.

(vi) **False**: As per section 10(10D)(c), any sum received under an insurance policy issued on or after 1.4.2003 but before 31.03.2012, in respect of which the premium payable for any year during the term of the policy exceeds 20% of actual capital sum assured, shall not be exempt from tax. Hence, the contention of Mr. Roy is not correct since the one-time premium of ₹ 10 lakh paid by him is in excess of 20% of the sum assured [i.e. it exceeds ₹ 3 lakh, being 20% of ₹ 15 lakh]. Further, tax is deductible @1% under section 194DA on such sum paid to Roy, since the same is not exempt under section 10(10D).

(vii) **False**: Section 2(24) defining the term ‘income’ includes voluntary contributions received by any trust, university or educational institution. Hence, the statement is not correct.

(viii) **False**: As per section 10(10BC), any amount received or receivable as compensation by an individual or his/her legal heir on account of any disaster from the Central Government, State Government or a local authority is exempt from tax. However, the exemption is not available to the extent such individual or legal heir has already been allowed a deduction under this Act on account of such loss or damage caused by such disaster.

(ix) **False**: As per section 10(34), only income by way of dividend referred to in section 115-O shall be exempt in the hands of shareholders. Corporate dividend tax under section 115-O is not leviable on deemed dividend under section 2(22)(e) and hence, such deemed dividend is not exempt under section 10(34).
(x) **False:** Any payment from an approved superannuation fund made by way of transfer to the account of an employee under a notified pension scheme referred to in section 80CCD is exempt under section 10(13). Since Atal Pension Yojana is a notified pension scheme under section 80CCD, the payment of Rs.10 lakhs made by XYZ Ltd. by way of transfer from an approved superannuation fund to Mr. Satish’s account under such scheme is exempt under section 10(13).

**Question 5**

*Explain the provisions regarding exemption of compensation received on account of disaster under section 10(10BC) of the Income-tax Act, 1961.*

**Answer**

**Exemption of compensation received on account of disaster under section 10(10BC)**

(i) Section 10(10BC) exempts any amount received or receivable as compensation by an individual or his / her legal heir on account of any disaster.

(ii) Such compensation should be granted by the Central or State Government or by a local authority.

(iii) Exemption would not be available in respect of the compensation for alleviating any damage or loss, which has already been allowed as deduction under the Act.

(iv) “Disaster” means a catastrophe, mishap, calamity or grave occurrence in any area, arising from natural or man made causes, or by accident or negligence.

(v) It should have the effect of causing substantial loss of life or human suffering, or damage to, and destruction of, property, or damage to, or degradation of, environment.

(vi) It should be of such a nature or magnitude, which is beyond the coping capacity of the community of the affected area.

**Question 6**

*Nathan Aviation Ltd. is running two industrial undertakings one in a SEZ (Unit S) and another in a normal area (Unit N). The brief summarized details for the year ended 31.3.2017 are as follows:*

<table>
<thead>
<tr>
<th>Particulars</th>
<th>₹ (in lacs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic turnover</td>
<td>S 10</td>
</tr>
<tr>
<td>Export turnover</td>
<td>120</td>
</tr>
<tr>
<td>Gross profit</td>
<td>20</td>
</tr>
<tr>
<td>Less: Expenses and depreciation</td>
<td>7</td>
</tr>
<tr>
<td>Profits derived from the unit</td>
<td>13</td>
</tr>
</tbody>
</table>
The brought forward business loss pertaining to Unit N is ₹ 2 lacs. Briefly compute the business income of the assessee.

Assume F.Y. 2016-17 falls within the first 5 year period commencing from the year of manufacture or production of articles or things or provisions of services by the Unit S.

