

CHAPTER – EXEMPTED INCOME

SECTION	INCOMES	EXEMPTION
10(1)	Agriculture income	Fully exempted
10 (2)	Any sum received by a co-parcener from HUF	Fully exempted
10(2A)	Share of income from the firm	Fully exempted
10(10CC)	Income by way of tax on perks	Fully exempted
10(10D)	Life insurance policy sum received <ul style="list-style-type: none"> • Exempt insurance u/s 80DD • Key man insurance • Excess of 10% of sum 	Fully exempted No exempted No exempted No exempted
10(11)	Payment from statutory fund	Fully exempted
10(11A)	Payment received from Sukanya Samridhi Account	Fully exempted
10(12)	Payment from recognised fund	Fully exempted
10(12A)	Payment from national pension system trust to an closure of account or opting out of the scheme	40% of the total
10(16)	Scholarship	Fully exempted
10(17)	Allowance of M.P./M.L.A./ or M.L.C.	Fully exempted
10(17A)	Awards instituted by government (in cash, in kind) (Central or state)	Fully exempted
10(18)	Pension received by certain winners of gallantry awards	Fully exempted
10(19)	Family pension received by family members of armed forces including paramilitary forces	Fully exempted
10(20)	Income of a local authority <ul style="list-style-type: none"> • Income of house property • Income from other sources • Income from business or profession • Only with in jurisdiction 	Fully exempted
10(30)	Amount received as subsidy from or through the tea board	Fully exempted
10(31)	Amount received as subsidy from or through the concerned board	Fully exempted
10(32)	Income of child clubbed u/s 64 (1A)	Fully exempted
10(33)	Income from transfer of capital assets of UTI	Fully exempted
10(34)	Income by way of dividend from Indian company	Upto 10 Lakh
10(34A)	Income to a shareholder on buyback of shares of unlisted company	Fully exempted
10(35)	Income from units of UTI and other mutual funds	Fully exempted
10(37)	Capital gain on compulsory acquisition of urban agricultural land	Fully exempted

- ❖ **EXEMPTED INCOMES** :- Section 10 of Income tax Act has given a long list of incomes which are totally exempt from tax and so these incomes are not included in the gross total income of the assessee.

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1. **AGRICULTURE INCOME:-** Under **Section 10(1)** Agriculture income is exempt from tax. Agriculture income means revenue derived from land situated in India and is used for agriculture purposes. Or any income derived from agriculture or performance by cultivator or receiver of rent in kind to render the produce raised or received by him fit to be taken to the market. Or the sale by cultivator or receiver of rent in kind of the produce raised.

2. **ANY SUM RECEIVED BY A CO-PARCENER FROM HUF :-** Under **Section 10(2)** any sum received by a coparcener from HUF is exempt from tax. **EXAMPLE:-** HUF earned Rs. 5,00,000 during the previous year and paid tax on the same. Mr. A, a co-parcener is an employee and earns a salary of Rs. 20,000 p.m.

3. **SHARE OF INCOME FROM THE FIRM:-** Under **Section 10(2A)** share of income from the firm is exempt from tax.

EXAMPLE:- A firm earned Rs. 5,00,000 during the previous year and paid tax on the same. Mr. A, a co-parcener is an employee and earns a salary of Rs. 20,000 p.m.

During the previous year Mr. A also received Rs. 1,00,000 a his share of income from the firm. Mr. A will only pay tax on his salary and not the share of income from firm.

4. **INCOME BY WAY OF TAX ON PERKS:-** In case employer pays, at its option, tax on value of perks given by it to an employee (Not provided by way of monetary payment) shall be fully exempted in the hands of employee.

5. **ANY SUM RECEIVED UNDER A LIFE INSURANCE POLICY:-** Any sum received under a life insurance policy, including the sum allocated by way of bonus on such policy shall be fully exempted except in following cases:

- a. If any sum received from insurance company on insurance of a dependent handicapped member (under subsection (3) of section 80DD);
- b. If any sum received from insurance company when a dependent, or a member of family suffering from a notified disease (under Subsection (3) of section 80DDA);
- c. Any sum received under a Key man insurance policy;
“Key man insurance policy” means a life insurance policy taken by a person on the life of another person who is or was the employee of the first mentioned person or is or was connected in any manner whatsoever with the business of the first mentioned person; or
- d. Any sum received under an insurance policy issued on or after the 1st day of April, 2003 but before 1-4-2012 in respect of which the premium payable for any of the years during the term of the policy exceeds twenty per cent of the actual capital sum assured.

