

**GOVERNMENT COLLEGE FOR GIRLS**

LUDHIANA

INCOME-TAX LAW AND ACCOUNTS

P.Y. 2022-23

A.Y. 2023-24

**EXEMPTED INCOME (Chapter 5)****(U/S 10, 10A, 10B, 11 AND 13A)****(INCOMES WHICH DO NOT FORM PART OF TOTAL INCOME)**

Income, on which **no tax has not been levied** under Income-tax Act, is known as exempted income. The onus to prove that a particular income is not taxable is on the assessee.

In other words, it is the duty of the assessee to prove that an item of receipt falls within the exempted category. Exempted income shall not be considered for computation of Total Income or rate of tax.

**The following are the incomes exempted u/s 10 of Income-tax Act :-**

1. **(V)Agricultural Income u/s 10(1) :** Agriculture income is fully exempted in the hands of assessee provided it is generated from agricultural operations and falls under the definition of agriculture income u/s 2(1A). In other words, agriculture income from India is fully exempted but agricultural income from outside India is fully taxable. However, such income is to be clubbed in the income of non-agriculture income for the purpose of calculating tax if agricultural income exceeds Rs 5000 p.a. and non-agricultural income exceeds basic exemption limit.

2. **(V)Sum of money received by a member of HUF u/s 10(2) :** Any sum of money received by an individual as a member of HUF out of family income or from income of any impartible estate (estate belonging to the family), is fully exempted from tax in the hands of such individual except in case of converted property u/s 64(2). The exemption is based upon the principle of avoidance of double taxation. Income of Hindu undivided family is taxable in its own hand.

**Converted Property u/s 64(2) :** If an individual as a member of HUF transfers his self acquired property in the common stock of HUF without any or adequate consideration then the income derives by HUF from such property, will be taxable in the hands of individual and not in the hands of HUF i.e. such income will be **deemed to be the income of transferor** and not of the transferee.

**E.g.** X, an individual, has personal income of Rs 7,02,000 for the previous year 2020-21. He is also a member of a HUF which has an income of Rs 4,08,000 for the previous year 2020-21. Out of income of the family, X gets Rs 2,10,000 being his share of income. Rs 2,10,000 will be exempt in the hands of X u/s 10(2). The position will be remain the same whether (or not) the Family is chargeable to tax. X shall pay tax only on his income of Rs 7,02,000.

3. **Share of profit of a partner from a firm or LLP u/s 10(2A) :** The share of income received by a partner out of total income of the firm or LLP, will be fully exempted from tax in the hands of such partner.

4. **Interest on Securities or Bonds held by Non-resident u/s 10(4) :** If any non-resident assessee derives income by way of interest on such securities or bonds as notified by Central Govt. or by premium on redemption of such bonds, then such income will be fully exempted from income-tax in

the hands of the non-resident. No bonds, certificates etc., are specified/ issued by the Central Government for the purpose of this section **on or after 1.6.2002**.

5. **Interest on Saving Certificates u/s 10(4B) :**

- (i) An individual, being a citizen of India or a person of Indian origin, who is non-resident shall be entitled for exemption in respect of interest on such saving certificates issued before 1.6.2002 by the Central Govt. and notified by it in the official Gazette in this behalf.
- (ii) However, to claim such exemption, the individual should have subscribed to such certificates in convertible foreign exchange remitted from a country outside India in accordance with the provisions of the FEMA, 1999.

6. **Travel Concession or assistance received by an Indian citizen employee from his employer u/s 10(5) :**

The benefit of this exemption is made available to individual employee only. If employer provides LTC to employees with their family members in any place in India, then LTC will be exempted maximum two journey out of four calendar year block commencing from the **calendar year 1986**. Where LTC is not availed by the individual **during any block of 4** calendar years, one such unavailed LTC will be carried forward to the immediately succeeding block of 4 calendar years and will be eligible for exemption. **e.g.** An employee does not avail any LTC for the block 2014-17. He avails it during 2018. He is allowed to carry forward maximum one such holiday to be used in the succeeding block. Therefore, he will be eligible for exemption and two more journeys can further be availed. The term family includes himself, spouse, children and parents, brothers and sisters of the individual wholly or mainly dependent on the individual. The exemption referred to shall not be available to more than two surviving children of an individual after 1.10.1998. This restrictive sub rule shall not apply in respect of children born before 1.10.1998 and also in case of multiple births after one child.

