

## INCOMES WHICH DO NOT FORM PART OF TOTAL INCOME [Secs. 10(1) to Sec. 10(50), 10AA and 14A]

The following incomes are **EXEMPT FROM TAX** as per section 10, and thereby will not form part of the total income of the assessee:

Sections	Incomes which are exempt
10(1)	Agricultural income. <i>(Details in Topic 'Agricultural Income and its Tax Treatment')</i>
10(2)	Amount received by a member of HUF from the income of the HUF, or in case of impartible estate out of income of family estate.
10(2A)	Share of profit received by a partner from the firm or LLP.
10(4)	Interest received by non-residents from prescribed authorities or on amounts credited to 'Non-resident External Account'.
10(4C)	Any income by way of interest payable to a non-resident, not being a company, or to a foreign company, by any Indian company or business trust in respect of monies borrowed from a source outside India by way of issue of rupee denominated bond, as referred to in Sec. 194LC(2)(ia), during the period 17.09.2018 to 31.03.2019. <i>[Inserted by Finance (No. 2) Act, 2019 w.e.f. A.Y. 2019-20]</i>
10(4D)	Any income accrued or arisen to, or received by a specified fund as a result of transfer of capital asset referred to in Sec. 47(viia) on a recognised stock exchange located in any IFSC and where the consideration for such transaction is paid or payable in <b>convertible foreign exchange</b> or as a result of transfer of securities (other than shares in a company resident in India) or any income from securities issued by a non-resident (not being a Permanent Establishment (PE) of a non-resident in India) and where such income otherwise does not accrue or arise in India or any income from a securitisation trust which is chargeable under the head PGBP, to the extent such income accrued or arisen to, or is received, is attributable to units held by non-resident (not being the PE of a non-resident in India) computed in the prescribed manner. <i>[Amended by Taxation and Other Laws (Relaxation and Amendment of Certain Provisions) Act, 2020 w.e.f. A.Y. 2021-22]</i> <b>'Specified fund'</b> means a fund established or incorporated in India in the form of a trust or a company or a LLP or a body corporate: (i) which has been granted a certificate of registration as a Category III Alternative Investment Fund and is regulated under the SEBI (AIF) Regulations, 2012, made under the SEBI Act, 1992; (ii) which is located in any IFSC; (iii) of which all the units are held by non-residents other than units held by a sponsor or manager
10(5)	Leave travel concession. <i>(Details in Topic 'Income from Salaries')</i>
10(6)	Remuneration received by persons who are not citizens of India. <i>(Details given below this table)</i>

*Incomes which do not form part of total income*

10(6B)	Tax paid by Government or an Indian concern on income ( <i>other than salary, royalty or fees for technical services</i> ) derived by a non-resident (not being a company) or a foreign company from the Government or an Indian Concern.
10(6C)	Income to notified foreign companies by way of royalty or fees for technical services rendered in or outside India in projects connected with security of India.
10(6D)	Income arising to a non-resident (not being a company) or foreign company by way of Royalty from, or Fees for Technical Services rendered in or outside India to, the National Technical Research Organisation (NTRO).
10(7)	Allowances or perquisites allowed or paid as such outside India by the Government to a citizen of India rendering service outside India.
10(10)	Death-cum-retirement gratuity. ( <i>Details in Topic 'Income from Salaries'</i> )
10(10A)	Pension ( <i>Details in Topic 'Income from Salaries'</i> )
10(10AA)	Leave salary. ( <i>Details in Topic 'Income from Salaries'</i> )
10(10B)	Retrenchment compensation. ( <i>Details in Topic 'Income from Salaries'</i> )
10(10BB)	Compensation received by victims of Bhopal Gas Leak Disaster to the extent of loss or damage.
10(10BC)	<p>Compensation received or receivable, by any individual or his legal heir, from the Central Government or a State Government or a local authority on account of any disaster to the extent such amount is not allowed as deduction under Income Tax Act for any loss or damage caused by such disaster.</p> <p><b>‘Disaster’</b> means a catastrophe, mishap, calamity or grave occurrence in any area, arising from natural or man-made causes, or by accident or negligence which results in substantial loss of life or human suffering or damage to, and destruction of, property, or damage to, or degradation of, environment, and is of such a nature or magnitude as to be beyond the coping capacity of the community of the affected area;</p>
10(10C)	Payment at the time of voluntary retirement. ( <i>Details in Topic 'Income from Salaries'</i> )
10(10CC)	Tax on non-monetary perquisites paid by the employer.
10(10D)	Amount paid on life insurance policy. ( <i>Details given below this table</i> )
10(11)/(12)	Amount received from public provident fund (PPF), statutory provident fund (SPF), recognised provident fund (RPF) and unrecognised provident fund (URPF).
10(11A)	Any payment (i.e. interest or withdrawals) made from Sukanya Samriddhi Account.
10(12A)	Amount received by an assessee <b>upto 60%</b> of total amount payable from National Pension System Trust <b>on closure of his account or opting out of pension scheme</b> as referred u/s 80CCD. However, where the amount is received by the nominee on the death of the assessee-employee, then the entire amount received shall not be taxable.
10(12B)	Amount received by an employee, on partial withdrawal made out of his account, from National Pension System Trust under the pension scheme as referred u/s 80CCD upto 25% of the amount of contributions made by him, in accordance with the terms and conditions, specified under the Pension Fund Regulatory and Development Authority Act, 2013 and