Answer

**Computation of business income of Nathan Aviation Ltd.**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>₹ (in lacs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total profit derived from Units S &amp; N (₹ 13 lacs + ₹ 4 lacs)</td>
<td>17</td>
</tr>
<tr>
<td>Less: Exemption under section 10AA [See Working Note below]</td>
<td>12</td>
</tr>
<tr>
<td>Less: Brought forward business loss</td>
<td>5</td>
</tr>
</tbody>
</table>

**Working Note**

**Computation of exemption under section 10AA in respect of Unit S located in a SEZ**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>₹ (in lacs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic turnover of Unit S</td>
<td>10</td>
</tr>
<tr>
<td>Export turnover of Unit S</td>
<td>120</td>
</tr>
<tr>
<td>Total turnover of Unit S</td>
<td>130</td>
</tr>
<tr>
<td>Profit derived from Unit S</td>
<td>13</td>
</tr>
<tr>
<td>Exemption under section 10AA</td>
<td>12</td>
</tr>
</tbody>
</table>

\[ \text{Profit of Unit S} \times \frac{\text{Export turnover of unit S}}{\text{Total turnover of Unit S}} = 13 \times \frac{120}{130} = 12 \]

**Question 7**

Y Ltd. furnishes you the following information for the year ended 31.3. 2017:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>₹ (in lacs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total turnover of Unit A located in Special Economic Zone</td>
<td>100</td>
</tr>
<tr>
<td>Profit of the business of Unit A</td>
<td>30</td>
</tr>
<tr>
<td>Export turnover of Unit A</td>
<td>50</td>
</tr>
<tr>
<td>Total turnover of Unit B located in Domestic Tariff Area (DTA)</td>
<td>200</td>
</tr>
<tr>
<td>Profit of the business of Unit B</td>
<td>20</td>
</tr>
</tbody>
</table>

Compute deduction under section 10AA for the A.Y. 2017-18.
3.11 Income-tax

Answer

100% of the profit derived from export of articles or things or services is eligible for deduction under section 10AA, assuming that F.Y.2016-17 falls within the first five year period commencing from the year of manufacture or production of articles or things or provision of services by the Unit in SEZ. As per section 10AA(7), the profit derived from export of articles or things or services shall be the amount which bears to the profits of the business of the undertaking, being the Unit, the same proportion as the export turnover in respect of articles or things or services bears to the total turnover of the business carried on by the undertaking.

Deduction under section 10AA

\[
= \text{Profit of the business of Unit A} \times \frac{\text{Export Turnover of Unit A}}{\text{Total Turnover of Unit A}}
\]

\[
= \text{Rs. 30 lakhs} \times \frac{50}{100}
\]

\[
= \text{Rs. 15 lakhs}
\]

Question 8

MNO Ltd. has one undertaking at Special Economic Zone (SEZ) and another at Domestic Tariff Area (DTA). Following are the details given to you for the financial year 2016-17:

<table>
<thead>
<tr>
<th>₹ in lakhs</th>
<th>Unit in SEZ</th>
<th>Unit in Domestic Tariff Area (DTA)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Sales</td>
<td>200</td>
<td>100</td>
</tr>
<tr>
<td>Export Sales</td>
<td>150</td>
<td>80</td>
</tr>
<tr>
<td>Net Profit</td>
<td>40</td>
<td>10</td>
</tr>
</tbody>
</table>

Compute the quantum of eligible deduction under section 10AA for the A.Y.2017-18 in the following situations:

(i) Both the units were set up and began manufacturing from 25-07-2009.

(ii) Both the units were set up and began manufacturing from 10-04-2013

Answer

As per section 10AA, in computing the total income of MNO Ltd. from its unit located in a Special Economic Zone (SEZ), which begins to manufacture or produce any article or thing on or after 1.04.2005, there shall be allowed a deduction of 100% of the profit derived from export of such article or thing for the first five year period commencing from the year of manufacture or production of articles or things by the Unit in SEZ and 50% of such profits for further five years subject to fulfillment of other conditions specified in section 10AA.