7. **Allowances and perquisites received by Govt. employee outside India u/s 10(7). :** If a Govt. employee receives allowances and perquisites from Govt. for rendering services outside India, then such allowances and perquisites are exempted for such employee. This exemption is available only to Govt. employees who are citizen of India.

8. **(V)Death cum retirement gratuity u/s 10(10) :** To be discussed in salary.

9. **(V)Commuted value of Pension u/s 10 (10A) :** To be discussed in salary.

10. **(V)Encashment of earned leave u/s 10(10AA) :** To be discussed in salary.

11. **(V)Retrenchment Compensation paid to workmen u/s 10(10B) :** To be discussed in salary.

12. **Payments under Bhopal Gas leak Disaster (Processing of claims) Act, 1985 u/s 10(10BB)**

**:-** If any person receives any payment under this Act, then such payment shall be fully exempted in the hands of receiver. If deduction on account of any loss or damage caused by

such disaster has been allowed to the assessee, then such payment shall not be exempted for such assessee.

**13. Exemption of compensation received on account of disaster u/s 10(10BC)**-Any amount received or receivable by an individual or his legal heir from Central or State Govt. or a local authority of any disaster will be fully exempted in the hands of such person. If the assessee has been availed the deduction of damage or loss due to disaster under the provisions of Income Tax Act, then he cannot get the benefit of this exemption.

**14. Amount received on voluntary retirement u/s 10(10C)** : To be discussed in salary.

**15. Tax on non-monetary perquisites paid by employer u/s 10(10CC)**: Tax paid by employer, at his option, on value of non-monetary perquisites on behalf of employees shall not be included in the income of employees. Such tax paid by the employer shall not be treated as an allowable expenditure in the hands of the employer u/s 40.

**16. Life Insurance Money u/s 10(10D)**: The following tables explained the provisions of the section 10 (10D)

	<b>Nature of policy</b>	<b>Whether exemption is available u/s 10(10D)</b>
1	Any sum received u/s 80DD(3)	Exemption not available
2	Keyman Insurance policy	Exemption not available
3	Any other policy (sum received on the death of a person)	Exemption available, nothing is chargeable to tax
4	Any other policy (not being the case when sum received on the death of a person)	
	4.1 Policy issued before April 1, 2003	Exemption available, nothing is chargeable to tax
	4.2 Policy issued on or after April 1, 2003 but before April 1, 2012	Exemption available only when annual premium payable is not more than 20% of sum assured
	4.3 Policy issued during 2012-13	Exemption available only when annual premium payable is not more than 10% of the sum assured.
	4.4 Policy issued on or after April 1, 2013	Exemption available only when annual premium payable is not more than 10%/15% of the sum assured
	4.5 Unit-linked insurance policy issued on or after 1.2.2021	Exemption available only when annual premium payable for any of the previous year during the term of the policy does not exceed Rs 2,50,000

- 17. Payment received from Statutory Provident Fund or PF Act 1925 u/s 10(11) :** Any amount of payment received by Govt. employee from this fund, shall be fully exempted.
- 18. Payment received from Recognized Provident Fund or PF Act 1952 u/s 10(12) :** Any amount of payment received by non- Govt. employee from this fund, shall be fully exempt subject to certain conditions- To be discussed in salaries in detail.
- 19. Payment from Sukanya Samridhi Account 10(11A)**—A special small savings instrument for the welfare of the girl child was announced in the Union Budget in July 2014. The following tax benefits are made available to the assessee under this saving instrument.
- The investments made in the scheme will be eligible for deduction u/s 80C.
  - The interest accruing on deposits of such account will be exempted from Income tax.
  - The withdrawal from the said scheme in accordance with the rules of the said scheme will be exempt from tax.
- In other words, interest accrued and withdrawal from such scheme will be fully exempted from Income Tax.
- 20. Any Payment received from Approved Superannuation Fund u/s 10(13) :** Any payment received by any employee from an approved superannuation fund shall be entirely excluded from his total income if payment is
- On the death of the beneficiary
  - To an employee in lieu or in commutation of an annuity on his retirement at or after a specified age or his becoming incapacitated prior to such retirement; or
  - By way of refund of contribution on the death of beneficiary
- 21. (V)House Rent Allowance u/s 10(13A) :** HRA is a special allowance specifically granted to an employee by his employer towards payment of rent for residence of the employee. HRA granted to an employee is exempt to the extent of least of the following:-

	<b>Metro Cities (i.e. Delhi, Kolkata, Mumbai, Chennai)</b>	<b>Other Cities</b>
1)	Rent paid—10% of salary for the relevant period	Rent paid—10% of salary for the relevant period
2)	50% of the salary for the relevant period	40% of the salary for the relevant period
3)	HRA actually received	HRA actually received

**Notes**

- Exemption is **not available to an assessee who lives in his house**, or in a house for which he has not incurred the expenditure of rent.
- Salary for this purpose means basic salary, dearness allowance, if provided in terms of employment and commission as a fixed %age of turnover.
- Relevant period means the period during which the said accommodation was occupied by the assessee during the previous year.