	the regulations made thereunder.
10(13)	Payment from approved superannuation fund in specified circumstances and subject to certain limits. <i>(Details given below this table)</i>
10(13A)	House rent allowance. <i>(Details in Topic 'Income from Salaries')</i>
10(14)	Prescribed allowances or benefits. <i>(Details in Topic 'Income from Salaries')</i>
10(15)	Interest on notified securities. <i>(Details given below this table)</i>
10(16)	Educational scholarship or the scholarship granted to meet cost of education. <i>(Details given below this table)</i>
10(17)	Daily allowance to a Member of Parliament or State Legislature (entire amount is exempt) and any other allowances subject to certain conditions. <i>(Details in Topic 'Taxation of Political Parties and Electoral Trust')</i>
10(17A)	Award and Reward given by Central or State Government. <i>(Details given below this table)</i>
10(18)	Pension and family pension to gallantry award winners such as 'ParamVir Chakra' or 'MahaVir Chakra' or 'Vir Chakra' or such other gallantry award. Disability pension granted to members of Naval, military or air forces (irrespective of rank) who have been invalided out of naval, military or air force service on account of bodily disability attributable to or aggravated by such service shall also be exempt from tax.
10(19)	Family pension received by the family members of an armed forces member, including para-military forces member, where death of such member has occurred during operational duties, in such circumstances and subject to such conditions as may be prescribed.
10(19A)	Notional property income of any one palace in the occupation of a former ruler.
10(20)	Income of local authorities. <i>(Details in Topic 'Taxation of Political Parties and Electoral Trust')</i>
10(21)	Income of Approved Research Association u/s 35(1)(ii) or 35(1)(iii) if it applies its income or accumulates it for application, wholly and exclusively for the object for which it is established and for the purpose of accumulation, sec. 11(2) or 11(3) will be applied.
10(22B)	Income of Specified news agency set up in India solely for collection and distribution of news, as may be notified by the Central Government in this behalf, provided it applies its income or accumulates it for application solely for collection and distribution of news. Accordingly, <b>Press Trust of India Ltd</b> , New Delhi has been notified by the Central Government vide Notification No. 72/2015, dated 24.08.2015 for this purpose.
10(23A)	Income of approved professional bodies <i>other than interest on securities, income from house property, income from rendering specific services and interest or dividend income.</i>
10(23C)	Income received by any person on behalf of specified national funds, approved public charitable institutions, educational institution and hospital. <i>(Details in Topic 'Taxation of Charitable/ Religious Trusts')</i>
10(23D)	<del>Subject to the provisions of Chapter XII-E</del> , any income of <ul style="list-style-type: none"> <li>▪ a Mutual Fund registered under the SEBI Act, 1992 or regulations made thereunder or</li> <li>▪ a Mutual Fund set up by a Public Sector Bank or Public Financial Institution</li> </ul>

	authorised by RBI and subject to such conditions as CG may notify. <i>[Words omitted by Finance Act, 2020 w.e.f. A.Y. 2020-21]</i>
10(23DA)	Income of securitisation trust from the activity of securitisation.
10(23EA)	Income of Investor Protection Fund set up by recognized stock exchanges in India, from contributions made by recognised stock exchanges and the members.
10(23FBC)	Income accruing or arising to, or received by, a unit holder from a specified fund or on transfer of units in a specified fund. <i>[Inserted by Taxation and Other Laws (Relaxation and Amendment of Certain Provisions) Act, 2020 w.e.f. A.Y. 2021-22]</i> <b>‘Specified fund’ means a fund established or incorporated in India in the form of a trust or a company or a LLP or a body corporate:</b> <b>(i) which has been granted a certificate of registration as a Category III Alternative Investment Fund and is regulated under the SEBI (AIF) Regulations, 2012, made under the SEBI Act, 1992;</b> <b>(ii) which is located in any IFSC;</b> <b>(iii) of which all the units are held by non-residents other than units held by a sponsor or manager</b>
10(23FC)	Interest received by business trust from Special Purpose Vehicle (SPV). <i>(Details in Topic ‘Taxation of Business Trust (REITs, InvITs and Investment Funds (AIF))’)</i>
10(23FCA)	Income of Real Estate Investment Trust from renting or leasing or letting out of any real estate asset owned directly by such trust.
10(23FD)	Any income received by a unit holder from the business trust, other than the income which is of same nature as referred to in section 10(23FC)(a) and 10(10FCA). <i>(Details in Topic ‘Taxation of Business Trust (REITs, InvITs and Investment Funds (AIF))’)</i>
10(23FE)	<b>Income by way of dividend, interest or long-term capital gains arising from an certain investments made by foreign investors, including sovereign wealth funds. <i>(Details given below this table) [Inserted by Finance Act, 2020 w.e.f. A.Y. 2021-22]</i></b>
10(25)	Any income received by a person on behalf of SPF, RPF, approved superannuation fund, approved gratuity fund and approved coal-mines provident fund.
10(25A)	Income of Employees State Insurance [ESI] Fund set up under Employees’ State Insurance Act, 1948.
10(26AAA)	Income from any source in the state of Sikkim and income from dividend or interest on securities, of a ‘Sikkimese’ individual. However, it will not be available to a Sikkimese woman who on or after 01.04.2008, marries a Non-Sikkimese Individual.
10(26AAB)	Income of an Agricultural Produce Marketing Committee/Board.
10(26B)	Any income of Government corporation, or of any body, institution or association wholly financed by Government, formed for promoting the interests of the members of Scheduled Castes or Scheduled Tribes or Backward Classes or of any two or all of them.
10(26BB)	Any income of Government corporation, formed for promoting the interest of members of minority communities i.e. Muslims, Christians, Sikhs, Buddhist, Zoroastrians/Parsis.