(i) If Unit in SEZ were set up and began manufacturing from 25-07-2009:

Since it is the 8th year of operation of the eligible unit, it shall be eligible for deduction
Incomes which do not form part of Total Income  3.12

upto 50% of the profit of such unit assuming all the other conditions specified in section 10AA are fulfilled.

\[ \text{Profits of Unit in SEZ} \times \frac{\text{Export turnover of Unit in SEZ}}{\text{Total turnover of Unit in SEZ}} \times 50\% \]

\[ = 40 \text{ lakhs} \times \frac{150 \text{ lakhs}}{200 \text{ lakhs}} \times 50\% = 15 \text{ lakhs} \]

(ii) If Unit in SEZ were set up and began manufacturing from 10.04.2013:

Since it is 4th year of operation of the eligible unit, it shall be eligible for deduction upto 100% of profit of such unit.

\[ \text{Profits of Unit in SEZ} \times \frac{\text{Export turnover of Unit in SEZ}}{\text{Total turnover of Unit in SEZ}} \times 100\% \]

\[ = 40 \text{ lakhs} \times \frac{150 \text{ lakhs}}{200 \text{ lakhs}} \times 100\% = 30 \text{ lakhs} \]

Question 9

Rudra Ltd. has one unit at Special Economic Zone (SEZ) and other unit at Domestic Tariff Area (DTA). The company provides the following details for the previous year 2016-17.

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Rudra Ltd. (₹)</th>
<th>Unit in DTA (₹)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Sales</td>
<td>6,00,00,000</td>
<td>2,00,00,000</td>
</tr>
<tr>
<td>Export Sales</td>
<td>4,60,00,000</td>
<td>1,60,00,000</td>
</tr>
<tr>
<td>Net Profit</td>
<td>80,00,000</td>
<td>20,00,000</td>
</tr>
</tbody>
</table>

Calculate the eligible deduction under section 10AA of the Income-tax Act, 1961, for the Assessment Year 2017-18, in the following situations:

(i) If both the units were set up and start manufacturing from 22-05-2010.

(ii) If both the units were set up and start manufacturing from 14-05-2014.

Answer

Computation of deduction under section 10AA of the Income-tax Act, 1961

As per section 10AA, in computing the total income of Rudra Ltd. from its unit located in a Special Economic Zone (SEZ), which begins to manufacture or produce articles or things or provide any services during the previous year relevant to the assessment year commencing on or after 01.04.2006 but before 1st April 2021, there shall be allowed a deduction of 100% of the profit and gains derived from export of such articles or things or from services for a period of five consecutive assessment years beginning with the assessment year relevant to the previous year in which the Unit begins to manufacture or produce such articles or
things or provide services, as the case may be, and 50% of such profits for further five assessment years subject to fulfillment of other conditions specified in section 10AA.

Computation of eligible deduction under section 10AA [See Working Note below]:

(i) If Unit in SEZ was set up and began manufacturing from 22-05-2010:
Since A.Y. 2017-18 is the 7th assessment year from A.Y. 2011-12, relevant to the previous year 2010-11, in which the SEZ unit began manufacturing of articles or things, it shall be eligible for deduction of 50% of the profits derived from export of such articles or things, assuming all the other conditions specified in section 10AA are fulfilled.

\[
\text{Computation} = \text{Profits of Unit in SEZ} \times \frac{\text{Export turnover of Unit in SEZ}}{\text{Total turnover of Unit in SEZ}} \times 50%
\]

\[
= 60 \text{ lakhs} \times \frac{300 \text{ lakhs}}{400 \text{ lakhs}} \times 50% = ₹ 22.50 \text{ lakhs}
\]

(ii) If Unit in SEZ was set up and began manufacturing from 14-05-2014:
Since A.Y. 2017-18 is the 3rd assessment year from A.Y. 2015-16, relevant to the previous year 2014-15, in which the SEZ unit began manufacturing of articles or things, it shall be eligible for deduction of 100% of the profits derived from export of such articles or things, assuming all the other conditions specified in section 10AA are fulfilled.

\[
\text{Computation} = \text{Profits of Unit in SEZ} \times \frac{\text{Export turnover of Unit in SEZ}}{\text{Total turnover of Unit in SEZ}} \times 100%
\]

\[
= 60 \text{ lakhs} \times \frac{300 \text{ lakhs}}{400 \text{ lakhs}} \times 100% = ₹ 45 \text{ lakhs}
\]

The unit set up in Domestic Tariff Area is not eligible for the benefit of deduction under section 10AA in respect of its export profits, in both the situations.

