
UNIT 4 EXEMPTED INCOMES UNDER SECTION 10

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4.0 OBJECTIVES

After studying this unit, you should be able to :

- explain what is exempted income and give reasons for the same,
- classify exempted incomes,
- prepare the list of exempted incomes under Section 10,
- explain various exempted incomes in the hands of an individual,
- explain the provisions regarding incomes of charitable and religious trust and political parties.

4.1 INTRODUCTION

In the earlier lessons you have been familiarised with the important concepts that are commonly used in income tax. You have seen the impact of residential status on the scope of total income of the assessee. The nature of income also has an impact on the total income because certain incomes are exempt under the Income Tax Act. The exemption is granted with various objectives in mind. Some incomes are exempted for social reasons, others to attract foreign investment and foreign exchange earnings, still others are granted to encourage talent, bravery etc. Certain incomes are excluded because their inclusion would amount to taxing the same income twice. In this unit you will study the incomes which are exempted from income tax. You will also learn in detail the exempted incomes of an individual and the provisions regarding the income of charitable and religious trust and political parties.

4.2 MEANING OF EXEMPTED INCOME

Exempted income is that income on which income tax is not chargeable. Such incomes are classified as under :

- i) Incomes which do not form part of total income nor is income tax payable on them. They are called fully exempted incomes.
- ii) Incomes which are included in the total income but are exempt from income tax at the average rate of income tax applicable to the total income. They are called partially exempted incomes.
- iii) Incomes of certain Institutions or authorities are exempted subject to fulfilment of the required conditions.

4.3 LIST OF EXEMPTED INCOMES

As stated in Section 4.2 exempted incomes are divided into three categories. Fully exempted incomes, partially exempted incomes and incomes of certain institutions. It

must, however, be mentioned that in certain cases a limit to the quantum or period is fixed to prevent misuse of the provision e.g. casual income is exempted up to Rs. 5,000 only. Let us now list the incomes under these three categories :

f) Fully Exempted Incomes (Section 10)

The following is the list of incomes exempted under Section 10.

A) Certain Tax-free incomes in the hands of individuals

- 1) Agricultural Income — Sec. 10(1).
- 2) Sums received from HUF — Sec. 10(2).
- 3) Casual and non-recurring incomes — Sec. 10(3).
- 4) Travel concession or assistance — Sec. 10(5).
- 5) Allowances and perquisites for foreign service to citizens of India — Sec. 10(7).
- 6) Salaries in connection with cooperative technical assistance programme — Sec. 10(8)(9).
- 7) Death-cum-retirement gratuity — Sec. 10(10).
- 8) Commuted value of pension — Sec. 10(10A).
- 9) Encashment of earned leave — Sec. 10(10AA).
- 10) Retrenchment compensation to workers — Sec. 10(10B).
- 11) Payment received by an employee of a Public Sector Company for voluntary retirement — Sec. 10(10C).
- 12) Payment from Statutory and Public Provident Fund — Sec. 10(11).
- 13) Payment from Recognised Provident Fund — Sec. 10(12).
- 14) Payment from Approved Superannuation Fund — Sec. 10(13).
- 15) House Rent Allowance — Sec. 10(13A).
- 16) Special Allowance or benefit — Sec. 10(14).
- 17) Receipt of Exchange Risk Premium by Public Financial Institution — Sec. 10(14A).
- 18) Interest on certain Government Securities and Deposits — Sec. 10(15).
- 19) Payment of lease rent — Sec. 10(15A).
- 20) Scholarships — Sec. 10(16).
- 21) Awards — Sec. 10(17A).
- 22) Ex-gratia payments by Central Government — Sec. 10(18A).
- 23) Annual value of Palace of Ruler — Sec. 10(19A).
- 24) Subsidy from Tea Board — Sec. 10(30)
- 25) Subsidy from or through certain boards — Sec. 10(31).

