

Incomes Exempt from Tax

CERTAIN INCOMES OTHER THAN DIVIDENDS AND INTEREST

A] Income from agriculture

Agricultural income is fully exempted from tax. However, the same is to be considered to determine the rate of tax to be applied. It means that even though it is exempt it is included for ratable purpose. It should be noted that there should not be any processing on the agricultural produce. Income from agriculture up to and exclusive of the processing stage will be agricultural income. Income from processing stage and onwards will be in the nature of profits and gains of business and hence will be taxable.

b] Receipt by a member out of H.U.F. income Sec.10 (2): -

Any sum received by a member of a Hindu Undivided family out of the income of the family is fully exempt. This is however, subject to the provisions of Sec.64 (2) of the Income Tax Act, 1961.

H.U.F. is already taxed on this income. The rates are also quite high. Therefore, if there is a distribution amongst its members the same cannot be taxed twice.

c] Casual or non-recurring receipts Sec.10 (3): -

Any receipts, which are of a casual or non-recurring nature, are exempted to the extent specified, however, this particular exemption will not apply to the following receipts even though they are of non-recurring nature.

i] Capital gains arisen during the year.

ii] quasi profits made from business activity

iii] Additional remuneration received from employer by way of increase in D.A., C.C.A.

It means that income from lotteries, cross word puzzles, horse races etc. will attract the provisions of Sec.10 (3). Hence, in the case of casual receipt other than horse races of income from horse races the exemption is only to the extent of Rs. 5,000 and in the case of income from horse race exemption is up to Rs.2, 500. It means that the balance amount is taxable.

d] Amount received under Life Insurance Policy including the bonus allowed on such policy is exempt under Sec.10 (10D).

e] Payments from public provident fund sec.10 (11)

Any payment from public provident fund set up and notified by the Central Govt. is fully exempt from tax.

f] Exchange risk premium Sec.10 (14A) -

Any income received by a financial institution, as exchange risk premium from any person borrowing foreign currency from such institution is exempt provided, such premium is credited by the institution to a special fund.

g] Any Scholarship granted to meet the cost of education is exempt u/s.10 (16).

It should be noted that what is exempt is scholarship and that also to the extent it is used for meeting the cost of education. Free-ship is not exempted.

h] Allowance to members of parliament and state legislatures Sec.10 (17) --

Under this clause the following allowances are exempt.

- 1] Daily allowance received by an individual by reason of being in M.L.A.
- 2] any allowances received under the members of parliament rules, 1986.

l] The annual value of any one palace in the occupation of a ruler is exempt u/s.10 (19 A)

jj] Tax credit certificates Sec.10 (28) -

Any amount adjusted of paid in respect of tax credit certificates under the provisions of the act is exempt.

k] Subsidies received from Tea Board Sec.10 (30) -

In the case of an assessee carrying on business of growing and manufacturing tea in India, any subsidy received from or through tea board under any notified scheme of central Govt. for re plantation or replacement of tea bushes is exempt. The assessee must furnish along with the return of income a certificate from the tea board to that effect.

l] Subsidy received from coffee board, rubber board etc. Sec.10 (31): -

Exemption is available to an assessee carrying on the business of growing and manufacturing rubber, coffees, cardamom or other specified commodities for any subsidy received from or through the concerned board under any specified scheme. However, the assessee must furnish with the return of income a certificate from the board to that effect.

2] CERTAIN INTEREST INCOMES: -

The following interest incomes are exempt from tax --

1. Interest received from notified securities, investments, bonds or premium on redemption of them is exempted.
2. Interest on new capital investment bonds
3. Interest on notified relief bonds.
4. Interest on money borrowed by small industries development Bank of India.
5. Interest payable by an industrial undertaking
6. Interest payable by scheduled bank to a non-resident person or a not ordinarily resident individual on foreign currency deposit.
7. Interest payable by a public company providing a housing finance
8. Interest on securities held by the welfare commissioner Bhopal Gas Victims etc.

4] CERTAIN SALARY INCOMES TO THE EXTENT SPECIFIED: -

The following receipts from employer will be treated as to be exempt from tax. Those are discussed in brief --

- a] Leave travel concession sec.10 (5)

- b] Allowances and perquisites of Govt. employees sec. 10(7)
- c] Gratuity to the extent specified sec. 10(10).
- d] Commuted pension sec. 10(10 A)
- e] Leave salary sec. 10(10 A)
- f] Retrenchment compensation sec. 10(10 B)
- g] House rent allowance sec. 10(13 A).

5] INCOMES IN RESPECT OF CERTAIN BODIES, INSTITUTIONS, ASSOCIATIONS ETC

a] Income of a local authority sec. 10(20) -

The following incomes received in the form of income from house property or by way of supply of commodity or service in its juridical area and supply of water or electricity in any area is exempt.

b] Income of housing authority sec. 10(20 A)

Any income of an authority constituted in India and acting for house construction and providing accommodation facilities or which works for planning and improvement of the cities or towns is exempt.

c] Income of a scientific research association sec.10 (21)

d] Income of a university sec.10 (22) -

Any income of a university or other educational institution existing solely for educational purposes and not for profits is exempt.

e] Income of hospital sec.10 (22 A) -

Any income of a hospital or medical institute for the treatment of persons suffering from illness or mental defectiveness is exempt. The hospital must be established for utility purposes and not for profit purposes.

f] Income of sports association sec.10 (23) -

Any income of a notified institution or association established in India, which has its object as control, supervision, and encouragement in respect of sports is exempt.

g] Income of Khadi & Village board sec.10 (23 BB) -

Any income of an authority established in a state by or under any state or provincial act for the development of Khadi & Village industries is exempt.

h] Income of religious institutions etc Sec.10 (23 BBA) -

Any income such institution established for religious purposes will be exempt.

i] Income of a mutual fund sec.10 (23 D) -

j] Income of trade union sec.10 (24) -

Any income received by a registered trade union under the Indian trade union act, 1926 and formed primarily for the purpose of regularizing relations between workmen and employers or between workmen and workmen is exempt.