**22. Notified Special Allowance u/s 10(14) :** To be discussed in salary.

**23. Interest income u/s 10(15) :** Interest income or any other income on notified securities, bonds, annuity certificate, saving certificates, other certificates shall be exempted provided such notification is issued by Central Govt. in official gazette and shall be subject to such condition and limits prescribed in such notification.

The interest income received **by an individual or HUF on following securities shall be exempt from tax :-**

- Interest on Capital Investment Bonds (**on or after June 1,2002**, no bonds are specified or issued by Central Government for this purpose)
- Interest on Relief Bonds
- Interest on notified bonds issued by a local authority
- Interest on securities held by the Welfare Commissioner, Bhopal Gas Victims, Bhopal
- Interest on Gold deposit Bonds issued under the Gold Deposit Scheme, 1999 notified by Govt.
- Interest on notified securities, bonds or certificates
  - 12 year National Saving Annuity Certificates
  - National Defence Gold Bonds, 1980
  - Special Bearer Bonds, 1991
  - Treasury Savings Deposit Certificates
  - National Plan Certificates (10 years)
  - Post Office Cash Certificates (5 years)
  - National Plan savings Certificates (12 Years) ; Post Office National Saving Certificate (12/7yrs)
  - Post office Saving Bank Accounts (**Interest is exempt only to the extent of Rs 3500 in case of individual a/c and Rs 7000 in case of joint a/c**)
  - Public Accounts of Post Office Savings Account Rules (**interest up to Rs 5,000**)
  - Post office CTD A/C; Post Office (Fixed Deposit) Rules, 1968
  - Non-Resident (Non-repatriable) Rupee Deposit Scheme

**24. Educational Scholarships u/s 10(16) :** If an individual gets scholarship for studies from Govt. or any other organization, then it is **fully exempted** in the hands of such individual. Similarly, scholarship given by the Employer Company to the children of its employees solely at its discretion and without reference to the terms of employment is fully exempted for such employee.

**25. Allowances of M.P.'s MLAs u/s 10(17) :--** The following incomes of MP or MLA will be exempt:--

- Daily allowance received by M.P.'s or MLAs for attending of their respective houses is fully exempted without any monetary limit.
- Any Constituency allowance to MPs is fully exempted.
- All other allowances received by MPs are fully exempted.

26. **Award or Reward u/s 10(17A) :** Any awards received by an individual whether in cash or in kind, from the Central Govt. or State Govt. or an institution approved by Central Govt. will be fully exempted. **E.g.** Sir C.V. Raman Award or Meghnad Saha Award for experimental research in applied science, Sir Jagdish Chandra Bose Award for research in life sciences, Sangeet Natak Academy (annual award), Swatantra Sainik Pension Scheme
27. **Pension received by gallantry awardees/any member of their family u/s 10(18) :** Any income by way of pension/family pension received by an individual or any member of his family shall be fully exempted provided such individual has been in the service of Central/State Govt. and has been awarded by Param Vir Chakra or Maha Vir Chakra or Vir Chakra or such other gallantry award as may be notified.
28. **Exemption of the family pension received by the family members of armed forces (including para-military forces) personnel killed in action in certain circumstances u/s 10(19)** Family pension received by the widow or children or nominated heirs of the member of the armed forces (including para military forces) after the death of such person in operational duties, are fully exempted from tax.
29. **Exemption of income of a sikkimese individual u/s 10(26AAA)—** The following income, which accrues or arises to a sikkimese individual, would be exempt from income tax—  
 a) income from **any source** in the **state of Sikkim**; or  
 b) income by way of **dividend or interest on securities**.  
 However, this exemption will **not be available to a sikkimese woman** who on or after **1<sup>st</sup> April, 2008, marries a non-sikkimese** individual.
30. **Income of Minor Child clubbed in the hands of parent u/s 10 (32) :** Income of minor child is to be included in the total income of that parent whose total income is more. Such parent can claim the exemption upto **Rs. 1,500/- per child**. However, if income of any minor is less than Rs 1500, then the entire income shall be exempt.