B) Incomes accruing to certain authorities

- 1) Certain incomes of a local authority — Sec. 10(20).
- 2) Income of a Housing authority — Sec. 10(20A).
- 3) Income of approved Scientific Research Association — Sec. 10(21).
- 4) Income of an educational institution — Sec. 10(22).
- 5) Income of medical institution — Sec. 10(22A).
- 6) Income of sports association — Sec. 10(23).
- 7) Income of an association established to encourage certain professions — Sec. 10(23A).
- 8) Income of any Regimental Fund of the Armed Forces — Sec. 10(23AA).
- 9) Income of Khadi and Village Industries — Sec. 10(23B).
- 10) Income of Khadi and Village Industries Board — Sec. 10(23BB).
- 11) Income of statutory bodies for the administration of Public Charitable Trust — Sec. 10(23BBA).
- 12) Income of certain national funds — Sec. 10(23C).
- 13) Income of Mutual Fund — Sec. 10(23D).
- 14) Income of Exchange Risk Administration Fund — Sec. 10(23E).
- 15) Income of a Registered Trade Union — Sec. 10(24).
- 16) Income on behalf of certain funds — Sec. 10(25).
- 17) Income from statutory corporations/bodies for promoting the interests of scheduled castes/tribes — Sec. 10(26B).
- 18) Income of a marketing authority — Sec. 10(29).

C) Incomes in the hands of non-citizens — Sec. 10(6).

- 1) Passage money.
- 2) Remuneration received by an ambassador etc.
- 3) Remuneration received by an employee of a foreign enterprise.
- 4) Remuneration received from foreign philanthropic institutions.
- 5) Income in the hands of a technician.

- 6) Employment on a foreign ship.
- 7) Employment as a **professor** or other teacher.
- 8) Employment for research.
- 9) Remuneration in Training.
- D) Income in the hands of non-residents
 - 1) Certain interest received by non-resident Indian Citizens — **Sec. 10(4) and (4B)**.
 - 2) Remuneration received for **rendering** service in connection with shooting of a cinematography film in **India** — **Sec. 10(5A)**.
 - 3) Fee for technical services received by a foreign company — **Sec. (6A)**.
 - 4) Tax paid on behalf of a non-resident — **Sec. 10(6B)**.
 - 5) Income of a foreign company from technical services — **Sec. 10(6C)**.
- E) Miscellaneous incomes
 - 1) **Allowances** to members of Parliament and Members of Legislature — **Sec. 10(17)**
 - 2) Income of a Member of a Schedule Tribe — **Sec. 10(26)**.
 - 3) Winnings from lottery by agents — **Sec. 10(26AA)**.
 - 4) Tax-credit certificates — **Sec. 10(28)**.
- F) Income of Newly Established Industrial Undertakings in Free Trade Zones — **Sec. 10(A)**.
- G) Income from Newly Established Hundred Per cent Export Oriented Undertakings — **Sec. 10(B)**.

II) Partially Exempted Incomes — Sec. 86

- 1) Share from unregistered firm.
 - 2) Share from association of persons.
- 11) **Income** of Charitable and Religious Trust and Political Party
- 1) Income of Public Charitable and Religious Trusts — **Sec. 11, 12, 13**.
 - 2) Income of a Political Party — **Sec. 13A**.

Check Your Progress A

- 1) What do you mean by exempted income?
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- 2) Why are certain incomes exempt?
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- 3) What is fully exempted income?
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- 4) What is partially exempted income?
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- 5) List out any ten items of income that are fully exempted?
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4.4 CERTAIN EXEMPTED INCOMES IN THE HANDS OF AN INDIVIDUAL

The list of certain exempted incomes in the hands of an individual is given in Section 4.3. Let us now explain each one of them :

Agricultural Income — Sec. 10(1)

It has already been discussed in Unit 2.

Sums received from Hindu Undivided Family — Sec. 102.