10(26BBB)	Any income of Government corporation, formed for welfare and economic upliftment of ex-servicemen being the citizens of India.
10(27)	Any income of a cooperative society formed for promoting the interest of the members SC/ST, provided that the membership of the cooperative society consists of only other cooperative societies formed for similar purposes and the finances of the society are provided by the Government and such other societies.
10(32)	Income of minor child includible in the total income of the assessee, being the parent, shall be exempt to the extent of such minor's child income or ` 1,500 per child, whichever is less.
10(34)	<p>Dividends from Domestic Companies referred to in section 115-O (<i>other than dividend chargeable to tax u/s 115BBDA</i>).</p> <p><b>Provided that this section shall not be applicable to any income by way of dividend received on or after 01.04.2020 other than dividend on which tax u/s 115-O and 115BBDA, wherever applicable, has been paid.</b></p> <p><b>[Amended by Finance Act, 2020, w.e.f. A.Y. 2021-22]</b></p> <p><b>Reason for Amendment:</b></p> <p>Pursuant to introduction of system of taxing dividends in the hands of shareholders, the Finance Act, 2020 has amended Sec. 10(34) to provide that the provisions of this section shall not be applicable in respect of dividend received on or after 01.04.2020.</p>
10(34A)	<p>Any income to a shareholder on account of buy back of <del>unlisted</del> shares as referred to in sec. 115QA. <b>[Omitted by Finance (No. 2) Act, 2019, w.e.f. 05.07.2019]</b></p> <p><b>Analysis:</b> Pursuant to amendment made u/s 115QA, additional tax shall now be chargeable on buy back of unlisted shares also. In order to provide exemption in respect of income on account of buy back of unlisted shares to a shareholder on which additional tax has been charged, the word 'unlisted' has been omitted u/s 10(34A) and now onwards, income from buy back of shares whether listed or unlisted shall be exempt u/s 10(34A).</p>
10(35)	<p>Income on units of Mutual Fund.</p> <p><b>Provided that this section shall not be applicable to any income in respect of units received on or after 01.04.2020. [Amended by Finance Act, 2020, w.e.f. A.Y. 2021-22]</b></p> <p><b>Analysis of Amendment:</b></p> <p>With effect from A.Y. 2021-22, the additional income tax shall not chargeable on income distributed by the mutual fund to its unit holders. Such income from mutual fund shall be taxable in the hands of unit-holders. Therefore, the Finance Act, 2020 has amended Sec. 10(35) to provide that the exemption shall not be available on any income in respect of units of mutual fund received on or after 01.04.2020.</p>
10(35A)	Income distributed by Securitisation Trust to its investor [i.e. income referred to in section 115TA] ( <i>other than distributed income referred to in sec. 115TA received on or after 01.06.2016</i> ).
10(37)	Capital gains in case of compulsory acquisition of urban agricultural land. ( <i>Details in Chapter 'Capital Gains' Page No.7.68</i> )
10(37A)	Capital Gains on transfer of Specified Capital Asset. ( <i>Details in Chapter 'Capital Gains'</i> )
10(39)	Specified income from international sporting event held in India to the person or persons

*Incomes which do not form part of total income*

	notified by the Central Government.
10(40)	Grants received by specified Subsidiary Company from Holding Company.
10(42)	Income of notified non-profit body/authority.
10(43)	Amount received as loan under a reverse mortgage.
10(44)	Income received by any person for or on behalf of New Pension System Trust.
<del>10(45)</del>	<del>Certain perquisites and allowances paid to Chairman or a retired Chairman or any other member or retired member of UPSC.</del> <i>[Omitted by Finance Act, 2020, w.e.f. A.Y. 2021-22]</i>
10(47)	Income of an infrastructure debt fund notified by the Central Government. <b>‘L&amp;T Infra Debt Fund’</b> has been notified for this purpose.
10(48)	Income of a foreign company received in India in Indian currency by sale of crude oil, any other goods or rendering of services as notified by the Central Government. <b>National Iranian Oil Company</b> has been notified by the Central Government as the foreign company vide Notification No. 91/2018, dated 28.12.2018 for this purpose.
10(48A)	Any income accruing or arising to a foreign company for storage of crude oil in a facility in India and sale of crude oil therefrom to any resident in India. However, such storage and sale by the foreign company should be as per the notified agreement or arrangement with the Central Government or approved by the Central Government.
10(48B)	Any income accruing or arising to a foreign company on sale of leftover stock of crude oil, if any, from the facility in India after the expiry of the agreement or arrangement referred u/s 10(48A) or on termination of the said agreement or the arrangement, in accordance with the terms mentioned therein, subject to such conditions as may notified by the Central Government in this behalf.
10(48C)	<b>Any income accruing or arising to the Indian Strategic Petroleum Reserves Limited, being a wholly owned subsidiary of the Oil Industry Development Board under the Ministry of Petroleum and Natural Gas, as a result of arrangement for replenishment of crude oil stored in its storage facility in pursuance of directions of the Central Government in this behalf.</b>  <b>However, Sec. 10(48C) shall not apply to an arrangement, if the crude oil is not replenished in the storage facility within 3 years from the end of the financial year in which the crude oil was removed from the storage facility for the first time.</b> <i>[Inserted by Finance Act, 2020 w.e.f. A.Y. 2021-22]</i>
10(49)	Income accruing, arising or received to or by National Financial Holdings Company Limited in the assessment year commencing on or before 01.04.2014.
10(50)	Income from any specified service on or after the date on which Chapter VIII of Finance Act, 2016 comes into force or arising from any e-commerce supply or services made or provided or facilitated on or after 01.04.2021 and chargeable to equalisation levy under this chapter. <i>[Amended by Finance Act, 2020 w.e.f. A.Y. 2021-22]</i>

**Certain sections, wherever required from amongst listed above, are explained hereunder:**

**Remuneration received by persons who are not citizens of India will be exempt in the following circumstances: [Sec. 10(6)]**

- Remuneration received by a foreign national as an official (by whatever name called) of an embassy, high commission, legation, commission, consulate or the trade representation of a foreign state if they enjoys similar exemption in foreign country also.
- Remuneration received by members of staff of above officials for service in such capacity if they are subjected of the country represented and not engaged in any business or profession or employment in India (otherwise than as members of such staff).
- Remuneration received by him as an employee of a foreign enterprise for services rendered by him during his stay in India, provided the following conditions are fulfilled:
  - (i) the foreign enterprise is not engaged in any trade or business in India;
  - (ii) his stay in India does not exceed in the aggregate a period of ninety days in such previous year; and
  - (iii) such remuneration is not liable to be deducted from the income of the employer chargeable under this Act.
- Any salary received by or due to any such non-resident individual employed on a foreign ship provided his stay in India does not exceed in the aggregate a period of 90 days in the previous year.
- Remuneration received by a foreign trainee as an employee of foreign Government during his stay in India in connection with his training in any establishment or office, or in any undertaking owned by,
  - i. the Government; or
  - ii. any company owned by the Central Government, or any State Government
  - iii. any company which is a subsidiary of a company referred to in item (ii); or
  - iv. any corporation established by or under a Central, State or Provincial Act; or
  - v. any co-operative society wholly financed by the Central Government, or any State Government.

