In this chapter, we are going to study section 10 which enumerates the various categories of income that are exempt from tax. Thereafter, we shall consider section 11, which provides exemption in respect of income derived from property held under trust wholly for charitable or religious purposes. Section 13A exempts certain categories of income derived by a political party and section 13B exempts voluntary contributions received by electoral trusts.

**Incomes not included in Total Income [Section 10]**

The various items of income referred to in the different clauses of section 10 are excluded from the total income of an assessee. These incomes are known as exempted incomes. Consequently, such income shall not enter into the computation of taxable income or the rate of tax.

**Restrictions on allowability of expenditure [Section 14A]** – (i) As per section 14A, expenditure incurred in relation to any exempt income is not allowed as a deduction while computing income under any of the five heads of income [Sub-section (1)].

However, the Assessing Officer is not empowered to reassess under section 147 or to pass an order increasing the liability of the assessee by way of enhancing the assessment or reducing a refund already made or otherwise increase the liability of the assessee under section 154, for any assessment year beginning on or before 1.4.2001 i.e. for any assessment year prior to A.Y. 2002-03 [Proviso to sub-section (1)].

The Assessing Officer is empowered to determine the amount of expenditure incurred in relation to such income which does not form part of total income in accordance with such method as may be prescribed [Sub-section (2)].

The method for determining expenditure in relation to exempt income is to be prescribed by the CBDT for the purpose of disallowance of such expenditure under section 14A. Such method should be adopted by the Assessing Officer if he is not satisfied with the correctness of the claim of the assessee, having regard to the accounts of the assessee.

Further, the Assessing Officer is empowered to adopt such method, where an assessee claims that no expenditure has been incurred by him in relation to income which does not form part of total income [Sub-section (3)].

Rule 8D lays down the method for determining the amount of expenditure in relation to income not includible in total income.

If the Assessing Officer, having regard to the accounts of the assessee of a previous year, is not satisfied with –

(a) the correctness of the claim of expenditure by the assessee; or
Income Exempt From Income Tax

(b) the claim made by the assessee that no expenditure has been incurred in relation to exempt income for such previous year, he shall determine the amount of expenditure in relation to such income in the manner provided hereunder –

The expenditure in relation to income not forming part of total income shall be the aggregate of the following:

(i) the amount of expenditure directly relating to income which does not form part of total income;

(ii) in a case where the assessee has incurred expenditure by way of interest during the previous year which is not directly attributable to any particular income or receipt, an amount computed in accordance with the following formula, namely:

\[ A \times \frac{B}{C} \]

Where,

\( A \) = amount of expenditure by way of interest other than the amount of interest included in clause (i) incurred during the previous year;

\( B \) = the average of value of investment, income from which does not or shall not form part of the total income, as appearing in the balance sheet of the assessee, on the first day and the last day of the previous year;

\( C \) = the average of total assets as appearing in the balance sheet of the assessee, on the first day and the last day of the previous year;

'Total assets' means total assets as appearing in the balance sheet excluding the increase on account of revaluation of assets but including the decrease on account of revaluation of assets.

(iii) an amount equal to one-half per cent of the average of the value of investment, income from which does not or shall not form part of the total income, as appearing in the balance sheet of the assessee, on the first day and the last day of the previous year.

Difference between Section 10 and Chapter VI-A deductions - Certain other incomes are also wholly or partly rendered tax-free by being allowed as deductions in computation of total income under Chapter VI-A. Students should note a very important difference between exemptions under section 10 and the deductions under Chapter VI-A. While the incomes which are exempt under section 10 will not be included for computing total income, incomes from which deductions are allowable under Chapter VI-A will first be included in the gross total income (GTI) and then the deductions will be allowed. Let us now see the various incomes that are exempt from tax and the conditions to be satisfied in order to be eligible for exemptions.

Amounts received by a member from the income of the HUF [Section 10(2)]

(i) A HUF is a ‘person’ and hence a unit of assessment under the Act. Income earned by the HUF is assessable in its own hands.

(ii) In order to prevent double taxation of one and the same income, once in the hands of the HUF which earns it and again in the hands of a member when it is paid out to him, section 10(2) provides that members of a HUF do not have to pay tax in respect of any amounts received by them from the family.

(iii) The exemption applies only in respect of a payment made by the HUF to its member

(1) out of the income of the family or

(2) out of the income of the impartible estate belonging to the family.

Share income of a partner [Section 10(2A)] - This clause exempts from tax a partner’s share in the total income of the firm. In other words, the partner’s share in the total income of the firm determined in accordance with the profit-sharing ratio will be exempt from tax.
Exemption to non-residents and person resident outside India [Section 10(4)]

(i) This clause provides that in the case of a non-resident, any income by way of interest on Central Government securities as may be prescribed will be exempt. Even income by way of premium on the redemption of such bonds is exempt.

(ii) However, the Central Government shall not notify any such bonds or securities after 01.06.2002. Hence, this exemption will no more be available in respect of any further issue of bonds or securities on or after the 01.06.2002.

(iii) In the case of an individual who is a person resident outside India, as defined in FEMA, 1999, any income by way of interest on moneys standing to his credit in a Non-resident (External) Account (NRE A/c) in any bank in India will be exempt, subject to fulfillment of certain conditions.

(iv) In this context, it may be noted that the joint holders of the NRE Accounts do not constitute an AOP by merely having these accounts in joint names. The benefit of exemption under section 10(4)(ii) will be available to such joint account holders, subject to fulfilment of other conditions contained in that section by each of the individual joint account holders.

Interest on savings certificates [Section 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 Government 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.

Explanation.—For the purposes of this clause,—

(a) a person shall be deemed to be of Indian origin if he, or either of his parents or any of his grandparents, was born in undivided India ;

(b) "convertible foreign exchange" means foreign exchange which is for the time being treated by the Reserve Bank of India as convertible foreign exchange for the purposes of the Foreign Exchange Management Act, 1999 (42 of 1999), and any rules made thereunder.

Exemption in the case of individuals, who are not citizens of India [Section 10(6)]- Individual assesses who are not citizens of India are entitled to certain exemptions:

(i) Section 10(6)(ii) grants exemption to a person in respect of the remuneration received by him for services as an official of an embassy, high commission, legation, consulate or the trade representation of a foreign State or as a member of the staff of any of these officials.

Conditions

(a) The remuneration received by our corresponding Government officers resident in such foreign countries should be exempt.

(b) The above-mentioned officers should be the subjects of the respective countries and should not be engaged in any other business or profession or employment in India.

(ii) Section 10(6)(vi) provides that remuneration received by a foreign national as an employee of a foreign enterprise for service rendered by him during his stay in India is also exempt from tax.

Conditions
(1) The foreign enterprise is not engaged in a business activity in India;
(2) The employee’s stay in India does not exceed a total of 90 days in the previous year;
(3) The remuneration is not liable to be deducted from the employer’s income chargeable to tax under the Act.

(iii) Section 10(6)(viii) provides that salary income received by or due to a non-citizen of India who is also non-resident for services rendered in connection with his employment on a foreign ship where his total stay in India does not exceed a total of 90 days in the previous year.

(iv) Section 10(6)(xi) provides that any remuneration received by employees of foreign Government from their respective Government during their stay in India in connection with their training in any establishment or office of the Government or any public sector undertaking is exempt from tax. For this purpose, the expression ‘public sector undertaking’ will cover Statutory Corporations; companies wholly owned by the Central Government or State Government or jointly by the Central and State Government and subsidiaries of such companies, societies registered under the Societies Registration Act, 1860 or any other similar law, which are wholly financed by the Central Government or State Government or jointly by the Central or State Government.

Tax on royalty or fees for technical services derived by foreign companies [Section 10(6A)] - The benefit of exemption under this section is available to foreign companies only. As per this clause, tax paid by the Government or by an Indian concern on behalf of a foreign company is exempt in the hands of such foreign company provided all the following conditions are satisfied:

(i) Such tax must have been payable by the foreign company in respect of income received from the Government or the Indian concern by way of royalty or fees for technical services.

(ii) Such income by way of royalty or fees for technical services must have been received in pursuance of an agreement made by the foreign company with the Government or the Indian concern on or after 1.4.1976 but before 1.6.2002 and such agreement must have been approved by the Central Government. However, where the agreement relates to a subject matter which is included in the industrial policy of the Government and such agreement is in accordance with that policy, no approval of the Central Government is necessary.

Tax paid on behalf of non-resident [Section 10(6B)] – This clause provides that the amount of tax paid by Government or an Indian concern on behalf of a non-resident or a foreign company in respect of its income will not be included in computing the total income of such non-resident or foreign company in pursuance of an agreement entered before 01.06.2002 between the Central Government and the Government of foreign State or an international organisation under the terms of that agreement or of any related agreement which has been approved before 01.06.2002 by the Central Government.