Working Note:

Computation of total sales, export sales and net profit of unit in SEZ

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Rudra Ltd. (₹)</th>
<th>Unit in DTA (₹)</th>
<th>Unit in SEZ (₹)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Sales</td>
<td>6,00,00,000</td>
<td>2,00,00,000</td>
<td>4,00,00,000</td>
</tr>
<tr>
<td>Export Sales</td>
<td>4,60,00,000</td>
<td>1,60,00,000</td>
<td>3,00,00,000</td>
</tr>
<tr>
<td>Net Profit</td>
<td>80,00,000</td>
<td>20,00,000</td>
<td>60,00,000</td>
</tr>
</tbody>
</table>

Question 10

Mr. Suresh has set up an undertaking in SEZ (Unit A) and another undertaking in DTA (Unit B) in the financial year 2011-12. In the previous year 2016-17, total turnover of the Unit A is ₹ 180 lacs and total turnover of Unit B is ₹ 120 lacs. Export turnover of Unit A for the year is ₹ 150 lacs and the profit for the Unit A is ₹ 60 lacs.
Calculate the deduction available, if any, to Mr. Suresh under section 10AA of the Income-tax Act, 1961, for the Assessment year 2017-18, if Unit A had started manufacturing in the financial year 2011-12.

Answer

Computation of deduction available under section 10AA to Mr. Suresh for A.Y.2017-18

As per section 10AA, in computing the total income of an assessee from its unit located in a Special Economic Zone (SEZ), which begins to manufacture or produce articles or things or provide any services during the previous year relevant to the assessment year commencing on or after 01.04.2006, there shall be allowed a deduction of 100% of the profit and gains derived from export of such articles or things or from services for a period of five consecutive assessment years beginning with the assessment year relevant to the previous year in which the Unit begins to manufacture or produce such articles or things or provide services, as the case may be, and 50% of such profits for further five assessment years subject to fulfillment of other conditions specified in section 10AA.

Mr. Suresh has set up an undertaking in SEZ (Unit A) and started manufacturing in the financial year 2011-12. For A.Y. 2017-18, being the 6th year of operation, he will be eligible for deduction of 50% of the profit of such unit, assuming all the other conditions specified in section 10AA are fulfilled.

\[
= \text{Profits of Unit in SEZ} \times \frac{\text{Export turnover of Unit in SEZ}}{\text{Total turnover of Unit in SEZ}} \times 50%
\]

\[
= 60 \text{ lacs} \times \frac{150 \text{ lacs}}{180 \text{ lacs}} \times 50%
\]

\[
= \text{₹} \ 25 \text{ lacs}
\]

Mr. Suresh is not eligible for deduction under section 10AA in respect of Unit B set up in DTA.

Question 11

Explain the meaning of expression "advancement of any other object of general public utility" in the context of "Charitable Purpose" defined under section 2(15) of the Act. Discuss its tax implication as well.

Answer

The expression “advancement of any other object of general public utility” includes any object which will be beneficial even to a segment of society and not necessarily to the whole mankind. However, the object should not be for the benefit of specified individuals.

The proviso to section 2(15) of the Act provides that “advancement of any other object of general public utility” shall not be a charitable purpose, if it involves carrying on of -

(i) any activity in the nature of trade, commerce or business, or
(ii) any activity of rendering of any service in relation to any trade, commerce or business, for a cess or fee or any other consideration, irrespective of the nature of use or application of the income from such activity or the retention of such income, by the concerned entity. However, “advancement of any other object of general public utility” would continue to be a “charitable purpose”, if such activity is undertaken in the course of actual carrying out of such advancement of any other object of general public utility and the aggregate receipts from any activity in the nature of trade, commerce or business, or any activity of rendering any service in relation to any trade, commerce or business does not exceed 20% of the total receipts of the trust or institution undertaking such activity or activities of that previous year.

Question 12
Can a political party claim exemption of its income under section 13A of the Income-tax Act, 1961?

Answer

Under section 13A, a political party registered under section 29A of the Representation of the People Act, 1951, can claim exemption under the following heads - Income from house property, capital gains and income from other sources. Income by way of voluntary contributions received by such political party is also exempt under section 13A. These exemptions are subject to the following conditions:

(i) The political party must keep and maintain such books of account and other documents as would enable the Assessing Officer to properly deduce its income therefrom.