**Amount paid on life insurance policy: [Sec. 10(10D)]**

Any sum received under life insurance policy (including bonus) will be exempt.

**However, the following sums shall be taxable:**

- (a) Sum received u/s 80DD(3) or Sec. 80DDA(3); or
- (b) Sum received under a Keyman insurance policy; or
- (c) Sum received under an insurance policy issued during April 1, 2003 to March 31, 2012, where annual insurance premium is more than 20% of actual capital sum assured; or
- (d) Sum received under an insurance policy issued after March 31, 2012, where annual insurance premium is more than 10% of actual capital sum assured.
- (e) Sum received under an insurance policy issued after March 31, 2013 to a person covered u/s 80U or 80DDB, where annual insurance premium is more than 15% of actual capital sum assured.

In cases covered by (c), (d) or (e) above, tax is not deductible if payment is made on the death of a person.

**Actual capital sum assured** means the minimum amount assured under the policy on happening of the insured event at any time during the term of the policy, excluding:

- (i) The value of any premiums agreed to be returned, or
- (ii) Any benefit by way of bonus or otherwise over and above the sum actually assured which is to be received under the policy by any person.

**Payment received from approved superannuation fund: [Sec. 10(13)]**

Any amount received from approved superannuation fund shall be exempt, if it is made:

- (i) On the death of the beneficiary; or
- (ii) To an employee in lieu of or in commutation of an annuity on his retirement at or after specified age or on his becoming incapacitated prior to such retirement; or
- (iii) By way of refund of contributions on death of beneficiary; or
- (iv) By way of refund of contributions 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 on his becoming incapacitated prior to such retirement, to the extent to which such payment does not exceed the contributions made prior to the commencement of this Act and any interest thereon; or
- (v) By way of transfer to the account of the employee under a pension scheme referred to in sec. 80CCD and notified by the Central Government.

**Interest on Securities: [Sec. 10(15)]**

Interest earned from the following shall be exempt:

- Income by way of interest, premium on redemption or other payments on notified bonds, securities, or certificates issued by the Central Government and interest on notified deposits. However, **Post Office Savings Bank Account interest will be exempt only to the extent of ` 3,500 in the case of an individual account and ` 7,000 in the case of joint account.**
- Interest on notified Relief Bonds, in the case of an individual and Hindu undivided family.
- Interest received by a non-resident Indian from notified bonds [i.e. NRI Bonds and NRI Bonds (Second Series) issued by State Bank of India] or by an individual owning such bonds by virtue of being a nominee or survivor of such non-resident Indian or by an individual to whom the bonds have been gifted by the non-resident Indian.

Exemption will be available only if:

- the bonds are purchased by a non-resident Indian in foreign exchange,
- the interest and principal received in respect of such bonds, whether on their maturity or otherwise, is not allowable to be taken out of India.
- the bonds are not encashed before maturity. If they are encashed in a previous year prior to their maturity, the interest for that previous year shall be taxable.

Where the non-resident individual becomes a resident in India in any subsequent year, the interest received from such bonds will continue to be exempt in the subsequent years as well.

- Interest payable to any foreign bank performing central banking functions outside India where such bank has made deposits with any scheduled bank in India with the approval of the Reserve Bank of India.
- Interest payable by a scheduled bank to a non-resident or a person who is resident but not ordinarily resident within the meaning of section 6(6) on deposits, approved by RBI, in foreign currency.
- Interest payable by public sector companies on certain specified bonds and debentures subject to such conditions, as may be specified by the Central Government by notification in the Official Gazette.'
- Interest on deposits, with a notified scheme, made by a retiring Government employee or public sector employee out of his retirement benefits for a lock-in-period of three years.
- Interest on Gold Deposit Bonds issued under the Gold Deposit Scheme, 1999 or deposit certificates issued under the Gold Monetisation Scheme, 2015.
- Interest on notified bonds issued by local authority or by State Pooled Finance Entity.



- Interest received by a non-resident or resident but not ordinarily resident in India on deposit made after March 31, 2005 in an Offshore Banking Unit.
  - Interest payable to a non-resident by a unit located in an IFSC in respect of monies borrowed by it on or after 01.09.2019.
- [Inserted by Finance (No. 2) Act, 2019, w.e.f. A.Y. 2020-21]*

**Educational scholarship or the scholarship granted to meet cost of education: [Sec. 10(16)]**

- For exempting the amount received u/s 10(16), the object of such payment must be to meet the cost of education.
- The exemption under this section shall not be denied merely on the ground that the recipient does not spend the whole amount towards education or that he is able to save something out of it.
- Scholarship given by the employer company to the children of the employees solely at his discretion (and not because the children are of his employees) is also exempt under this section.

**Award and Reward given by Central or State Government: [Sec. 10(17A)]**

Any payment made in cash or in kind will be exempt when it is made:

- (i) In pursuance of any award instituted in the public interest by the Central Government or any State Government or instituted by any other body and approved by the Central Government in this behalf; or
- (ii) As a reward by the Central Government or any State Government for such purposes as may be approved by the Central Government in this behalf in the public interest.

Some awards which have been notified are Shri Jagdish Chandra Bose Award for research in life experiences, Sir C.V. Raman Award for experimental research in applied sciences, National awards for films, gallantry awards like Ashok Chakra, Kirti Chakra, etc.