Tax paid on behalf of foreign state or foreign enterprise on amount paid as consideration of acquiring aircraft, etc. on lease [Section 10(6BB)] - Under this section, exemption is provided in respect of tax paid by an Indian company engaged in the business of operation of an aircraft, on income derived by the Government of a foreign State or a foreign enterprise as a consideration of acquiring an aircraft or aircraft engine on lease under an agreement entered into after 31.03.1997 but before 01.04.1999 or entered into after 31.03.2007 and approved by the Central Government.

However, payment for providing spares, facilities or services in connection with the operation of leased aircraft is not covered under this clause.

Income from projects connected with the security of India [Section 10(6C)] – Any income arising to such foreign company as the Central Government may notify, by way of fees for technical services received in pursuance of an agreement entered into with that Government for providing services in or outside India in
projects connected with security of India will be exempt. Such exemption is also available in respect of royalty for technical services arising to the foreign company.

**Co-operative technical assistance programmes [Sections 10(8) and (9)]** – Individuals who are assigned duties in India in connection with any co-operative technical assistance programmes and projects would be exempt from tax on their receipts by way of:

(a) remuneration received directly or indirectly from the Government of a foreign State for rendering such services; and
(b) any other income accruing or arising outside India (but is not deemed to accrue or arise in India) in respect of which the individual is required to pay income-tax or other social security tax to the Government of that foreign State. A similar exemption would be available under section 10(9) in respect of the income of any member of the family of any such individual referred to above provided that the income:

(i) actually accrues outside India;
(ii) cannot be deemed to accrue or arise in India; and
(iii) in respect of which such member is required to pay income or social security tax to the Government of that foreign State.

**Consultant remuneration [Sections 10(8A) and (8B)]** - Under clause (8A), any remuneration or fee received by a consultant, directly or indirectly, out of the funds made available to an international organisation (agency) under a technical assistance grant agreement with the agency and Government of a foreign State is exempted from income-tax. The expression “Consultant” means any individual who is either not a citizen of India or, being a citizen of India, is resident but not ordinarily resident, or any other person who is a non-resident and is engaged by the agency for rendering technical services in India in accordance with an agreement entered into by the Central Government and the State agency and the agreement relating to the engagements of the consultant is approved by the prescribed authority.

Under clause (8B), the remuneration received by an employee of the consultant is exempted from income-tax provided such employee is either not a citizen of India or, being a citizen of India, is resident but not ordinarily resident and the contract of his service is approved by the prescribed authority before the commencement of his service.

Section 10(9) exempts the income of any member of the family of any such individual as is referred to in clauses (8A) and (8B) accompanying him to India, which accrues or arises outside India, and in respect of which such member is required to pay any income or social security tax to the country of his origin.

**Payments to Bhopal Gas Victims [Section 10(10BB)]** - Any payment made to a person under Bhopal Gas Leak Disaster (Processing of Claims) Act, 1985 and any scheme framed thereunder will be fully exempt. However, payments made to any assessee in connection with Bhopal Gas Leak Disaster to the extent he has been allowed a deduction under the Act on account of any loss or damage caused to him by such disaster will not be exempted.

**Exemption of compensation received on account of disaster [Section 10(10BC)]**

(i) This clause exempts any amount received or receivable as compensation by an individual or his legal heir on account of any disaster.

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

(iii) However, exemption would not be available in respect of compensation for alleviating any damage or loss, which has already been allowed as deduction under the Act.
"Disaster" means a catastrophe, mishap, calamity or grave occurrence in any area, arising from natural or manmade causes, or by accident or negligence. It should have the effect of causing -

1. substantial loss of life or human suffering; or
2. damage to, and destruction of, property; or
3. damage to, or degradation of, environment.

It should be of such a nature or magnitude as to be beyond the coping capacity of the community of the affected area.

Receipts from LIC [Section 10(10D)] - This clause clarifies that any sum received under a Life Insurance Policy, including the sum allocated by way of bonus on such policy shall not be included in the total income of a person.

Recently, policies were introduced in respect of which the premium payable was very high. Sometimes, such premium was payable on a one-time basis. They are similar to deposits or bonds. With a view to ensure that such insurance policies are treated at par with other investment schemes, clause (10D) has been rationalised as follows –

In respect of policies issued between 01.04.2003 and 31.03.2012

(i) Any sum received, under an insurance policy issued on or after 01.04.2003 in respect of which the premium payable/paid during any of the years during the term of the policy exceeds 20% of the actual capital sum assured, shall not be exempt. Therefore, sum received in respect of such policies issued prior to 01.04.2003 will continue to enjoy exemption.

(ii) However, such sum received under such policy on the death of a person shall continue to be exempt.

(iii) For the purpose of calculating the actual capital sum assured under this clause,

   (a) the value of any premiums agreed to be returned or

   (b) the value of any benefit by way of bonus or otherwise, over and above the sum actually assured, shall not be taken into account. Such premium or bonus may be received either by the policy holder or by any other person.

(iv) Any sum received under section 80DD(3) shall not be exempt under this clause in addition to sum received under 80DDA(3) or under a Keyman insurance policy.

In respect of policies issued on or after 01.04.2012

(i) Any sum received, under an insurance policy issued on or after 01.04.2012 in respect of which the premium payable/paid during any of the years during the term of the policy exceeds 10% of the actual capital sum assured, shall not be exempt.

(ii) However, such sum received under such policy on the death of a person shall continue to be exempt.

(iii) In respect of policies issued on or after 1st April, 2012, the actual capital sum assured shall mean the minimum amount assured under the policy on happening of the insured event at any time during the term of the policy, not taking into account –

   (a) the value of any premiums agreed to be returned or
(b) the value of any benefit by way of bonus or otherwise, over and above the sum actually assured which is to be or may be received under the policy by any person,

In effect, in case the insurance policy has varied sum assured during the term of policy then the minimum of the sum assured during the life time of the policy shall be taken into consideration for calculation of the “actual capital sum assured” for the purpose of section 80C and section 10(10D), in respect of life insurance policies to be issued on or after 1st April, 2012.

(iv) Any sum received under section 80DD(3) or section 80DDA(3) shall not be exempt. Further, any sum received under a Keyman insurance policy shall also not be exempt.

In respect of policies issued on or after 01.04.2013
If the policy, issued on or after the 1st day of April, 2013, is for insurance on life of any person, who is—
(i) a person with disability or a person with severe disability as referred to in section 80U; or
(ii) suffering from disease or ailment as specified in the rules made under section 80DDB, the provisions of this sub-clause shall have effect as if for the words “ten per cent”, the words “fifteen per cent” had been substituted.

Payment from superannuation funds [Section 10(13)] - Any payment received by any employee from an approved superannuation fund shall be entirely excluded from his total income if the payment is made
(a) on the death of a beneficiary;
(b) to an employee in lieu or in commutation of an annuity on his retirement at or after a specified age or on his becoming incapacitated prior to such retirement; or
(c) by way of refund of contribution on the death of a beneficiary; or
(d) by way of contribution to an employee on his leaving the service in connection with which the fund is established otherwise than by retirement at or after a specified age or his becoming incapacitated prior to such retirement.

In the case of (d) above the amount of exemption will be to the extent the payment made does not exceed the contribution made prior to 1-4-1962 and the interest thereon.

Payments for acquisition of aircraft [Section 10(15A)] – Any payment made by an Indian company engaged in the business of operation of aircraft to acquire an aircraft on lease from the government of a foreign State or a foreign enterprise under an agreement not being an agreement entered into between 01.04.1997 and 31.03.1999, and approved by the Central Government in this behalf will be exempt. For the purpose of this clause ‘foreign enterprise’ means a person who is a non-resident.

This exemption has been withdrawn in respect of all such agreements entered into on or after 1st April, 2007.

The exemption for lease payments shall continue with regard to agreements entered into before 01.04.2007. Consequently, the benefit of exemption from tax, on the tax paid will be available in respect of lease payments made in pursuance of agreements entered into on or after 01.04.2007. The effect of these amendments is that up to 31.03.2007, the consideration for lease itself is exempt from tax. With effect from 01.04.2007, the consideration for lease is taxable and if the Indian company who makes payment of such consideration undertakes to bear the tax on behalf of the lessor, then such tax shall not be considered as income and further taxed. Such tax paid by the Indian company would be exempt from further tax. This is provided in clause (6BB) of section 10.

Educational scholarships [Section 10(16)] - The value of scholarship granted to meet the cost of education would be exempt from tax in the hands of the recipient irrespective of the amount or source of scholarship.

Awards for literary, scientific and artistic works and other awards by the Government [Section 10(17A)] - Any award instituted in the public interest by the Central/State Government or any body
approved by the Central Government and a reward by Central/State Government for such purposes as may be approved by the Central Government in public interest, will enjoy exemption under this clause.