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- e. Any sum received under an insurance policy issued on or after 1-4-2012 in respect of which the premium payable for any of the years during the term of policy exceeds 10% of the actual capital sum assured. Thus, in case of life insurance policies issued on or after 1-4-2012, the exemption regarding any sum received under a life insurance policy shall be allowed only if premium paid on such a policy does not exceed 10% of the capital sum assured.
- f. Any sum received under an insurance policy issued on or after 1-4-2013 on the life of a person with disability (referred u/s 80 U) or suffering from disease as specified in the rules made u/s 80 DDB in respect of which premium payable for any of the years during the term of the policy exceeds 15% of the actual capital sum assured (w.e.f. Assessment Year 2014-15).

Note: Any sum received in respect of policies covered under points (f) and (d) and (e) above shall be fully exempt if such sum is received on the death of the person (i.e., policy holder).

Amendment in Explanation 1 section 10 (10D) regarding key man insurance policy. A key man insurance policy which has been assigned to a person during its term with or without consideration shall continue to be treated as a key man insurance policy for the purpose of section 1 (10D).

For the purpose of calculating the actual capital sum assured effect shall be given to the following:

- a. Of the value of any premiums agreed to be returned, or
- b. 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. (Explanation to sub-section (2A) of section 88 and sub section 3 of section 80C).

6. **PAYMENT FROM STATUTORY PROVIDENT FUND:-** Any amount withdrawn from the statutory provident fund is exempt from tax. This provision is applicable on Public Provident Fund also.
7. **PAYMENT RECEIVED FROM SUKANYA SAMRIDHI ACCOUNT:-** Any payment from an account opened in accordance with the Sukanya Samridhi Account. Rules – 2014 shall be exempted.
8. **PAYMENT FROM RECOGNISED FUND:-** The accumulated balance due and becoming payable to an employee participating in a recognised provident fund, is exempt to the extent provided in rule 8 of part A of the Fourth Schedule.
9. **SCHOLARSHIP:-** The full amount of scholarship granted to meet the cost of education is exempted.
'Cost of education' includes not only the tuition fees but all other expenses which are incidental to acquiring education. Scholarship may have been given by Govt.,

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University, Board, Trust etc. the exemption is irrespective of actual expenditure incurred by the recipient to meet the cost of education.

10. ALLOWANCE OF M.P./M.L.A/OR M.L.C.:- Any income by way of:

- a. Daily allowance received by M.P./M.L.A. or M.L.C. or any committee thereof is fully exempted.

11. AWARDS INSTITUTED BY GOVERNMENT:- Any payment made whether in cash or in kind under any awards instituted in the public interest by the Central or State Government or instituted by any other body and approved by the Central Govt. in this behalf shall be fully exempted.

12. PENSION RECEIVED BY CERTAIN WINNERS OF GALLANTRY AWARDS:-

- A. Any amount received by an individual as pension shall be exempt if:
 - a. Such individual has been in the service of the Central or State Government, and
 - b. He/she has been received awarded 'Param Vir Chakra' or 'Mahavir Chakra' or 'Vir Chakra' or such other notified gallantry awards.
 - c. Also, any amount received as family pension by any member of the family of an individual referred above shall be fully exempted.

13. FAMILY PENSION RECEIVED BY FAMILY MEMBERS OF ARMED FORCES INCLUDING PARAMILITARY FORCES:- With effect from the 1st day of April, 2005 family pension received by the widow or children or nominated heirs, as the case may be, of a member of the armed forces (including paramilitary forces) of the Union, where the death of such member has occurred in the course of operational duties, in such circumstances and subject to such conditions, as may be prescribed shall be fully exempted.