**Income of Sovereign Wealth Funds: [Sec. 10(23FE)]**

*[Inserted by Finance Act, 2020 w.e.f. A.Y. 2021-22]*

Any income of a specified person in the nature of dividend, interest or long-term capital gains arising from an investment made by it in India, whether in the form of debt or share capital or unit, if the investment:

- (i) is made on or after 01.04.2020 but on or before 31.03.2024;
- (ii) is held for atleast 3 years; and
- (iii) is in -
  - (a) a business trust referred to in Sec. 2(13A)(i); or
  - (b) a company or enterprise or an entity carrying on the business of developing, or operating and maintaining, or developing, operating and maintaining any infrastructure facility as defined in Sec. 80-IA or such other business as the Central Government may, by notification in the Official Gazette, specify in this behalf; or
  - (c) a Category-I or Category-II Alternative Investment Fund regulated under the SEBI (Alternative Investment Fund) Regulations, 2012, made under the SEBI Act, 1992 (15 of 1992), having 100% investment in one or more of the company or enterprise or entity referred to in item (b):

Provided that where during any previous year the specified person fails to satisfy any of the conditions of this section, the income exempt earlier shall be taxable in the hands of the specified person of that previous year.

For the purposes of this section, 'specified person' means:

- (a) a wholly owned subsidiary of the Abu Dhabi Investment Authority which:
  - (i) is a resident of the UAE, and
  - (ii) makes investment, directly or indirectly, out of the fund owned by the Government of Abu Dhabi.
- (b) a sovereign wealth fund which satisfies the following conditions:
  - (i) it is wholly owned and controlled, directly or indirectly, by the Government of a foreign country,
  - (ii) it is set up and regulated under the law of such foreign country,
  - (iii) the earnings of the said fund are credited either to the account of the Government of that foreign country or to any other account designated by that Government so that no portion of the earnings inures any benefit to any private person,
  - (iv) the asset of the said fund vests in the Government of such foreign country upon dissolution,
  - (v) it does not undertake any commercial activity whether within or outside India, and
  - (vi) it is specified by the Central Government, by notification in the Official Gazette, for this purpose and fulfils conditions specified in such notification.
- (c) a pension fund, which:
  - (i) is created or established under the law of a foreign country including the laws made by any of its political constituents being a province, State or local body, by whatever name called,
  - (ii) is not liable to tax in such foreign country,
  - (iii) satisfies such other conditions as may be prescribed, and
  - (iv) is specified by the Central Government, by notification in the Official Gazette, for this purpose and fulfils conditions specified in such notification.

## **AGRICULTURAL INCOME & ITS TAX TREATMENT**

**[Sec. 2(1A) and Sec. 10(1)]**

### **Agricultural Income Exempt: [Sec. 10(1)]**

In computing the total income of the previous year of any person, 'agricultural income' shall not be included. Thus, section 10(1) clearly **exempts agricultural income from the total income** of the assessee for the purpose of income-tax.

### **Definition of Agricultural Income [Sec. 2(1A)]**

**'Agricultural income'** means:

- (a) any rent or revenue derived from agricultural land situated in India;  
Revenue derived from land shall not include and shall be deemed never to have included any income arising from the transfer of land referred to in Section 2(14). *Explanation 1 to Sec. 2(1A)*  
In other words, revenue from transfer of agricultural land shall NOT be an agricultural income.
- (b) any income derived from such land by-
  - (i) agriculture; or
  - (ii) processing of agricultural produce raised or received by him so as to render it fit for the market; or
  - (iii) sale by a cultivator or receiver of rent-in-kind of the produce raised or received by him;
- (c) any income derived from any building occupied by the receiver of the rent of such land, or occupied by the cultivator;  
Income derived from any building or land referred to in sub-clause (c), from the use of such building or land for any purpose (including letting for residential or business/profession purpose), **other than agriculture**, or by transfer of land shall NOT be an agricultural income. *Explanation 2 to Sec. 2(1A)*

Any income derived from sale of seedlings or saplings grown in a nursery shall be deemed to be an agricultural income and thus exempt u/s 10(1). *Explanation 3 to Sec. 2(1A)*

### **POINTS TO NOTE:**

- 1. **Basic Operations:** These involve cultivation of the ground, in the sense of tilling of the land, sowing of the seeds, planting and similar operations on the land. Such basic operations demand the expenditure of human labour and skill upon the land itself and further they are directed to make the crop sprout from the land.
- 2. **Subsequent Operations:** After the crop sprouts from the land, there are subsequent operations which have to be resorted to by the agriculturists for the efficient production of the crop such as weeding, digging the soil around the growth, removal of undesirable growths, prevention of the crop from insects and pests and from depredation by cattle and tending, pruning, cutting, etc.

### **Income from Farm Building: [Proviso to sec. 2(1A)(c)]**

Any income attributable to a building (a farm house) is **treated as agricultural income** provided the following conditions are satisfied:

- (i) Building should be **on or in the immediate vicinity of the agricultural land situated in India**;

- (ii) Building should be **used by the occupier** by reason of his connection with the agricultural land as a dwelling house; store house or any other out-building.
- (iii) The land should be assessed to land revenue or a local rate or otherwise **situated outside urban area**.

### **ANALYSIS OF INCOME FROM FARM HOUSE:**

Income attributable to farm house situated in urban areas will be treated as agricultural income only if the land on which the farm house is situated is assessed to land revenue or local rate. Whereas, in case of farm house situated in rural areas, its income will always be treated as agricultural income, whether the land on which the farm house is situated is assessed to land revenue or any local rate or not.

#### **Instances of Agricultural Income:**

Following incomes have been held to be agricultural income:

- (a) If grass is grown by human effort, by tilling, sowing, planting of any particular kind of seed or cutting, or by any similar operations, basic operations would have been performed. Consequently, the crop would be agricultural and any income derived by the sale of grass would be agricultural income.
- (b) Income from growing flowers and creepers would be agricultural income.
- (c) Interest on capital and salary received by a partner is taxable in his hands u/s 28, but if received from a firm which is engaged in agricultural operations is agricultural income and thus exempt.
- (d) Lease rent received for leasing out land for grazing of cattle required for agricultural pursuits, is agricultural income.
- (e) Compensation received from an insurance company on account of damage caused to the crop is an agricultural income. *[CIT v/s B. Gupta Tea Pvt. Ltd. (1969) 74 ITR 337(Cal.)]*
- (f) Income from toddy is agricultural income when it is received by the actual cultivator of the trees.
- (g) Where the owner himself performs slaughter tapping and then sells the rubber, the income is agricultural income. *[Jacob (K.C.) v/s Ag. ITO (1977) 110 ITR 402 (Ker.)]*
- (h) Lease income derived by a lessor from leasing a coconut garden, to a lessee who pays rent and takes the coconuts from the trees during the lease tenure and has to deliver possession of the coconut garden back to the lessor at the end of the tenure, would be agricultural income in the hands of the lessor.
- (i) **Miscellaneous income from plantation** should also be agricultural income except in respect of sale of trees of spontaneous growth. Thus, where a state undertaking owning a forest, had received income by sale of firewood, grazing permits and compounding fee for trespasses into the plantation, the same shall be treated as agricultural income.