**Pension received by recipient of gallantry awards [Section 10(18)]** - Any income by way of pension received by an 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. In case of the death of the awardee, any income by way of family pension received by any member of the family of the individual shall also be exempt under this clause. The expression “family” shall have the meaning assigned to it in the Explanation to clause (5) of the said section.

**Annual value of palaces of former rulers [Section 10(19A)]** - The annual value of any one palace in the occupation of former Rulers would be excluded from their total income provided such annual value was exempt from income-tax before the de-recognition of Rulers of Indian States and abolition of their privy purses.

**Income of local authorities [Section 10(20)]** – (i) All income arising to a local authority, other than from trade or business carried on by it which accrues or arises from the supply of commodity or service under its jurisdictional area is excludible from its total income.

(ii) Exemption is available to income derived by a local authority from the supply of water or electricity even outside its juridical area.

(iii) For the purposes of this clause, “local authority” means the following:
   (1) Panchayat
   (2) Municipality
   (3) Municipal Committee and District Board legally entitled to, or entrusted by the Government with the control or management of a Municipal or local Fund
   (4) Cantonment Board

**Income of research associations approved under section 35(1)(ii) [Section 10(21)]** - This clause also provides for exemption in respect of any income of research associations which are approved under section 35(1)(ii)/(iii). This exemption has however, been made subject to the following conditions:

(i) It should apply its income or accumulate for application wholly and exclusively to its objects and provisions of section 11(2) and (3) would also apply in relation to such accumulation.

(ii) The association should invest or deposit its funds in the forms or modes specified in section 11(5). This condition would however not apply to -

   (1) any assets held by the research association where such assets form part of the corpus of the fund of the association as on 1-6-1973;

   (2) any debentures of a company acquired by the association before 1-3-1983;

   (3) any bonus shares coming as an accretion to the corpus mentioned above;

   (4) voluntary contributions in the form of jewellery, furniture or any article notified.

(iii) The exemption will not apply to income of such association which are in the nature of profits and gains of business unless the business is incidental to the attainment of its objectives and separate books of account are maintained in respect of such business.
(iv) However, approval once granted may be withdrawn if at any time the Government is satisfied that –

1. the research association has not applied its income in accordance with sections 11(2) and (3);

2. the research association has not invested or deposited its funds in accordance with section 11(5).

Such withdrawal shall be made after giving reasonable opportunity to the assessee. A copy of the order shall be sent to the Assessing Officer as well as the assessee.

**Income of news agency [Section 10(22B)]** – (i) This clause provides income-tax exemption on any income of such news agency set up in India solely for collection and distribution of news as specified by the Central Government.

(ii) However, in order to get this exemption, the news agency should:

(a) apply its income or accumulate it for application solely for collection and distribution of news.

(b) It should not also distribute its income in any manner to its members.

(iii) Any notification issued by the Central Government under this clause will have effect for 3 assessment years. It may include an assessment year or years commencing before the date of notification.

(iv) However, once the notification has been issued, the notification may be rescinded approval if at any time the Government is satisfied that the news agency has not applied or accumulated or distributed its income in accordance with the provisions of this section.

(v) The notification may be rescinded after giving reasonable opportunity to the assessee. A copy of the order shall be sent to the Assessing Officer as well as the assessee.

**Income of professional associations [Section 10(23A)]** – (i) Associations or institutions of the following classes approved by the Government and applying their income or accumulating it solely to their objects shall be exempt from tax on certain items of their income. The association or institution must:

(a) be established in India;

(b) have as its object the control, supervision, regulation or encouragement of the profession of law, medicine, accountancy, engineering or architecture, or any other profession specified by the Central Government.

(ii) All income arising to such an association, except the following categories of income, are exempt from inclusion in income:

(a) income under the head ‘interest on securities’;

(b) income under the head ‘income from house property’;

(c) income received for rendering any specific service; and

(d) income by way of interest or dividends derived from its investments.

(iii) However, approval once granted may be withdrawn if at any time the Government is satisfied that –
(1) the association or institution has not applied or accumulated its income in accordance with the provisions of the section;

(2) the activities of the association or institution are not being carried out in accordance with the conditions imposed on the basis of which the approval was granted.

(iv) Such withdrawal shall be made after giving reasonable opportunity to the assessee. A copy of the order shall be sent to the Assessing Officer as well as the assessee.

**Income of institutions established by armed forces [Section 10(23AA)]** - Any income received by any person on behalf of any regimental fund or non-public fund established by the armed forces of the Union for the welfare of the past and present members of such forces or their dependents is exempt from tax.

Students may note that donations to such institutions will qualify for deduction under section 80G.

**Income of Funds established for welfare of employees of which such employees are members [Section 10(23AAA)]** - A number of funds have been established for the welfare of employees or their dependents in which such employees themselves are members. These funds are utilised to provide cash benefits to a member on his superannuation, or in the event of his illness or illness of any member of his family, or to the dependents of a member on his death.

**Example:** XYZ Ltd. has an employee welfare fund. Employees, who are members of the fund, contribute a portion of their salary to the fund. The company makes an annual contribution equal to the employees’ contribution. The funds thus made available are utilised by the fund to provide benefits to the members or their dependents in case of illness etc. The surplus fund may be invested in bonds, Government securities or deposited with banks. Essentially, these funds are in the nature of mutual benefit funds. Hence, their income does not qualify for exemption under section 10(23C)(iv). Since they are not charitable institutions they cannot also claim exemption under section 11 in respect of their income. They are now entitled for exemption under section 10(23AAA).

Accordingly, in exercise of the powers conferred by section 10(23AAA), the CBDT has notified the following purposes –

(1) cash benefits to a member of the fund -

   (a) on superannuation, or

   (b) in the event of his illness or illness of his spouse or dependent children, or

   (c) to meet the cost of education of his dependent children or

(2) cash benefits to the dependents of a member of the fund in the event of the death of such member.

(3) cash benefits to a member of the fund to meet the cost of annual medical tests or medical checkups of a member, his spouse and dependent children as one of the purposes of the fund.

The exemption will be available only if the following conditions are fulfilled:

(i) the fund should have been established for the welfare of employees or their dependents and for such purposes as may be notified by the Board;

(ii) such employees should be the members of the fund;
(iii) the fund should apply its income, or accumulate it for application, wholly and exclusively to the objects for which it is established;

(iv) the fund shall invest its fund and contributions made by the employees and other sums received by it in any one mode specified under section 11(5);

(v) the fund should be approved by the Commissioner in accordance with the prescribed rules. The approval shall have effect for such assessment year or years not exceeding three assessment years as may be specified in the order of approval.

Note:
1. There are no conditions regarding accumulation towards the object of the fund.
2. There is no requirement of application of any minimum percentage of the income towards the object of the fund.
3. No time limit has been prescribed within which the fund must exercise the option of accumulation.
4. Any contribution made by an employer to this approved welfare fund would also not be allowed as a deduction.

Income of Fund set up by Life Insurance Corporation under pension scheme [Section 10(23AAB)] - Any income of a fund set up by the LIC of India or any other insurer under a pension scheme to which contribution is made by any person for receiving pensions from such fund. Such scheme should be approved by the Controller of Insurance or the IRDA.

Income of institution established for development of Khadi and Village Industries [Section 10(23B)]
(i) The exemption will be available to institutions constituted as public charitable trusts or registered under the Societies Registration Act, 1860 or under any law corresponding to that Act in force in any part of India existing solely for development of khadi and village industries.

(ii) Income derived by such institutions from the production, sale or marketing of Khadi products or village industries would be exempt from income-tax.

(iii) The conditions for availing exemption are:

(1) The institution has to apply its income or accumulate it for application, solely for the development of village industries.

(2) They should be approved by the Khadi and Village Industries Commission.

(3) Such approval is granted for a period of 3 years at a time.

(iv) However, approval once granted may be withdrawn if at any time the Government is satisfied that –

(1) the institution has not applied or accumulated its income in accordance with the provisions of the section;

(2) the activities of the institution are not being carried out in accordance with the conditions imposed on the basis of which the approval was granted.

(v) Such withdrawal shall be made after giving reasonable opportunity to the assessee. A copy of the order shall be sent to the Assessing Officer as well as the assessee.
Income of authorities set up under State or Provincial Act for promotion of Khadi and Village Industries [Section 10(23BB)] - Income derived by authorities similar to Khadi and Village Industries Commission, set up under any State or Provincial Act, for the development of Khadi or Village industries in the state is exempt from tax.

Income of authorities set up to administer religious or charitable trusts [Section 10(23BBA)] – (i) Income of bodies or authorities established, constituted or appointed under any enactment for the administration of public, religious or charitable trust or endowments (including maths, temples, gurudwaras, wakfs, churches, synagogues, agiaries or other places of public religious worship) or societies for religious or charitable purpose is exempt from tax.