**Question 1** Mr. Kapoor has an income from salary of Rs 3,00,000. Details of income of his minor children are:--

Minor daughter has earned an interest income from a bank: Rs 5000

His minor son has also earned an interest income on NSC Rs 1000

Compute his gross total income for **the PY 2020-21**.

**Answer—**

**Computation of Gross Total Income of Mr Kapoor for the PY 2020-21**

Income from Salary		3,00,000
<b><u>Income from Other Sources</u></b>		
Minor daughter's interest income from bank	5000	
<b>Less: Exempt u/s 10(32)</b>	<u>(1500)</u>	
	3500	3500
Minor son's interest income on NSC	1000	

Less: Exempt u/s 10 (32)	(1000)	NIL
Gross Total Income		3,03,500

**31. Capital gain on transfer of units of US 64 exempt if transfer takes place on or after 1-4-2002 u/s 10(33):-** Fully exempted.

**32. Income from units to be exempt in the hands of the unit-holders u/s 10(35):-** Income received on units of **UTI and mutual funds** covered under section 10(23D) shall be exempt in the hands of the unit-holders.

**33. Long term capital gain on eligible equity shares u/s 10(36):-** If a long term capital gain generated from the transfer of a eligible equity shares, then such capital gain will be fully exempted provided these are acquired on or after **1.3.2003 but before 1.3.2004** and held for a period of 12 months or more.

**34. Exemption of capital gains on compensation received on compulsory acquisition of agricultural land situated within specified urban limits u/s 10(37) (Very important)**

Capital gain (**Long-term or Short term**) arising to **individual or HUF** by way of **compulsory acquisition** from **urban agricultural land** will be exempted from tax. It is important to note that the compensation or enhanced compensation or consideration must be received on or **after 1.4.2004** and such land has been used for agricultural purposes during the period of **two years immediately preceding the date of compulsory acquisition** by such individual or a person of his or by such HUF.

Where the compulsory acquisition has been taken place **before 1-4-2004 but the compensation is received after 31-3-2004, it shall be exempt**. If **part of the original compensation** in above case has already been **received before 1-4-2004**, then **exemption shall not be available** even though balance original compensation is received after 31-3-2004. However, enhanced compensation received on or after **1-4-2004** against agricultural land compulsory acquired before 1-4-2004 shall be exempt.

**Question 3—**Mr. Kumar has an agricultural land (**costing Rs 6 lakh**) in Lucknow and has been using it for agricultural purposes since **1.4.2000 till 1.8.2010** when the Govt. took over compulsory acquisition of this land. A compensation of **Rs 10 lakh** was settled. The compensation was received by Mr, Kumar **on 1.7.2020**. Compute the amount of capital gains taxable in the hands of Mr. Kumar.

**Answer—**In the given problem, compulsory acquisition of an urban agricultural land has taken place and the compensation is received **after 1.4.2004**. This land had also been used for at **least 2 years** by the assesses himself for agricultural purposes. Thus, as per **section 10(37)**, entire capital gains arising on such compulsory acquisition will be fully exempt and nothing is taxable in the hands of Mr. Kumar in the year of receipt of compensation i.e. **AY 2021-22**.

**Q 3 A-**Will your answer be any different if Mr. Kumar had by his own will sold this land to his friend Mr. Sharma ? Explain.

**Answer**—As per section 10 (37), exemption is available if compulsory acquisition of urban agricultural land takes place. Since the sale is out of own will and desire, the provisions of this section are not attracted and the capital gains arising on such sale will be taxable in the hands of Mr Kumar.

**35. Exemption of long-term capital gain arising from sale of shares and units u/s 10(38)**

Long term capital gain arising from the sale of listed equity shares or listed units of an **equity oriented fund** on or after 1-10-2004 shall be exempted from tax. It is important to note that such transaction must be chargeable to **Security Transaction Tax. (Very Important)**

**Any ten main items of income which are exempt from tax.(Most Important)**

**Answer:- 10(1), 10 (2), 10(5), 10(7), 10(10), 10(10A), 10(10AA), 10(10B), 10(C), 10 (D),10(32)**

**GOOD MEN MUST DIE, BUT DEATH CANNOT KILL THEIR NAMES (VINOD MEHRA)**

Vinod Sir 9872046144