(ii) The political party should keep and maintain a record of each such voluntary contribution in excess of ₹ 20,000 and the names and addresses of such contributors, the date of receipt and such other details as may be relevant or appropriate.

(iii) The accounts of the political party must be audited by a chartered accountant.

(iv) A report under section 29C(3) of the Representation of People Act, 1951 has to be submitted by the treasurer of such political party or any other person authorised by the political party in this behalf for every financial year.

Exercise

1. The maximum ceiling limit for exemption under section 10(10) in respect of gratuity for employees covered by the Payment of Gratuity Act, 1972 is -
   (a) ₹ 3,50,000
   (b) ₹ 10,00,000
   (c) ₹ 5,00,000

2. The maximum ceiling limit for exemption under section 10(10C) with respect to compensation received on voluntary retirement is -
   (a) ₹ 3,00,000
Incomes which do not form part of Total Income

3. The HRA paid to an employee residing in Patna is exempt up to the lower of actual HRA, excess of rent paid over 10% of salary and -
   (a) 40% of salary
   (b) 50% of salary
   (c) 60% of salary

4. Anirudh stays in New Delhi. His basic salary is ₹ 10,000 p.m., D.A. (60% of which forms part of pay) is ₹ 6,000 p.m., HRA is ₹ 5,000 p.m. and he is entitled to a commission of 1% on the turnover achieved by him. Anirudh pays a rent of ₹ 5,500 p.m. The turnover achieved by him during the current year is 12 lakhs. The amount of HRA exempt under section 10(13A) is –
   (a) ₹ 48,480
   (b) ₹ 45,600
   (c) ₹ 49,680

5. In case of a trade union registered under the Trade Unions Act, 1926 formed for regulating relations between workmen and employers or between workmen and workmen, the following incomes are exempt from tax -
   (a) Capital gains and Income from other sources.
   (b) Income from house property and capital gains.
   (c) Income from house property and income from other sources.

6. Voluntary contributions received by electoral trusts during the P.Y. 2016-17 is -
   (a) Fully taxable
   (b) Fully exempt from tax
   (c) Exempt only if the trust distributes to a registered political party during the year, 95% of the aggregate donations received by it

7. The income derived from property held under trust wholly for charitable or religious purpose is exempt from tax under section 11 subject to fulfillment of certain conditions. One of the conditions is that -
   (a) At least 75% of the income is required to be applied for the approved purposes.
   (b) At least 85% of the income is required to be applied for the approved purposes.
   (c) The entire income is required to be applied for the approved purposes.

8. Income by way of voluntary contributions of political parties is exempt provided -
   (a) the political party keeps and maintains a record of each such voluntary contribution in excess of ₹ 10,000 and of the name and address of the person who made such contribution;
   (b) the political party keeps and maintains a record of each such voluntary contribution in
3.17 Income-tax

9. (a) Discuss the exemption available under the Income-tax Act in respect of specified income arising from any international sporting event in India.

(b) What are the exemptions available under section 10 in respect of companies engaged in the business of generation or transmission or distribution of power and subsidiaries of such companies? What are the conditions to be fulfilled to avail such exemptions?

10. When can a charitable trust avail benefits under section 11 & 12 of the Income-tax Act, 1961?

11. Write short notes on:
   (i) Exemption for retrenchment compensation under section 10(10B).
   (ii) Exceptions under section 10(10D) as regards exemption of any sum received under a life insurance policy.
   (iii) ‘Encashment of Earned Leave’ and its taxability under the Act.

12. State the provisions relating to the exemption in respect of long-term capital gains on transfer of listed equity shares.

13. What are the conditions to be fulfilled by a Charitable Trust under section 12A for applicability of exemption provisions contained in sections 11 and 12?

14. Briefly explain the exemption available under section 10(48) of the Income-tax Act, 1961 in respect of income received by certain foreign companies from sale of crude oil.

Answers
1. b; 2. c; 3. a; 4. a; 5. c; 6. c; 7. b; 8. b