(ii) However, exemption will apply to the income of the administrative bodies or authorities but shall not apply to the income of any such trust, endowment or society mentioned above.

Income of European Economic Community (EEC) [Section 10(23BBB)] - This clause provides exemption on any income of the EEC derived in India by way of interest, dividends or capital gains from investments made out of its funds under a scheme notified by the Government.

Income derived by the SAARC Fund for Regional Projects [Section 10(23BBC)] - Any income derived by the SAARC Fund for Regional Projects which was set up by Colombo Declaration shall be exempt.

Income of the IRDA [Section 10(23BBE)] - Any income of the IRDA established under section 3(1) of the IRDA Act, 1999 will be exempt.

Exemption of income of Central Electricity Regulatory Commission [Section 10(23BBG)] - This section provides exemption to any income of Central Electricity Regulatory Commission constituted under sub-section (1) of Section 76 of the Electricity Act, 2003.

Exemption of income of Prasar Bharati (Broadcasting Corporation of India) [Section 10(23BBH)]
Clause (23BBH) has been inserted in section 10 with effect from A.Y.2013-14 to exempt any income of the Prasar Bharati (Broadcasting Corporation of India) established under section 3(1) of the Prasar Bharati (Broadcasting Corporation of India) Act, 1990.

Income of certain funds or institutions [Section 10(23C)] - An exemption is available in respect of any income received by any person on behalf of the following entities:
(i) the Prime Minister’s National Relief Fund [Sub-clause (i)];

(ii) the Prime Minister’s Fund (Promotion of Folk Art) [Sub-clause (ii)];

(iii) the Prime Minister’s Aid to Students Fund [Sub-clause (iii)];

(iv) the National Foundation for Communal Harmony [Sub-clause (iiiia)];

(v) any other Fund or Institution for charitable purposes approved by the prescribed authority having regard to the objects of the fund or institution and its importance throughout India or throughout any State or States [Sub-clause (iv)];

(vi) any trust (including any other legal obligation) or institution wholly for public religious or public religious and charitable purposes approved by the prescribed authority [Sub clause (v)];

(vii) any university or other educational institution wholly or substantially financed by the Government which exists solely for educational purposes and not for profit [Sub-clause (iiiab)]:
(viii) any university or other educational institution existing solely for educational purposes and not for profit and its aggregate annual receipts do not exceed `1 crore [Sub-clause (iiiad)];

(ix) any hospital or other institution wholly or substantially financed by the Government, which exists solely for philanthropic purposes and not for profit and which exists for the reception and treatment of persons suffering from illness or mental defectiveness or treatment of convalescing persons or persons requiring medical attention [Sub-clause (iiiac)];

(x) any hospital or other institution as described in (ix) above if its aggregate annual receipts do not exceed the prescribed limit of `1 crore [Sub-clause (iiiae)];

(xi) any other university or educational institutions approved by prescribed authority [Sub clause (vi)];

(xii) any other hospital, etc. approved by prescribed authority [Sub-clause (via)].

Note:
1. The application form for such exemption will have to be made in the prescribed form and manner.

2. The prescribed authority, is empowered to call for such documents or information as it considers necessary in order to satisfy itself about the genuineness of the activities of the fund or trust or institution or any university or other educational institution or any hospital or other medical institution, before approving the same under section 10(23C)(iv), (v), (vi) or (via). Such documents may include audited annual accounts. The prescribed authority may also make such inquiries as it may deem necessary for this purpose.

3. Exemption under section 10(23C)(iv)/(v) would apply only if the funds are invested or deposited for any period during the relevant previous year otherwise in the modes specified in section 11(5). This requirement will not however apply where the investment is maintained in the form of jewellery, furniture or any other article notified by the Board. For this purpose, the fund or trust or institution must fulfill the following conditions:

   (a) It should apply its income or accumulate it for application wholly and exclusively to the objects for which it is established,

   (b) In case where more than 15% of its income is accumulated on or after 1.4.2002, the period of accumulation of the amount exceeding 15% of its income shall be maximum 5 years.

   (c) It should invest or deposit the following kinds of funds:

      — any assets which form part of the corpus of the fund, trust or institution as on 1.6.1973;

      — any equity shares of a public company held by any University or other educational institution or any hospital or other medical institution where such assets form part of its corpus as on 1.6.1998;

      — any debentures, issued by or on behalf of any company or corporation, acquired by the fund, trust or institution, etc. before 1.3.1983;

      — any bonus shares allotted to the fund, trust or institution, etc. in respect of the shares mentioned above forming part of the corpus of such fund, etc.
any voluntary contributions received and maintained in the form of jewellery, furniture or other article as the Board may specify for any period during the previous year. However, such assets should not be in the forms or modes of investment laid down in section 11(5).

4. Investments or deposits made before 1.4.1989 in any mode or form not specified in Section 11(5) should be liquidated and invested in such modes, by 30.3.1993.

5. In case of (xi) and (xii) above, if any funds of such institution or hospital are invested before 1-6-1998 in any mode other than that specified in section 11(5), the exemption to such an institution shall not be denied if such funds do not continue to be so invested or deposited after 30.3.2001.

6. Exemption under sub-clause (iv) or (v) (vi) or (via) would be available only if the funds are invested in mode specified in section 11(5), within 1 year from the end of the previous year in which the asset is acquired or 31.03.1992, whichever is earlier.

7. Exemption under section 10(23C)(iv) or (v) or (vi) or (via) would not apply to profits and gains of business in all cases. However, where the business is incidental to the attainment of its objectives and separate books of account are maintained in respect of the business, the exemption would apply to such business profits also.

8. Notification issued under sub-clauses (iv) and (v) before 13.07.2006, being the date on which the Taxation Laws (Amendment) Act, 2006 received the assent of the President, shall have effect for a maximum 3 assessment years at any one time. Any notification issued by the Central Government [under sub-clauses (iv) or (v)] on or after 13.7.2006 will be valid until withdrawn and there will be no requirement on the part of the assessee to seek renewal of the same after 3 years.

9. In order to expedite disposal of such applications, it has now been provided that where such an application is made on or after 13.07.2006, every notification under sub-clause (iv) or sub-clause (v) shall be issued or approval under sub-clause (vi) or sub-clause (via) shall be granted or an order rejecting the application shall be passed within the period of 12 months from the end of the month in which such application was received.

10. If the total income of any entity referred to in sub-clauses (iv), (v), (vi) and (via) of section 10(23C), without giving effect to the provisions of the said sub-clauses, exceeds the basic exemption limit in any previous year, it shall –

   (1) get its accounts audited in respect of that year by a chartered accountant; and

   (2) furnish such audit report along with the return of income for the relevant assessment year. The report must be in the prescribed form, duly signed and verified by the accountant, and must contain such particulars as may be prescribed.

11. In case of donations received between 26.01.2001 and 30.09.2001 for the purpose of providing relief to victims of the Gujarat earthquake, any amount unutilized or mis-utilized and not transferred to the Prime Minister’s National Relief Fund on or before 31.03.2004 shall be deemed to be the income of the previous year, chargeable to tax. Further, exemption will not be available if such fund/institution does not render accounts of income and expenditure to authority prescribed under section 80G(5C)(v) as prescribed.

12. Where the fund / trust / institution / university / hospital etc. does not apply its income during the year of receipt and accumulates it, and subsequently makes a payment or credit out of such accumulated income, to any institution or trust registered u/s 12AA or to any fund / trust / institution
/ university / hospital, such payment or credit shall not be considered to be an application of income for its specified objectives.

13. The Central Government, or prescribed authority shall have the power to withdraw the approval or rescind the notification if:

(i) such fund/institution/university/hospital etc. has not applied its income or invested/deposited its funds in accordance with the provisions. or

(ii) the activities of such fund, etc are not genuine; or

(iii) such activities are not being carried out in accordance with the conditions based upon which it was notified or approved.

However, the approval or notification can be withdrawn or rescinded only after issuing a show cause notice and giving reasonable opportunity to such fund, etc. of being heard. After withdrawing the approval or rescinding the notification, a copy of the order is to be forwarded to the concerned fund/institution, etc. as well as to the Assessing Officer.

14. The time limit for making an application for grant of exemption or continuation thereof under section 10(23C) by a fund or trust or institution or any university or other educational institution or any hospital or other medical institution referred to in sub clauses (iv)/(v)/(vi)/(via) of section 10(23C) has been specified in respect of such applications made on or after 1.6.2006. Such applications have to be filed on or before 30th September of the succeeding financial year.

For example, if an educational institution seeks exemption under clause (vi) for P.Y.2013-14 (i.e. A.Y.2014-15), it has to make an application for grant of exemption by 30.09.2014.