#### **Instances of Non-Agricultural Income:**

- (a) Dividend received from a company which is engaged in agricultural operation shall not be treated as agricultural income in the hands of shareholders.
- (b) Income from growing mulberry leaves and feeding them to silkworms and obtaining silk cocoons.
- (c) Income from dairy farming, butter & cheese making.
- (d) Income from poultry farming.

- (e) Interest on arrears of rent receivable in respect of agricultural income.
- (f) Income derived from allowing a shooting of film in the agricultural land.

In **B. Nagi Reddi v. CIT** (2002), the Madras High Court, following the judgement of Apex Court in the case of **Raja Benoy Kumar Sahas Roy** (1957), held that the income derived from allowing a shooting of film in the agricultural land cannot be treated as agricultural income, as it has **no direct nexus with the land**, except that it was carried out on agricultural land.

To claim exemption for agricultural income under section 10(1), the conditions contained in section 2(1A) have to be first complied with by the assessee. The amount was neither received by him against the sale of agricultural produce obtained nor for carrying out the normal agricultural operations on the land. The amount paid was only for the purpose of shooting of a film on such land. Hence, shooting of a film in the agricultural land does not amount to use of land for agricultural purpose and hence income from such activity is not exempt u/s 10(1).

**Computation of Agricultural and Non-Agricultural Income of Rubber/ Coffee/ Tea Business:**

Income derived from	Rule	Agricultural Income	Non-Agricultural Income
(a) Growing and manufacturing of <b>Rubber</b>	Rule 7A	65% of such income	35% of such income
(b) Growing and curing <b>Coffee</b>	Rule 7B	75% of such income	25% of such income
(c) Growing, curing, <b>roasting and grounding of Coffee</b>	Rule 7B (1A)	60% of such income	40% of such income
(d) Growing and manufacturing of <b>Tea</b>	Rule 8	60% of such income	40% of such income

**Computation of Agricultural Income and Non-Agricultural Income from any product other than tea, rubber and coffee [Rule 7]**

An assessee may have **composite business income** which is partially agricultural and partially non-agricultural, for example, where XYZ Ltd. grows potatoes and further processes its produce to sell them as wafers. In this case the company has composite income *i.e.* from agriculture and from business. The composite income has to be disintegrated as under:

- for computing **agricultural income**, expenses on agriculture such as cultivation, labour expense, etc shall be **deducted from market value of agricultural produce**.
- for computing the **taxable non-agricultural income**, the market value of the agricultural produce which is introduced in the non-agricultural business and the other business expenses shall be deducted.

**Tax on Non-agricultural income if the assessee earns Agricultural income also:**

The Annual Finance Act provides [under Chapter II, section 2] that the net agricultural income shall be taken into account, in the manner provided therein, for the purpose of determining the rates of income-tax applicable to the income of the assessee.

This is known as **partial integration of agricultural income with non-agricultural income or the indirect way of taxing agricultural income**.

*Incomes which do not form part of total income*

Such partial integration is done only in the case of individual, HUF, AOP/BOI and an artificial juridical person, whose total income is taxable under slabs. This scheme is applicable only when the following two **conditions** are satisfied:

- (i) Non-agricultural income of the assessee **exceeds the maximum amount not chargeable to tax (i.e. the basic exemption slab); and**
- (ii) Net Agricultural Income **exceeds ` 5,000.**

**Computation of Tax in above case:**

Step No.	
1	Compute Tax on [Agricultural Income + Non-agricultural Income] as if agricultural income is not exempt.
2	Compute Tax on [Agricultural Income + Maximum Amount not chargeable to tax]
3	Compute Net Tax Payable (Step 1- Step 2) Add: Health & Education Cess @ 4% on the Net Tax payable Total Net Tax Payable

## DEDUCTION FOR SPECIAL ECONOMIC ZONE [Sec. 10AA]

### Special Provisions in respect of Newly Established Units in Special Economic Zones (SEZ): [Sec. 10AA]

- (1) In computing the total income of an assessee, being an entrepreneur who has been granted letter of approval under the SEZ Act, 2005, from his Unit, who begins to manufacture or produce, any article or thing, or providing any services (including computer software) in any Special Economic Zone (SEZ), the deduction shall be:
- **100% of profits and gains derived from the export for 5 consecutive assessment years** beginning with the assessment year relevant to the previous year in which the Unit begins,
  - **50% of such profits and gains for further 5 assessment years, and**
  - **50% of the profits as is debited to the profit and loss account and credited to SEZ Re-investment Reserve Account for next 5 consecutive assessment years.**
- The above deduction shall be allowed from the total income computed **without giving effect** to the provisions of Sec. 10AA and such deduction shall, in no case, exceed the total income of assessee.
- (2) The deduction in respect of amount credited to **SEZ Re-investment Reserve Account** shall be allowed only if the amount credited to SEZ Re-investment Reserve Account is utilized:
- (i) **for acquiring new machinery or plant which is first put to use before the expiry of a period of 3 years following the previous year in which the reserve was created; and**
  - (ii) until the acquisition of new machinery or plant as aforesaid, for the purposes of the business of the undertaking **other than for** distribution by way of dividends or profits or for remittances outside India as profits or for the creation of any assets outside India (i.e., reserve should be kept intact until the acquisition of new plant & machinery);
- (3) Where any amount credited to SEZ Re-investment Reserve Account -
- (a) has been utilized for any purpose other than those mentioned above, the amount so utilized shall be deemed to be the profits of the year in which it was so utilized; or
  - (b) has not been utilized before the expiry of the specified period, the amount not so utilized shall be deemed to be the profits of the year immediately following the period of three years, and shall be charged to tax accordingly.