Any sum received by an individual as a member of Hindu Undivided Family is exempt where such sum has been paid to him out of the income of the family. Such receipts will not be taxable in the hands of the member even if the family has not paid any tax on its income. This is however, subject to the provision of Sec. 64(2), which provides that when an individual, who is a member of an Hindu Undivided Family converts his individual property into property belonging to the Hindu Undivided Family, otherwise than for adequate consideration, the income derived from such converted property shall be deemed to be the income of the individual and not the family.

Casual and non-recurring income — Sec. 10(3)

Casual income means "any receipts which are of a casual and non recurring nature. It is unexpected and unforeseen and is not likely to recur". Income from lottery, cross-word puzzles, races, gambling etc. are of casual nature. Awards, gifts received by a sportsman who is not a professional will also be treated as casual income.

However, the following are not treated as casual income.

- i) Capital gains chargeable under Sec. 45
- ii) Receipts arising from business, profession or occupation.
- iii) Receipts by way of addition to the remuneration of an employee.

Casual incomes are exempt upto 5,000 in aggregate. Any excess over Rs. 5,000 is taxable.

Travel concession — Sec. 10(5)

See Unit 6 for clear understanding.

Allowances for foreign service — Sec. 10(7)

Any allowance or perquisites paid or allowed as such outside India by the Government to a citizen of India for rendering service outside India.

Salaries in connection with cooperative technical assistance programme — Sec. 10(8) (9)

The remuneration received by an individual who is working in connection with cooperative technical assistance programme under State or Central Government and the Government of a foreign state, is exempt if it is received by him directly or indirectly from the concerned Government. The income of that person and any member of the family of any such Individual accompanying him, which accrues or arises outside India, in respect of which he or that member is required to pay tax to the Government of that foreign state, shall also be exempt.

Death-cum-retirement gratuity — Sec. 10(10), Commuted value of pension — Sec. 10(10A), Encashment of earned leave — Sec. 10(10AA), Retrenchment compensation to workers — Sec. 10(10B), Payment received by an employee of a public sector undertaking for voluntary retirement — Sec. 10(10C) will be discussed in detail in Unit 5 (Salaries).

Payment from Statutory and Public Provident Fund — Sec. 10(11), Payment from Recognised Provident Fund — Sec. 10(12), Payment from approved superannuation Fund — Sec. 10(13) shall be discussed in detail in Unit 7 (Salaries)

House Rent Allowance — Sec. 10(13A), Special Allowance for meeting business expenditure — Sec. 10(14) will be explained in Unit 5 on salaries.

Exchange Risk Premium — Sec. 10(14A)

Any income received by a public financial institution as exchange risk premium from the persons borrowing foreign currency from such institution, provided that the amount of premium is credited in the Exchange Risk Administration Fund.

Interest on **securities** and deposits — **Sec. 10(15)**

See Unit 10 for detailed explanation.

Payment of Lease Rent — **Sec. 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 approved by the Central Government in this behalf.

Scholarships — **Sec. 10(16)**

Scholarships granted to meet the cost of education is exempt.

Awards — **Sec. 10(17A)**

Any payment made whether in cash or kind by the State or Central Government or a body approved by Central Government in pursuance of any award instituted in the public interest is exempted.

Ex-gratia payments — **Sec. 10(18A)**

Any ex-gratia payment made by the Central Government consequent on the abolition of privy purse is exempt.

House of a Ruler — **Sec. 10(19A)**

The annual value of any one palace in the occupation of a ruler is exempt.

Subsidy from Tea Board — **Sec. 10(30)**

The amount of any subsidy received by an **assessee** from Tea Board, for growing and manufacturing tea in India is exempted during that assessment year, provided the **assessee** produces a certificate for the amount of subsidy received from the Tea Board.

Subsidy from or through certain Boards — **Sec. 10(31)**

The amount of any subsidy received by an **assessee** engaged in the **business** of growing and manufacturing, rubber, cardamom or other specified commodity in India, from or through the Rubber Board, Coffee Board, Spices Board or any other Board will be exempt **subject** to the producing of a certificate by the **assessee** for the **amount** of subsidy received by him from the Board.