15. However, any anonymous donation referred to in section 115BBC on which tax is payable in accordance with the provisions of the said section shall be included in the total income.

16. It has also been provided that all pending applications in respect of which no notification has been issued under the said sub-clause (iv) or (v) before 1st June, 2007, shall stand transferred on that day to the prescribed authority and the prescribed authority may proceed with such applications from the stage at which they were on that day.

17. If the purpose of a trust or institution referred to in sub clauses (iv)/(v) of section 10(23C) does not remain charitable in a previous year on account of the commercial receipts exceeding the specified threshold of `25 lakhs, then, such trust or institution would not be entitled to get benefit of exemption in respect of its income for that previous year in which the commercial receipts exceed the specified threshold. The denial of exemption would be compulsory by operation of law and would not be dependent on any approval being withdrawn or registration being cancelled or a notification being rescinded.

Section 10(23C) has been amended by the Finance Act, 2012 to ensure that such trust and institution does not get benefit of tax exemption in the year in which its receipts from commercial activities exceed the specified threshold of `25 lakhs, whether or not the registration or approval granted or notification issued is cancelled, withdrawn or rescinded in respect of such trust or institution.

Income of Mutual Fund [Section 10(23D)] – (i) The income of a Mutual Fund set up by a public sector bank / public financial institution / SEBI / RBI subject to certain conditions is exempt.
“Public sector bank” means SBI or any nationalised bank or a bank included in the category “other public sector banks” by the RBI, for example, IDBI Bank.

Note: 1. The income of a mutual fund registered under the SEBI will be exempt without any conditions laid down by the Central Government.

2. In the case of other mutual funds, the conditions will be applicable.

**Income of a securitisation trust [Section 10(23DA)]** - Any income of a securitisation trust from the activity of securitisation.

Explanation.—For the purposes of this clause,—

(a) “securitisation” shall have the same meaning as assigned to it,—

(i) in clause (r) of sub-regulation (1) of regulation 2 of the Securities and Exchange Board of India (Public Offer and Listing of Securitised Debt Instruments) Regulations, 2008 made under the Securities and Exchange Board of India Act, 1992 (15 of 1992) and the Securities Contracts (Regulation) Act, 1956 (42 of 1956); or

(ii) under the guidelines on securitisation of standard assets issued by the Reserve Bank of India;

(b) “securitisation trust” shall have the meaning assigned to it in the Explanation below section 115TC;’

**Income of Investor Protection Funds [Section 10(23EA)]** – (i) Clause (23EA) excludes any income by way of contributions received from recognized stock exchanges and the members thereof, from the total income of an Investor Protection Fund set up by recognized stock exchanges in India, either jointly or separately, and notified by the Central Government in this behalf.

(ii) Where any amount standing to the credit of the Fund and not charged to income-tax during any previous year is shared, either wholly or in part, with a recognised stock exchange, the whole of the amount so shared shall be deemed to be the income of the previous year in which such amount is so shared and shall accordingly be chargeable to income-tax.

**Exemption of specified income of Investor Protection Fund set up by commodity exchanges [Section 10(23EC)]** - (i) This clause exempts income, by way of contributions received from commodity exchanges and the members thereof, of such Investor Protection Fund set up by commodity exchanges in India, either jointly or separately, as the Central Government may, by notification in the Official Gazette, specify in this behalf.

(ii) Where any amount standing to the credit of the said Fund and not charged to income-tax during any previous year is shared, either wholly or in part, with a commodity exchange, the entire amount so shared shall be deemed to be the income of the previous year in which the amount is so shared and shall accordingly be chargeable to income-tax.

(iii) A “commodity exchange” means a “registered association” as defined in clause section 2(jj) of the Forward Contracts (Regulation) Act, 1952. i.e. an association to which for the time being a certificate of registration has been granted by the Forward Markets Commission under section 14B of that Act.

**Income by way of contributions received from a depository, of such Investor Protection Fund [Section 10(23ED)]** - Any income, by way of contributions received from a depository, of such Investor Protection Fund set up in accordance with the regulations by a depository as the Central Government may, by notification in the Official Gazette, specify in this behalf:

Provided that where any amount standing to the credit of the Fund and not charged to income-tax during any previous year is shared, either wholly or in part with a depository, the whole of the amount so shared shall be deemed to be the income of the previous year in which such amount is so shared and shall, accordingly, be chargeable to income-tax.
Explanation.—For the purposes of this clause,—

(i) “depository” shall have the same meaning as assigned to it in clause (e) of sub-section (1) of section 2 of the Depositories Act, 1996 (22 of 1996);


**Income of Venture Capital Company / Fund [Section 10(23FB)]** - This clause exempts any income of a venture capital company (VCC) or venture capital fund (VCF) set up to raise funds for investment in a venture capital undertaking (VCU) referred to in SEBI (VCF) Regulations, 1996 made under the Securities and Exchange Board of India Act, 1992. In order to obtain the exemption, the venture capital company or venture capital fund will require a certificate of registration by SEBI. Further, they should fulfill the conditions specified by the Central Government and SEBI.

It is clarified that the income of a venture capital company or venture capital fund shall continue to be exempt if the shares of the venture capital undertaking, in which the venture capital company or venture capital fund has made the initial investment, are subsequently listed in a recognized stock exchange in India.

**Income of trade unions [Section 10(24)]** - Any income under the heads “income from house property” and “income from other sources” of a registered trade union, within the meaning of the Trade Unions Act, 1926, formed primarily for the purpose of regulating the relations between workmen and the employers or between workmen and workmen will be exempt. Further, this exemption is also available in respect of an association of such registered unions.

**Income of provident funds, superannuation funds, gratuity funds [Section 10(25)]** - Income of a recognized provident fund (RPF) and of an approved superannuation fund or gratuity fund is exempt from tax and the trustees of these funds would not be liable to tax thereon.

The exemption also applies to -

(i) the interest on securities which are held by or are the property of statutory provident fund (SPF) governed by the Provident Funds Act, 1925, applies, and any capital gains of the fund arising from the sale, exchange or transfer of such securities;

(ii) any income received by the trustees on behalf of a recognised provident fund;

(iii) any income received by the trustees on behalf of an approved superannuation fund;

(iv) any income received by the trustees on behalf of an approved gratuity fund;

(v) any income received—

(a) by the Board of Trustees constituted under the Coal Mines Provident Funds and Miscellaneous Provisions Act, 1948 (46 of 1948), on behalf of the Deposit-linked Insurance Fund established under section 3G of that Act; or

(b) by the Board of Trustees constituted under the Employees' Provident Funds and Miscellaneous Provisions Act, 1952 (19 of 1952), on behalf of the Deposit-linked Insurance Fund established under section 6C of that Act.

**Income tax exemption to Employees State Insurance (ESI) Fund [Section 10(25A)]** - The contributions paid under ESI Act, 1948 and all other moneys received on behalf of the ESI Corporation are paid into a Fund called the ESI Fund. This Fund is held and administered by the ESI Corporation. The amounts lying in
the Fund are to be expended for payment of cash benefits and provision of medical treatment and attendance to insured persons and their families, establishment and maintenance of hospitals and dispensaries, etc. Any income of the ESI Fund is exempted.

**Income of member of a scheduled tribe [Section 10(26)]** - A member of a Scheduled Tribe residing in -
(i) any area (specified in the Constitution) or
(ii) in the States of Manipur, Tripura, Arunachal Pradesh, Mizoram and Nagaland, or
(iii) in the Ladakh region of the state of Jammu and Kashmir is exempt from tax on his income arising or accruing -
   (a) from any source in the areas or States aforesaid.
   (b) by way of dividend or interest on securities.

**Exemption of income of a Sikkimese Individual [Section 10(26AAA)]**
(i) 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.

(ii) However, this exemption will not be available to a Sikkimese woman who, on or after 1st April, 2008, marries a non-Sikkimese individual.

**Exemption of income of an Agricultural Produce Market Committee or Board [Section 10(26AAB)]** - Any income of an Agricultural Produce Market Committee or Board constituted under any law for the time being in force for the purpose of regulating the marketing of agricultural produce would be exempt.

**Income of a corporation etc. for the promotion of interests of members of scheduled casts or tribes or both [Section 10(26B)]** - Any income of a corporation (established by a Central, State or Provincial Act) or other body, institution or association (wholly financed by Government) formed for promotion of the interests of the members of scheduled casts or tribes or backward classes or of any two or all of them is exempt from tax.

**Exemption of income of corporations established to protect interests of minority community [Section 10(26BB)]** - Any income of a corporation established by the Central Government or any State Government for promoting the interests of the members of a minority community will be exempt from income tax. Section 80G also provides tax relief in respect of donations made to these corporations.

