

INCOMES WHICH DO NOT FORM PART OF TOTAL INCOME



LEARNING OUTCOMES

After studying this chapter, you would be able to -

- ❑ **appreciate** whether a particular income would constitute agricultural income or non-agricultural income;
- ❑ **compute** the tax on non-agricultural income by applying the concept of partial integration of agricultural income with non-agricultural income;
- ❑ **examine** the provisions of different clauses of section 10;
- ❑ **analyse and apply** such provisions to determine whether a particular income would form/ would not form part of total income;
- ❑ **analyse and apply** the provisions of section 14A to determine the expenditure incurred in relation to income not includible in total income.

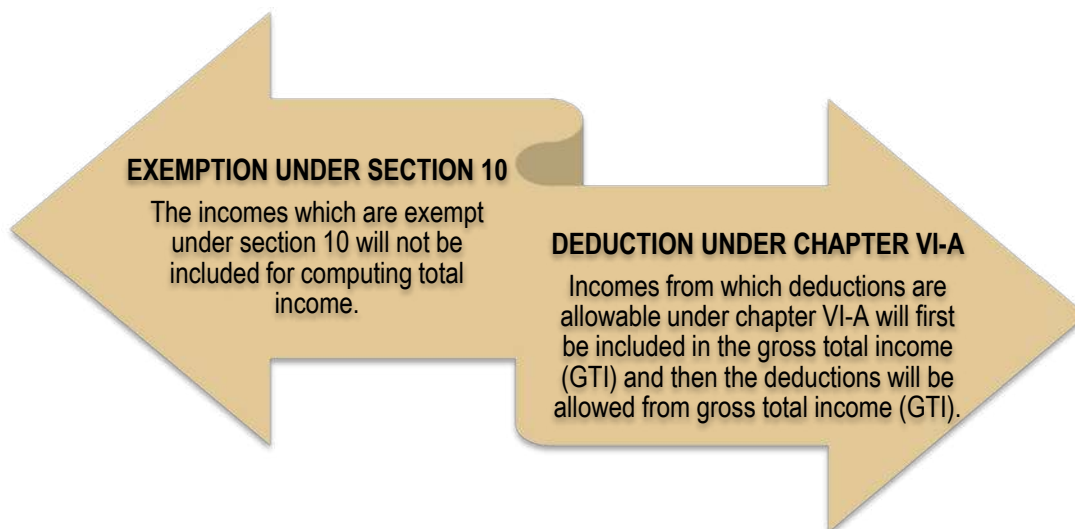


2.1 INTRODUCTION

(1) Exemption under section 10 *vis-a-vis* Deduction under Chapter VI-A

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

Moreover, there are certain other incomes which are included in gross total income but are wholly or partly allowed as deductions under Chapter VI-A in computation of total income. Students should note a very important difference between exemption under section 10 and the deduction under Chapter VI-A.



(2) Exemptions which are discussed under the relevant chapters:

In this chapter, we are going to study the provisions of section 10 which enumerate the various categories of income that are exempt from tax.

Students may note that, in this chapter, only some of the exemptions are discussed. The remaining exemptions are being discussed in the respective chapters as shown hereunder¹:

¹ The exemptions under section 10 in relation to Salaries have been dealt with in detail at the Intermediate level itself. The remaining exemptions are discussed in other chapters of this Study Material.

LIST OF EXEMPTIONS BEING DISCUSSED IN RESPECTIVE CHAPTERS

Capital Gains	• Capital gain on transfer of a unit of Unit Scheme [Section 10(33)] • Income received on buy-back of shares of domestic company [Section 10(34A)] [Exempted upto 1st October 2024] • Capital gain on compulsory acquisition of agricultural land within specified urban limits [Section 10(37)] • Transfer of specified capital asset under Land Pooling Scheme [Section 10(37A)] • Income received in transaction of reverse mortgage [Section 10(43)]
Income from Other Sources	• Receipts from LIC [Section 10(10D)] • Interest income arising to certain persons [Section 10(15)] • Family pension received by widow/ children/ nominated heirs of armed forces members [Section 10(19)]
Income of other Persons Included in Assessee's Total Income	• Exemption in respect of minor's income included in the hands of parent [Section 10(32)]
Gross Total Income	• Payment from Sukanya Samriddhi Account [Section 10(11A)] • Payment from NPS Trust to an assessee on closure of his account or on his opting out of the pension scheme [Section 10(12A)] • Payment from NPS Trust to an employee on partial withdrawal [Section 10(12B)] • Payment from Agnipath Corpus Fund to a person enrolled under the Agnipath Scheme or to his nominee [Section 10(12C)]
Assessment of Trusts and Institutions, Political Parties and other special entities	• Income of certain funds or institutions [Section 10(23C)] • Income of Securitisation trusts [Section 10(23DA)] • Income of Investment Fund [Section 10(23FBA)] • Income of Unit holders of Investment Fund [Section 10(23FBB)] • Income of business trusts [Sections 10(23FC), 10(23FCA) and 10(23FD)]