#### Example:

Suppose, an industrial undertaking, being a Unit, is set up in a Special Economic Zone and it starts production on 25.01.2012. The deduction under section 10AA shall be:

- (i) 100% of profits of such Unit from exports for first 5 years [from A.Y. 2012-13 to A.Y. 2016-17] and then
- (ii) 50% of profits of such Unit from exports for next 5 years [from A.Y. 2017-18 to A.Y. 2021-22] and further
- (iii) 50% of profits of such Unit from exports for further 5 years [from A.Y. 2022-23 to A.Y. 2026-27] provided that the conditions of section 10AA(2) are satisfied by the unit relating to creation of reserves.

Suppose in A.Y. 2023-24, the profits of the Unit in SEZ from exports are ₹ 100 lakhs. Deduction of ₹ 50 lakhs is available if the following entry is passed in the Profit and Loss statement for the financial year ended on 31.03.2023:

Profit and Loss A/c

To Special Economic Zone Reinvestment Reserve A/c

Dr. ₹ 50 lakhs

₹ 50 lakhs

Now, the Unit should purchase a new plant or machinery and put to use on or before 31.03.2026. If the machinery of ` 40 lakhs has been purchased in the year ending on 31.03.2025, then such machinery should be put to use till the year ending on 31.03.2026. The assessee is required to furnish the prescribed particulars of the machinery along with the ROI of the P.Y. 2025-26. Normal depreciation shall be allowable on such Plant & Machinery. ` 10 lakhs which is not utilized shall be treated as income of P.Y. ending on 31.03.2027.

### **Definition of Export Turnover for the purpose of Section 10AA:**

**Export Turnover** means the **consideration** in respect of export by the undertaking, being the Unit, of articles, things or providing any services **received in, or brought into India** by the assessee in convertible foreign exchange, **within a period of six months** from the end of the previous year or within such further period as may be permitted by the RBI,

but **does not include:**

- freight, telecommunication charges, or insurance attributable to the delivery of the articles or things outside India; or
- expenses, if any, incurred in foreign exchange in rendering of services (including computer software) outside India.

### **CIT v. HCL Technologies Limited (2018) 404 ITR 719 (SC) and Circular No. 4/2018, dated 14.08.2018:**

The expenditure incurred in foreign exchange for provision of technical services outside India, is to be excluded from both 'export turnover' and 'total turnover' for computing deduction u/s 10AA.

- **Export in relation to SEZ** means taking goods or providing services out of India from a SEZ by land, sea, air or by any other mode, whether physical or otherwise.
- Profits and gains derived from on-site development of computer software (including services for development of software) outside India shall be deemed to be profits and gains derived from export of computer software outside India.

### **COMPUTATION OF DEDUCTION u/s 10AA:**

**Profits derived from export of articles or things or services (including computer software) =**

$$\begin{array}{ccc} \text{Profits under the head PGBP of the} & & \text{Export Turnover of the Undertaking to which} \\ \text{Undertaking, being the Unit, to which} & \text{X} & \text{sec. 10AA applies.} \\ \text{section 10AA applies} & & \hline & & \text{Total Turnover of the Undertaking to which} \\ & & \text{sec. 10AA applies} \end{array}$$

### **COMPUTATION OF PROFITS FOR SEC. 10AA:**

Profits of the business of the undertaking, being the Unit, shall mean profits of the undertaking under the head profits and gains of business and profession.

As per the decision of Supreme Court in case of LIBERTY INDIA, the following shall not form part of profits for deduction u/s 10AA:

- (i) Cash Compensatory Support (CCS),
- (ii) Duty Drawback,
- (iii) Profit on sale of import entitlement licenses,
- (iv) Duty Exemption Pass Book (DEPB)



The same are also not eligible for deduction under sections 80-IA, 80-IAB, 80-IB, 80-IC, 80-ID and 80-IE.

**POINTS TO NOTE:**

- (i) Section 10AA is a deduction and not an exemption. Therefore, losses and depreciation of the undertaking to which section 10AA applies shall be allowed to set off and carried forward as per the normal provisions.
- (ii) If deduction is claimed in respect of specified business [referred in sec. 35AD] u/s 10AA, no deduction will be available u/s 35AD in respect of that business.
- (iii) In computing the depreciation allowance u/s 32, the WDV of any asset used for the purposes of the business of the undertaking shall be computed as if the assessee had claimed and had been actually allowed the deduction in respect of depreciation for each of the relevant assessment years.

<b>Essential Conditions to claim deduction under section 10AA:</b>
--

The deduction 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 during the previous year relevant to any assessment year commencing on or after 01.04.2006 **but before 01.04.2020** in any Special Economic Zone.
- (ii) It should not be formed by the splitting up or reconstruction of a business already in existence. However, deduction is provided if the unit is formed as a result of the re-establishment, reconstruction or revival by the assessee of the business of the undertaking as is referred to and satisfying the conditions in section 33B.
- (iii) It should also not be formed by the transfer of machinery or plant, previously used for any purpose, to a new business. However, the following are the two exceptions to this condition:
  - (1) 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) The machinery or plant should not be previously used in India.
    - (b) The machinery or plant should be imported into India from a foreign country.
    - (c) No deduction on account of depreciation in respect of such machinery or plant has been allowed or allowable, in any previous year, under the provisions of this Act to any person.
  - (2) Deduction u/s 10AA will be available if the total value of the second hand machinery or plant transferred to the new undertaking does not exceed 20% of the total value of the machinery or plant used in the industrial unit.
- (iv) The assessee should furnish a report of a CA certifying that the deduction has been correctly claimed in accordance with the provisions of this section in the prescribed form [Form No. 56F], alongwith the return of income.
- (v) The provisions relating to inter-unit transfer, [regarding the showing of excess profit from such unit] as contained in section 80-IA shall also 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. Similarly, owing to the close connection with any other person, the business of the eligible assessee is so

arranged that it produces to the assessee more than ordinary profits, the A.O. shall have a right to recompute the profits by taking the reasonable profits which could be derived.