**Exemption of income of corporation established by a Central, State or Provincial Act for welfare of ex-servicemen [Section 10(26BBB)]** - This clause exempts any income of a corporation established by a Central, State or Provincial Act for the welfare and economic upliftment of ex-servicemen, being citizens of India.

**Co-operatives for scheduled castes [Section 10(27)]** - Any income of a co-operative society formed for promoting the interests of the members of either the scheduled castes or scheduled tribes will be exempted from being included in the total income of the society.

**Conditions:**
(a) The membership of the co-operative society should consist of only other cooperative societies formed for similar purposes, and
(b) The finances of the society shall be provided by the Government and such other societies.

**Incomes of certain bodies like Coffee Board, etc. [Section 10(29A)]** - Under this clause, any income accruing or arising to the following bodies is exempt from tax:
(a) the Coffee Board constituted under section 4 of the Coffee Act, 1942,
(b) the Rubber Board constituted under section 4(1) of the Rubber Board Act, 1947,
(c) the Tea Board established under section 4 of the Tea Act, 1953,
(d) the Tobacco Board constituted under the Tobacco Board Act, 1975,
(e) the Marine Products Export Development Authority established under section 4 of the Marine Products Export Development Authority Act, 1972,
(f) the Agricultural and Processed Food Products Export Development Authority established under section 4 of the Agricultural and Processed Food Products Export Development Act, 1985,
(g) the Spices Board constituted under section 3(1) of the Spices Board Act, 1986,
(h) the Coir Board established under the Coir Industry Act, 1953.

**Tea board subsidy [Section 10(30)]** - The amount of any subsidy received by any assessee engaged in the business of growing and manufacturing tea in India through or from the Tea Board will be wholly exempt from tax.

**Conditions:** (a) The subsidy should have been received under any scheme for replantation or replacement of the bushes or for rejuvenation or consolidation of areas used for cultivation of tea.

(b) The assessee should furnish a certificate from the Tea Board as to the subsidy received by him during the previous year to the Assessing Officer along with his return of the relevant assessment year or within the time extended by the Assessing Officer for the purpose.

**Other subsidies [Section 10(31)]** - Amount of any subsidy received by an assessee engaged in the business of growing and manufacturing rubber, coffee, cardamom or other specified commodity in India from or through the Rubber Board, Coffee Board, Spices Board or any other Board in respect of any other commodity under any scheme for replantation or replacement of rubber, coffee, cardamom or other plants or for rejuvenation or consolidation of areas used for cultivation of all such commodities will be exempt from income-tax. Condition for submission of certificate is applicable.

**Exemption in respect of clubbed income of minor [Section 10(32)]** - In case the income of an individual (i.e. the parent) includes the income of his minor child in terms of section 64(1A), such parent shall be entitled to exemption of ` 1,500 in respect of each minor child. However, if income of any minor so includible is less than ` 1,500, then the entire income shall be exempt.

**Illustration 1:**
Mr. Khanna has an income from salary of ` 3,00,000. Details of income of his minor children are:
- Minor daughter has earned an interest income from bank FD: ` 5,000
- His minor son has also earned an interest income on NSC: ` 1,000.
Compute his gross total income for the P.Y. 2013-14.

**Solution:**
**Computation of Gross Total income of Mr. Khanna for the P.Y.2013-14**

<table>
<thead>
<tr>
<th>Income from Salary</th>
<th>` 3,00,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income from other sources</td>
<td></td>
</tr>
<tr>
<td>- Minor daughter’s interest income from bank FD</td>
<td>` 5,000</td>
</tr>
<tr>
<td>Less: Exempt under section 10(32)</td>
<td>(`1,500)</td>
</tr>
<tr>
<td>- Minor son’s interest income on NSC</td>
<td>` 1,000</td>
</tr>
<tr>
<td></td>
<td>` 3,500</td>
</tr>
</tbody>
</table>
Income Exempt From Income Tax

<table>
<thead>
<tr>
<th>Less: Exempt under section 10(32)</th>
<th>1,000</th>
<th>Nil</th>
<th>3,500</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Total Income</td>
<td>3,03,500</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Exemption of capital gain on transfer of a unit of Unit Scheme, 1964 (US 64) [Section 10(33)] - This clause provides that any income arising from the transfer of specified units, shall be exempt from tax. Such transfer should take place on or after 1.4.2002.

Exclusion of dividends referred to in section 115-O from total income [Section 10(34)] - This clause provides that any income by way of dividends referred to in section 115-O shall be exempt. Under section 115-O, any amount declared, distributed or paid by a domestic company by way of dividend shall be subject to dividend distribution tax @ 16.995% (i.e., 15% plus surcharge @ 10% plus education cess @2% plus SHEC @ 1%). Therefore, a domestic company is liable to pay dividend distribution tax in addition to income-tax chargeable in respect of total income. The dividend income would, however, be exempt in the hands of the shareholder.

Income arising to an assessee, being a shareholder, on account of buy back of shares [Section 10(34A)] - Any income arising to an assessee, being a shareholder, on account of buy back of shares (not being listed on a recognised stock exchange) by the company as referred to in section 115QA.

Exemption of income from units from the Administrator of specified undertaking / specified company / mutual fund specified in clause (23D) [Section 10(35)] - This clause provides that any income received in respect of units from the Administrator of the specified undertaking / specified company / Mutual Fund specified under clause (23D) shall be exempt. Exemption shall not apply to any income arising from transfer of such units.

[Section 10(35A)]
Any income by way of distributed income referred to in section 115TA received from a securitisisation trust by any person being an investor of the said trust.

Explanation.—For the purposes of this clause, the expressions “investor” and “securitisisation trust” shall have the meanings respectively assigned to them in the Explanation below section 115TC.

Exemption of long term capital gains on transfer of listed equity shares [Section 10(36)] - Any income arising from transfer of a long-term capital asset, being an eligible equity share in a company purchased on or after 01.03.2003 but before 01.03.2004, and held for a period of 12 months or more shall be exempt from tax.

“Eligible equity share” means –

(i) any equity share in a company being a constituent of BSE-500 Index of the Stock Exchange, Mumbai as on 01.03.2003 and the transactions of purchase and sale of such equity share are entered into on a recognised stock exchange in India;

(ii) any equity share in a company allotted through a public issue on or after 01.03.2003 and listed in a recognised stock exchange in India before 01.03.2004 and the transaction of sale of such share is entered into on a recognised stock exchange in India.

Exemption of specified income arising from any international sporting event in India [Section 10(39)]
(i) This clause exempts income of the nature and to the extent, arising from any international sporting event in India, to the person or persons notified by the Central Government in the Official Gazette.

(ii) Such international sporting event should –

(1) be approved by the international body regulating the international sport relating to such event;
(2) have participation by more than two countries;
(3) be notified by the Central Government in the Official Gazette for the purposes of this clause.

(iii) Accordingly, in exercise of the powers conferred by section 10(39), the Central Government has notified the following:
(a) the Commonwealth Games Federation, London, United Kingdom as the person,
(b) the Commonwealth Games 2010 to be held in India, as the international sporting event,
(c) the income arising to Commonwealth Games Federation from Commonwealth Games 2010 Delhi, India amounting to 7.3 million GBP, as the specified income, for the purposes of exemption under section 10(39).

Exemption of certain grants etc. received by a subsidiary from its Indian holding company engaged in the business of generation or transmission or distribution of power [Section 10(40)]
(i) This clause exempts income of any subsidiary company by way of grant or otherwise received from an Indian company, being its holding company engaged in the business of generation or transmission or distribution of power.

(ii) The receipt of such income should be for settlement of dues in connection with reconstruction or revival of an existing business of power generation.

(iii) The exemption under this clause is available if the reconstruction or revival of any existing business of power generation is by way of transfer of such business to the Indian company notified under section 80-IA(4)(v)(a).

Exemption of any income from transfer of an asset of an undertaking engaged in the business of generation or transmission or distribution of power [Section 10(41)]
(i) This clause exempts income arising from transfer of a capital asset, being an asset of an undertaking engaged in the business of generation or transmission or distribution of power.

(ii) Such transfer should be effected on or before 31st March, 2006, to an Indian company notified under section 80-IA(4)(v)(a).

Exemption of specified income of certain bodies or authorities [Section 10(42)]
(i) This clause exempts income, of the nature and to the extent, arising to a body or authority, notified by the Central Government.

(ii) Such body or authority should have been established or constituted or appointed -

(a) under a treaty or an agreement entered into by the Central Government with two or more countries or a convention signed by the Central Government;
(b) not for the purposes of profit.

Exemption of income received by any person on behalf of NPS Trust [Section 10(44)] - The New Pension System (NPS), operational since 1st January, 2004, is compulsory for all new recruits to the Central Government service from 1st January, 2004. Thereafter, it has been opened up for employees of State Government and private sector.