4.5 INCOME OF CHARITABLE AND RELIGIOUS TRUSTS AND POLITICAL PARTIES

Sections 11, 12, 13 and 13A deal with the incomes of charitable and religious trusts and the income of political parties. The income of Charitable and religious trust and political parties are exempt under Income Tax Act. Let us now explain in detail the provisions of **Sec. 11, 12, 13 and 13A.**

4.5.1 Income of Charitable and Religious Trusts

With a view to encouraging public charitable and religious trusts special provisions have been made in the Income Tax Act for granting exemption to the **income** of such trusts, Sections 11, 12 and 13 of the Act deal mainly with the exemption **and** assessment of the income of Public Charitable Trusts.

Charitable **Purposes** — **Sec. 2(15)**

Charitable purposes include the following :

- i) Relief to the poor
- ii) Promotion of Education or literacy
- iii) Hospital or Medical facilities to general public at no cost
- iv) any other activity in the category of charitable purpose.

Religious purposes

Religious purposes means a trust for the advancement, **support**, or propagation of a **particular** religion. But it must be a public religious trust.

Formation of Religious and **Charitable** Trusts

It is not compulsory that the trust should have a deed but it is better if it has an agreement between trustees or **members** of the trust. The trust should work for charitable or religious purposes then only the income of the Public Charitable Trust is entitled for exemption from tax provided the following conditions are satisfied :

- i) The trust should get **itself registered** with the **Commissioner** of income tax within one year from the establishment of the trust.

- ii) if the total income of the trust exceeds Rs. 25,000 in any previous year, the accounts must be audited by a chartered accountant and the report of such audit should be attached with the return of the income.
- iii) The funds of the trust should be invested or deposited in any one or more of the specified modes mentioned in Sec. 11(5) of the Act.

Tax Exemption for Trusts — Sec. 11 and 12

The following incomes of a trust are exempt from tax :

- 1) Income derived from property held under trust or any other legal obligation for charitable or religious purposes.
- 2) Income derived from voluntary contributions made with a specific direction that they shall form part of the corpus of the trust or institution.

The above said incomes are exempt from tax, provided the following conditions are satisfied :

- a) The property from which the income is derived must be held under trust or other legal obligation. But, the profit and gains of any business carried on by such trusts, institutions, etc. is not exempt from tax unless :
 - i) The business consists of printing and publishing of religious books and other materials.
 - ii) The business carried on by the trust is wholly for charitable purpose.
 - iii) The books of accounts of such business are maintained separately by the trust or institution.
- b) The income from property held under trust will be exempt from tax only when at least 75% of such income is actually applied to the charitable or religious purposes of the trust in India either during the year in which the income is received or in the next year.
- c) However, in case where at least 75% of the income has not been applied for religious or charitable purposes in India during the prescribed period but is accumulated or set apart either wholly or in part, the amount of income so accumulated will be exempt from tax provided the accumulation is not intended for a period of more than 10 years and the trustees have given written notice to Assessment Officer giving details of accumulation: It is also necessary that the accumulated money has to be deposited in Central/State Government securities, post office, savings-bank account, any bank, Unit Trust of India, Industrial Development Bank of India or immovable property etc. Otherwise the income of trust will be taxable.

Any voluntary contribution received by a trust created wholly for charitable or religious purposes is exempt if the trust fulfils the above three conditions (a, b, c)

4.5.2 Income of Political Parties — Section 13(A)

Political Party means "an association or body of individual citizens of India registered with the Election Commission of India as a political party and includes a political party deemed to be registered with the Commission."

Political parties are liable to pay tax on their income and they are assessed as 'an association of persons'. However, the income derived by these parties as donations and subscriptions is treated as receipt meant for mutual benefits or capital receipts and hence, not liable to tax. Further Sec. 13A exempts the following income of a political party.

- a) Income from House Property
- b) Income from other sources
- c) Voluntary contribution from any person.