In other words, if the assessee has more than one business and there is a transfer to or from the undertaking eligible for deduction u/s 10AA, the A.O. shall have a power to recompute the profits of such undertaking, if such transaction has not been recorded at market value.

**Conversion of EPZ/FTZ into ‘Special Economic Zone’ [2<sup>nd</sup> Proviso to sec. 10AA]**

Where a unit initially located in any free trade zone (FTZ) or export processing zone (EPZ) is subsequently located in a special economic zone (SEZ) by reason of conversion of such FTZ/EPZ into a SEZ, the period of 10 consecutive assessment years 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/EPZ is subsequently located in a SEZ by reason of conversion of such FTZ or EPZ into a SEZ and has completed the period of 10 consecutive assessment years referred to above, it shall not be eligible for deduction with effect from 1.4.2006.

**Extracts from the clarification on issues relating to Export of Computer Software [Circular no. 1/2013]**

**Question:**

Whether ‘On-Site’ development of Computer Software qualifies as an export activity for tax benefits under section 10AA of the Income-tax Act, 1961?

**Answer:**

It is clarified that the software developed abroad at a client’s place would be eligible for benefits under the respective provisions, because these would amount to ‘deemed export’ and tax benefits would not be denied merely on this ground. However, since the benefits under these provisions can be availed of only by the unit in SEZ, it is necessary that there must exist a direct and intimate nexus or connection of development of software done abroad with the eligible units set up in SEZ and such development of software should be pursuant to a contract between the client and the eligible unit in SEZ.

**Question:**

Whether receipts from deputation of Technical Manpower for such ‘On-Site’ Software development abroad at the Client’s place are eligible for deduction under section 10AA?

**Answer:**

It is clarified that profits earned as a result of deployment of Technical Manpower at the client’s place abroad specifically for software development work pursuant to a contract between the client and the eligible unit should not be denied benefits under section 10AA provided such deputation of manpower is for the development of such software and all the prescribed conditions are fulfilled.

**Question:**

Whether tax benefits under section 10AA, would continue to remain available in case of a slump-sale of a Unit/Undertaking?

**Answer:**

It is clarified that on the sole ground of change in ownership of an undertaking, the claim of deduction cannot be denied to an otherwise eligible undertaking and the tax holiday can be availed of for the

unexpired period at the rates as applicable for the remaining years, subject to fulfillment of prescribed conditions.

**Question:**

Whether tax benefits under section 10AA can be enjoyed by an eligible SEZ unit consequent to its transfer to another SEZ?

**Answer:**

The matter has been examined and it is clarified that the tax holiday should not be denied merely on the ground of physical relocation of an eligible SEZ unit from one SEZ to another if all the prescribed conditions are satisfied under the Income-tax Act, 1961. It is further clarified that the unit so relocated will be eligible to avail the tax benefit for the unexpired period at the rates applicable to such years.

**Circular No. 16/2017, dated 25.04.2017**

In case of an undertaking which develops, develops and operates or maintains and operates an industrial park/SEZ, the income from letting out of premises/developed space along with other facilities in an industrial park/SEZ shall be chargeable to tax under the head 'Profits and Gains from business or profession' and not under the head 'Income from House Property'.

## **EXPENDITURE ON EXEMPT INCOME**

**[Sec. 14A and Rule 8D]**

### **Section 14A:**

Sec. 14A(1) provides that for the purposes of computing the total income, **no deduction** shall be allowed **in respect of expenditure incurred** by the assessee **in relation to incomes** which do not form part of total income under this Act. Thus, any expenditure made for the purposes of earning an exempt income, shall be ignored.

Sec. 14A(2) empowers the **Assessing officer to determine** the amount of expenditure incurred in relation to such income which does not form part of total income under this Act in accordance with the method prescribed in Rule 8D below, if the Assessing Officer, having regard to the accounts of the assessee, is not satisfied with the correctness of the claim of the assessee in respect of such expenditure incurred in relation to income which does not form part of total income under this Act.

Sec. 14A(3) provides that sub-section (2) is also applicable where the assessee claims that no expenditure has been incurred by him in relation to income which does not form part of total income under this Act.

### **Method for determining the amount of Expenditure in Relation to Income Not includible in Total Income: [Rule 8D]**

The expenditure in relation to income which does not form part of the total income shall be the aggregate of following amounts, namely:

- (i) the amount of expenditure directly relating to income which does not form part of total income;
- (ii) an amount equal to 1% of the annual average of the monthly averages of opening and closing balances of the value of investment, income from which does not or shall not form part of the total income.

Provided that the amount referred in clause (i) and (ii) above shall not exceed the total expenditure claimed by the assessee.

### **CIT v. Kribhco (2012) 349 ITR 0618 (Delhi)**

***Section 14A is not applicable in respect of deductions allowed under Chapter VI-A.***

The High Court observed that deductions under Chapter VI-A are different from the exclusions/exemptions provided u/s 10. Section 14A is not applicable for deductions, which are permissible and allowed under Chapter VIA. Section 14A is applicable only if an income is not included in the total income as per section 10 of the Income-Tax Act, 1961.

### **Disallowance of expenses u/s 14A where corresponding exempt income has not been earned during the financial year: [Circular No. 5/2014, dated 11.2.2014]**

CBDT has clarified that the legislative intent is to allow only that expenditure which is related to earning of taxable income. Therefore, the expenses which are relatable to earning of exempt income have to be considered for disallowance, irrespective of the fact whether such income has been earned during the financial year or not.

In effect, section 14A read along with Rule 8D provides for disallowance of expenditure even where the taxpayer has not earned any exempt income in a particular year.