NPS Trust has been set-up on 27th February, 2008 as per the provisions of the Indian Trust Act, 1882 to manage the assets and funds under the NPS in the interest of the beneficiaries. The NPS Trust from the applicability of –
(i) income-tax on any income received by any person for, or on behalf of, the NPS Trust [Section 10(44)]

(ii) dividend distribution tax in respect of dividend paid to any person for, or on behalf of, the NPS Trust; and

(iii) securities transaction tax on all purchases and sales of equity and derivatives by the NPS Trust.

Further, the NPS Trust shall receive all income without any deduction of tax at source. [Section 197A(1E)].

Thus, the NPS Trust, which was set up to manage the assets and funds under the New Pension System in the interest of the beneficiaries, would enjoy a “pass-through status”.

**Exemption of specified allowances and perquisites paid to Chairman or a retired Chairman or any other member or retired member of the UPSC [Section 10(45)]**

(i) Under the Income-tax Act, 1961, perquisites and allowances received by an employee are taxable under the head “Salaries” unless they are specifically exempted.

(ii) Section 10(45) exempts specified allowances and perquisites received by Chairman or any other member, including retired Chairman/member, of the Union Public Service Commission (UPSC).

(iii) The exemption would be available in respect of such allowances and perquisites as may be notified by the Central Government in this behalf.

(iv) Accordingly, the Central Government has notified the following allowances and perquisites for serving Chairman and members of UPSC, for the purpose of exemption under section 10(45) –

   (i) the value of rent free official residence,
   (ii) the value of conveyance facilities including transport allowance,
   (iii) the sumptuary allowance and
   (iv) the value of leave travel concession.

In case of retired Chairman and retired members of UPSC, the following have been notified for exemption under section 10(45):

(i) a sum of maximum `14,000 per month for defraying the service of an orderly and for meeting expenses incurred towards secretarial assistance on contract basis.

(ii) the value of a residential telephone free of cost and the number of free calls to the extent of `1,500 pm (over and above free calls per month allowed by the telephone authorities)

**Note** – Tax exemption is also available in respect of certain specified perquisites enjoyed by Chief Election Commissioner/Election Commissioner and judges of Supreme Court on account of the enabling provisions in the respective Acts which govern their service conditions.

**Exemption of specified income of notified entities not engaged in commercial activity [Section 10(46)]**

(i) Section 10(46) provides for exemption of income arising to a body or authority or Board or Trust or Commission, the nature and extent of which is to be specified by the Central Government.
(ii) For availing the benefit of exemption under this clause, the body or authority or Board or Trust or Commission should be set up or constituted by or under a Central, State or Provincial Act or constituted by the Central or State Government with the object of regulating or administering an activity for the benefit of the general public.

(iii) Further, the body or authority or Board or Trust or Commission should –

1. not be engaged in any commercial activity;
2. be notified by the Central Government in this behalf.

(iv) Accordingly, the Central Government has notified that for the purposes of section 10(46), the following income arising to the National Skill Development Corporation (NSDC), a body constituted by the Central Government, for F.Y. 2011-12 to F.Y. 2015-16, shall not be chargeable to tax:

1. long-term or short-term capital gain out of investment in an organization for skill development;
2. dividend and royalty from skill development venture supported or funded by NSDC;
3. interest on loans to Institutions for skill development;
4. interest earned on fixed deposits with banks; and
5. amount received in the form of Government grants.

Such exemption shall apply if:

1. the activities and the nature of the specified income of NSDC remain unchanged throughout the financial year, and
2. NSDC files its return of income in accordance with section 139(4C)(g).

(v) Further, the Central Government has notified that for the purposes of section 10(46), the following income arising to the Competition Commission of India (CCI), a Commission established under section 7(1) of the Competition Act, 2002, for F.Y. 2011-12 to F.Y. 2015-16, shall not be chargeable to tax:

1. amount received in the form of Government grants;
2. fee received under the Competition Act, 2002; and
3. interest income accrued on Government grants and interest accrued on fee received under the Competition Act, 2002.

Such exemption shall apply if:

1. the activities and the nature of the specified income of CCI remain unchanged throughout the financial year, and
2. CCI files its return of income in accordance with section 139(4C)(g).

Exemption of income of notified infrastructure debt funds and concessional tax rate on interest received by non-residents from such fund [Section 10(47)]
(i) In order to give a fillip to infrastructure and encourage inflow of long-term foreign funds to this sector, the Central Government to notify infrastructure debt funds to be set up in accordance with the prescribed guidelines, the income of which would be exempt from tax.

(ii) Interest income received by a non-resident or a foreign company from such fund would be subject to tax at a concessional rate of 5% under section 115A on the gross amount of such interest income.

Exemption in respect of income received by certain foreign companies in India in Indian currency from sale of crude oil, any other goods or rendering of services, as may be notified by the Central Government in this behalf, to any person in India [Section 10(48)]

(i) A mechanism has been devised, in the national interest, to make payment to certain foreign companies in India in Indian currency for import of crude oil.

(ii) In order to provide exemption in respect of such income in the hands of the foreign company, especially since the payment is made in the interest of the nation, new clause (48) has been inserted in section 10 to exempt any income of a foreign company received in India in Indian currency on account of sale of crude oil, any other goods or rendering of services, as may be notified by the Central Government in this behalf, to any person in India.

(iii) The following conditions have to be fulfilled for claim of such exemption –

The money has been received under an agreement or arrangement which is either entered into, or approved by, the Central Government;

The foreign company, as well as the arrangement or agreement, are notified by the Central Government having regard to the national interest.

The foreign company is not engaged in any other activity in India, except receipt of income under such arrangement or agreement.

Income of the National Financial Holdings Company Limited [Section 10(49)] - Any income of the National Financial Holdings Company Limited, being a company set up by the Central Government, of any previous year relevant to any assessment year commencing on or before the 1st day of April, 2014.

Students should carefully note that all the items under section 10 listed above are altogether exempt from taxation and they are not even includible in the total income of the person concerned.

2. Tax Holiday for Newly Established Units in Special Economic Zones [Section 10AA]
A deduction of profits and gains which are derived by an assessee being an entrepreneur from the export of articles or things or providing any service, shall be allowed from the total income of the assessee.

(1) Assessee who are eligible for exemption
Exemption is available to all categories of assessees who derive any profits or gains from an undertaking being a unit engaged in the export of articles or things or providing any service. Such assessee should be an entrepreneur referred to in section 2(j) of the SEZ Act, 2005 i.e., a person who has been granted a letter of approval by the Development Commissioner under section 15(9).

(2) Essential conditions to claim exemption
The exemption shall apply to an undertaking which fulfils the following conditions:

(i) It has begun or begins to manufacture or produce articles or things or provide any service on or after 01.04.2005 in any SEZ.
(ii) It should not be formed by splitting up or reconstruction of a business already in existence (except in circumstances provided in section 33B) or formed by transfer to a new business, of plant and machinery previously used for any purpose exceeding 20% of the total value of machinery and plant used in the business.

(iii) For this purpose, any machinery or plant which was used outside India by any person other than the assessee shall not be regarded as machinery or plant previously used for any purpose if the following conditions are fulfilled:

(a) such machinery or plant was not at any time used in India;

(b) such machinery or plant is imported into India from any country outside India; and

(c) no deduction on account of depreciation has been allowed in respect of such machinery or plant to any person earlier.

(iv) The assessee should furnish in the prescribed form [Form No. 56F], alongwith the return of income, the report of a chartered accountant certifying that the deduction has been correctly claimed.

(v) The conditions laid down in sub-section (8) (relating to inter-unit transfer) and subsection (10) (relating to showing excess profit from such unit) of section 80-IA shall, so far as may be, apply in relation to the undertaking referred to in this section as they apply for the purposes of the undertaking referred to in section 80-IA.

(3) Period for which deduction is available: The unit of an entrepreneur, which begins to manufacture or produce any article or thing or provide any service in a SEZ on or after 01.04.2005, shall be allowed a deduction of:

(i) 100% of the profits and gains derived from the export, of such articles or things or from services for a period of 5 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, and

(ii) 50% of such profits and gains for further 5 assessment years.

(iii) A further deduction for next 5 consecutive years shall be so much of the amount not exceeding 50% of the profit as is debited to the profit and loss account of the previous year in respect of which the deduction is to be allowed and credited to a reserve account (to be called the "Special Economic Zone Re-investment Reserve Account") to be created and utilised in the manner laid down under section 10AA(2).

Example: An undertaking is set up in a SEZ and begins manufacturing on 15.10.2006. The deduction under section 10AA shall be allowed as under:

(a) 100% of profits of such undertaking from exports from A.Y.2007-08 to A.Y.2011-12.