However, the income shall be exempt subject to the following conditions :

- i) The party keeps and maintains its books of accounts and other documents properly.
- ii) The accounts of the party are audited by a chartered accountant.
- iii) In respect of each contribution in excess of Rs. 10,000 the party keeps and maintains a record of such contributions and the name and addresses of the persons who have made such contributions.

Check Your Progress-B

- 1) State whether each of the following statements is True or False

- i) Income from voluntary contributions to political parties is not exempt.
 - ii) The income of the individual from his property converted into Hindu Undivided Family property without consideration is treated as the income of Hindu Undivided Family.
 - iii) Casual incomes are of non-recurring-nature.
 - iv) A Hospital established to provide free medical facilities will be treated as a set-up for charitable purposes.
- 2) What are the provisions of **Sec. 10(3)** with regard to casual incomes?

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4.6 LET US SUM UP

Exempted income is that income on which income tax is not chargeable. There are three types of exempted incomes namely

- a) Fully exempted incomes
- b) **Partially** exempted incomes .
- c) Income of charitable and religious trusts and Political Parties.

Fully exempted incomes are those incomes which are **neither** included in total income nor income tax is payable on them. The fully exempted incomes are further classified in the following categories :

- i) Income in the hands of an individual
- ii) Income of certain authorities
- iii) Income of non-citizens
- iv) **Income** of non-residents
- v) Miscellaneous incomes.

Partially exempted incomes are those incomes which are included in the total income but are exempt from income tax at the average rate of income tax applicable to **the** total income. These are :

- a) Income of a partner in an unregistered firm
- b) Income of a Member of an Association of persons.

Income of charitable and Religious Trusts and Political Parties are also exempt (under Income Tax Act) provided they fulfil the purpose for which they are established.

4.7 KEY WORDS

Casual Income : Casual income means any receipts which are of casual and non-recurring nature.

Fully Exempted Incomes : Incomes which are neither included in total income nor income tax is payable on them.

Non Citizen : Who is not a citizen of India.

Partially Exempted **Incomes** : Incomes which are included in the total income but are exempt from income tax at the average rate of income tax applicable to the total income.

Political **Party** : An association or body of individual citizens of India as a political party registered with the Election Commission.

4.8 ANSWERS TO CHECK YOUR PROGRESS

- 1) i) **False** ii) **False** iii) **True** iv) **True**

4.9 TERMINAL QUESTIONS/EXERCISES

- 1) Explain the following briefly?
 - i) Provisions of Sec. 10(2)
 - ii) Exempted incomes in the hands of non-citizens.
 - iii) Exempted incomes in the hands of non-residents.
- 2) Discuss the provisions of Income Tax Act dealing with the exemption of income of political parties.
- 3) Explain the provisions of Income Tax Act applicable to Charitable or religious trusts?
- 4) Match the following statements :

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|--|----------------------|
| i) House Rent Allowance | A. Section — 10(3) |
| ii) Income of Newly Established Industrial Undertakings in Free Trade Zones | B. Section — 10(13A) |
| iii) Assessment of Income of Political Parties | C. Section — 10(B) |
| iv) Income from newly Established Hundred per cent Export Oriented Undertaking | D. Section — 13(A) |
| v) Casual and non-recurring incomes | E. Section — 10(A) |

(Answers : i) B ii) E iii) D iv) C v) A

Note: These questions will help you to understand the unit better. Try to write answers for them. But do not submit your answers to the University. These are for your practice only.

SOME USEFUL BOOKS

- Bhagwati Prasad, *Law and Practice of Income Tax*, Navarnan Prakashan, Aligarh' (Chapters 1-3)
- Mahesh Chandra & Goyal S.P., *Income Tax Law and Practice*, 1990, Himalaya Publishing House, Delhi (Chapters 1, 2, 3, 4 & 5)
- Mehrotra, H.C. *Income Tax Law and Accounts 1990*, Sahitya Bhawan, Agra (Chapters 1, 2, 3 & 4)
- Vinod K. Singhania, *Students Guide to Income Tax*, Taxman Publications Private Ltd. (Chapters 1, 2, 3 and 13)