14. INCOME OF A LOCAL AUTHORITY:- The following types of incomes in the hands of a local authority are exempt from tax:

- a. Income from house property.
- b. Capital gains
- c. Income from other sources
- d. From a trade or business carried on by it which accrues or arises from the supply of commodity or service within its jurisdictional area or from the supply of water or electricity within or outside its own jurisdiction area.

This means that the income of a local authority from trade or business of supply of a commodity or service (excluding water and electricity) outside its jurisdiction area will be taxable.

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- 15. AMOUNT RECEIVED AS SUBSIDY FROM OR THROUGH THE TEA BOARD:-** This exemption is available to assessee carrying on the business of growing and manufacturing tea in India. The subsidy received by such assessee from or through the Tea Board under any such scheme for replantation or replacement of tea bushes or for rejuvenation or consolidation of areas used for tea cultivation as the Central Government may notify in the Official Gazette is exempt.
- 16. AMOUNT RECEIVED AS SUBSIDY FROM OR THROUGH THE CONCERNED BOARD:-** Any amount received as subsidy from or through the concerned board for replantation or replacement of Rubber, coffee, cardamom plants for growing of such other commodities or for any other scheme so notified shall be fully exempted.
- 17. INCOME OF CHILD CLUBBED U/S 64 (1A):-** In case income of minor child is clubbed with the income of his parent, the parent can claim exemption upto actual income of child clubbed or Rs. 1,500 whichever is less in respect of each minor child whose income is included.
- 18. INCOME FROM TRANSFER OF CAPITAL ASSETS OF UTI:-** Any income arising from the transfer of a capital asset, being a unit scheme, 1964 referred to in schedule I to the unit trust of India (transfer of undertaking and repeal) act, 2002 and where the transfer of such asset takes place on or after the 1st day of April, 2002 shall be fully exempted.
- 19. INCOME BY WAY OF DIVIDEND FROM INDIAN COMPANY:-** With effect from assessment year 2017-18, exemption of dividend shall be restricted upto Rs. 10 lakhs. Thus simply means that with effect from assessment year 2017-18 dividend paid, declared or distributed by one or more domestic companies in excess of Rs. 10 lakhs shall be taxable in case of an individual, HUF or a firm.
- 20. EXEMPTION OF INCOME TO A SHAREHOLDER ON BUYBACK OF SHARES OF UNLISTED COMPANY:-** Any income arising to an assessee being a shareholder, on account of buyback of shares, (not being listed on a recognised stock exchange) by the company as referred to in section 115QA shall be exempt.
- 21. INCOME FROM UNITS OF UTI AND OTHER MUTUAL FUNDS:-** Any income by way of:

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- a. Income received in respect of the units of a mutual funds specified under clause (23D); or
- b. Income received in respect of the units from the administrator of the specified undertaking; or
- c. Income received in respect of units from the specified company shall be fully exempted in the hands of the recipient of such income.

This, clause shall not apply to any income arising from transfer of units of the administrator of the specified undertaking or of the specified company or of a mutual fund, as the case may be.

22. CAPITAL GAIN ON COMPULSORY ACQUISITION OF URBAN AGRICULTURAL LAND:- In the case of an assessee being an individual or a HUF, any income chargeable under the head “Capital gain” arising from the transfer of agricultural land, shall be exempted where:

- a. Such land is situate in any area referred to in, item a and b of sub – clause (c) of clause (14) section 2;
- b. Such land, during the period of two years, immediately preceding the date of transfer, was being used for agricultural purposes by such HUF or individual, or a parent of his;
- c. Such transfer is by way of compulsory acquisition under any law, or a transfer the consideration for which is determined for approved by the Central Government or the Reserve Bank of India.
- d. Such income has arisen from the compensation or consideration for such transfer received by such assesses on or after the 1st day of April 2004.

It may be noted in this connection that exemption is available only if compulsory acquisition has taken place on or after 1-4-2004. Exemption is also available if acquisition has taken before 1-4-2004 but compensation has been received on or after 1-4-2004.

For the purpose of this clause, the expression, “compensation or consideration” includes the compensation or consideration enhanced or further by any court, tribunal or other authority.