(b) 50% of profits of such undertaking from exports from A.Y.2012-13 to A.Y. 2016-17.

(c) 50% of profits of such undertaking from exports from A.Y.2017-18 to A.Y.2021-22 provided certain conditions are satisfied.

(4) Conditions to be satisfied for claiming deduction for further 5 years (after 10 years) [Section 10AA(2)]: Sub-section (2) provides that the deduction under (3)(iii) above shall be allowed only if the following conditions are fulfilled, namely:-
the amount credited to the Special Economic Zone Re-investment Reserve Account is utilised-

(1) for the purposes of acquiring machinery or plant which is first put to use before the expiry of a period of three years following the previous year in which the reserve was created; and

(2) until the acquisition of the machinery or plant as aforesaid, for the purposes of the business of the undertaking. However, it should not be utilized for

(i) distribution by way of dividends or profits; or

(ii) for remittance outside India as profits; or

(iii) for the creation of any asset outside India;

(b) the particulars, as may be specified by the CBDT in this behalf, have been furnished by the assessee in respect of machinery or plant. Such particulars include details of the new plant/machinery, name and address of the supplier of the new plant/machinery, date of acquisition and date on which new plant/machinery was first put to use. Such particulars have to be furnished along with the return of income for the assessment year relevant to the previous year in which such plant or machinery was first put to use.

(5) Consequences of mis-utilisation / non-utilisation of reserve [Section 10AA(3)]

Where any amount credited to the Special Economic Zone Re-investment Reserve Account -

(a) has been utilised for any purpose other than those referred to in sub-section (2), the amount so utilized shall be deemed to be the profits in the year in which the amount was so utilised and charged to tax accordingly; or

(b) has not been utilised before the expiry of the said period of 3 years, the amount not so utilised, shall be deemed to be the profits in the year immediately following the said period of three years and be charged to tax accordingly [Sub-section (3)].

(6) Computation of profit and gains from exports of such undertakings: The profits derived from export of articles or things or services (including computer software) 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 such articles or things or computer software bears to the total turnover of the business carried on by the undertaking. i.e.

Profits from business of the undertaking being the unit

\[
\left( \frac{\text{Export turnover of the undertaking of such articles or things or computer software}}{\text{Total turnover of the business carried on by the undertaking}} \right)
\]

(7) Conversion of EPZ / FTZ into SEZ : Where a Unit initially located in any FTZ or EPZ is subsequently located in a SEZ by reason of conversion of such FTZ or EPZ into a SEZ, the period of 10 consecutive assessment years referred to above shall be reckoned from the assessment year relevant to the previous year in which the Unit began to manufacture, or produce or process such articles or things or services in such FTZ or EPZ.

However, where a unit initially located in any FTZ or EPZ is subsequently located in a SEZ by reason of conversion of such FTZ or EPZ into a SEZ and has already completed the period of 10 consecutive assessment years, it shall not be eligible for further deduction from income w.e.f. A.Y.2006-07.
Note - The provisions of erstwhile section 10A shall not apply to any undertaking, being a Unit referred to under section 2(zc) of the SEZ Act, 2005, which has begun or begins to manufacture or produce articles or things or computer software during the previous year relevant to the assessment year commencing on or after the 1.4.2006 in any SEZ. "Unit" as per section 2(zc) of the SEZ Act, 2005 means unit set up by an entrepreneur in a Special Economic Zone and includes an existing Unit, an Offshore Banking Unit and a Unit in an International Financial Services Centre, whether established before or after the commencement of this Act.

(8) Restriction on other tax benefits

(i) The loss referred to in section 72(1) or section 74(1)/(3), in so far as such loss relates to the business of the undertaking, being the Unit shall be allowed to be carried forward or set off.

(ii) In order to claim deduction under this section, the assessee should furnish report from a Chartered Accountant in the prescribed form along with the return of income certifying that the deduction is correct.

(iii) During the period of deduction, depreciation is deemed to have been allowed on the assets. Written down value shall accordingly be reduced.

(iv) No deduction under section 80-IA and 80-IB shall be allowed in relation to the profits and gains of the undertaking.

(v) Any unabsorbed depreciation under section 32(2) or business loss under section 72(1) or loss under the head “Capital gains” under section 74 of the undertaking, being the Unit shall be allowed to be carried forward and set off in the subsequent years.

(vi) Where any goods or services held for the purposes of eligible business are transferred to any other business carried on by the assessee, or where any goods held for any other business are transferred to the eligible business and, in either case, if the consideration for such transfer as recorded in the accounts of the eligible business does not correspond to the market value thereof, then the profits eligible for deduction shall be computed by adopting market value of such goods or services on the date of transfer. In case of exceptional difficulty in this regard, the profits shall be computed by the Assessing Officer on a reasonable basis as he may deem fit. Similarly, where due to the close connection between the assessee and the other person or for any other reason, it appears to the Assessing Officer that the profits of eligible business is increased to more than the ordinary profits, the Assessing Officer shall compute the amount of profits of such eligible business on a reasonable basis for allowing the deduction.

(9) Deduction allowable in case of amalgamation and demerger

(a) no deduction shall be admissible under this section to the amalgamating or the demerged Unit for the previous year in which the amalgamation or the demerger takes place; and

(b) the provisions of this section would apply to the amalgamated or resulting Unit, as they would have applied to the amalgamating or the demerged Unit had the amalgamation or demerger not taken place.
EXAMINATION QUESTIONS

PCC MAY – 2012

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 received a pension of `2,20,000 during the financial year 2013-14.

(iii) Interest on enhanced compensation of `50,000 was received as per court decree in December 2013 by Mr. Yogesh. Out of the said amount a sum of `35,000 relates to preceding financial years.

(iv) 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.

Answer:

(i) Share of income received from HUF is exempt in the hands of member as per section 10(2).

(ii) Pension income of winners of Gallantry Award is exempt u/s 10(18). So Pension received by Mr. Xavier is exempt.

(iii) Interest on enhanced compensation is taxable to the extent of the following.

\[
\begin{align*}
\text{Amount chargeable} & = 50,000 \\
\text{Less: Deduction @ 50\%} & = 25,000 \\
\text{Taxable} & = 25,000
\end{align*}
\]

(iv) As per section 13A, any income of a political party which is chargeable under the head house property received by a political party from any person shall not be included in the total income of the previous year of such political party. So the amount received in the given case is exempt.

---

IPCC MAY – 2011

Question 1

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 31.03.2014 are as under:

\[
\begin{array}{c|c|c|c|c|c|c}
\text{\textbf{\$ in lacs}} & \text{S} & \text{N} \\
\hline
\text{Domestic turnover} & 10 & 100 \\
\text{Export turnover} & 120 & Nil \\
\text{Gross profit} & 20 & 10 \\
\text{Less: Expenses and depreciation} & 7 & 6 \\
\text{Profits derived from the unit} & 13 & 4 \\
\end{array}
\]
The brought forward business loss pertaining to Unit N is `2 lacs. Briefly compute the business income of the assessee. (Modified)

**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 (<code>13 lacs + </code>4 lacs)</td>
<td>17</td>
</tr>
<tr>
<td>Less: Exemption under section 10AA</td>
<td>12</td>
</tr>
<tr>
<td>Less: Brought forward business loss</td>
<td>2</td>
</tr>
</tbody>
</table>

**Working Note**

<table>
<thead>
<tr>
<th>Computation of exemption under section 10AA in respect of Unit S located in a SEZ</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><strong>Total turnover of Unit S</strong></td>
<td><strong>130</strong></td>
</tr>
<tr>
<td>Profit derived from Unit S</td>
<td>13</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Exemption under section 10AA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit of Unit S x Export turnover of Unit S = 13 x 120 Total turnover of Unit S 130</td>
</tr>
</tbody>
</table>

**Note** – 100% of the profit derived from export of articles or things or services is eligible for deduction under section 10AA, assuming that F.Y. 2013-14 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.

---

**PCC  MAY – 2011**

**Question 7** (4 MARKS)

Y Co. Ltd. Furnishes you the following information for the year ended 31.03.2014:

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

Compute deduction under section 10AA for the assessment year 2014-15.

**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.2013-14 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
= Profit of the business of Unit A x \[ \frac{\text{Export Turnover of Unit A}}{\text{Total Turnover of Unit A}} \]

= `30 lakhs x \[ \frac{50}{100} \]

= `15 lakhs

EXERCISES

1. 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.

2. Explain the meaning of the following terms in the context of section 10AA inserted by the Special
Economic Zones Act, 2005 –

(a) Export;
b) Export turnover;
(c) Manufacture.

3. (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?

4. Briefly discuss about the provisions relating to deductibility of expenditure incurred in relation to income
not includible in assessee's total income.

5. What are the incentives for newly established units in Special Economic Zone (Section 10AA)?

Answers
1. c