Taxation of Digital transactions

- Any income arising from providing any specified service chargeable to equalisation levy [Section 10(50)]

Non-resident Taxation

- Interest on moneys standing to the credit of individual in his NRE account [Section 10(4)(ii)]
- Interest income of a non-corporate non-resident or foreign company on specified off-shore Rupee Denominated Bonds issued by an Indian company or business trust [Section 10(4C)]
- Income of a specified fund on transfer of certain specified asset [Section 10(4D)]
- Income of a non-resident as a result of transfer of non-deliverable forward contracts/ offshore derivative instruments/ over the counter derivatives entered into with an offshore banking unit of an IFSC [Section 10(4E)]
- Income of a non-resident by way of royalty or interest, on account of lease of an aircraft or a ship in a previous year, paid by a unit of an IFSC [Section 10(4F)]
- Income of a non-resident from portfolio of securities etc. in an account maintained with an offshore banking unit in any IFSC [Section 10(4G)]
- Income received by a non-resident or a Unit of an IFSC [Section 10(4H)]
- Remuneration received by individuals, who are not citizens of India [Section 10(6)]
- Tax paid on behalf of foreign state or foreign enterprise on amount paid as consideration of acquiring aircraft, etc. on lease [Section 10(6BB)]
- Income arising to foreign companies from projects connected with the security of India [Section 10(6C)]
- Royalty income or fees for technical services arising to non-resident from National Technical Research Organisation (NTRO) [Section 10(6D)]
- Interest income arising to certain persons [Section 10(15)]
- Income arising to foreign state or foreign enterprise by way of consideration of acquiring aircraft, etc. on lease [Section 10(15A)]
- **Income of a foreign company from lease rentals of cruise ships [Section 10(15B)]**
- Income of European Economic Community (EEC) [Section 10(23BBB)]
- Income derived by the SAARC Fund for Regional Projects [Section 10(23BBC)]
- Income accruing or arising to or received by a unit holder from a specified fund or on transfer of units in a specified fund [Section 10(23FBC)]
- Certain incomes of wholly owned subsidiary of Abu Dhabi Investment Authority, Sovereign Wealth Fund and specified pension fund [Section 10(23FE)]
- Capital Gains arising or received by a non-resident or a specified fund on account of transfer of share of a company resident in India [Section 10(23FF)]
- Any income of a unit of IFSC primarily engaged in the business of leasing of an aircraft, by way of dividends from a company being a unit of any IFSC primarily engaged in the business of leasing of an aircraft [Section 10(34B)]
- Income received by certain foreign companies in India in Indian currency from sale of crude oil to any person in India [Section 10(48)]
- Income accruing or arising to a foreign company on account of storage of crude oil in a facility in India and sale of crude oil therefrom to any person resident in India [Section 10(48A)]
- Income accruing or arising to a foreign company on account of sale of leftover stock of crude oil, if any, from the facility in India after the expiry of the agreement or the arrangement [Section 10(48B)]



2.2 INCOMES NOT INCLUDED IN TOTAL INCOME [SECTION 10]

Let us now have a look at the various incomes which are exempt from tax and the conditions to be satisfied in order to be eligible for exemption.

(1) **Agricultural income [Section 10(1)]**

Section 10(1) provides that agricultural income is not to be included in the total income of the assessee. The reason for total exemption of agricultural income from the scope of central income-tax is that under the Constitution, the Central Government has no power to levy a tax on agricultural income.

Definition of agricultural income [Section 2(1A)]

This definition is very wide and covers the income of not only the cultivators but also the land holders who might have rented out the lands. Agricultural income may be received in cash or in kind.

Agricultural income may arise in any one of the following three ways:-

- (i) It may be rent or revenue derived from **land situated in India** and **used for agricultural purposes**.
- (ii) It may be income derived from such land by
 - (a) **agriculture** or
 - (b) the performance of a **process ordinarily employed** by a cultivator or receiver of rent in kind **to render the produce fit to be taken to the market** or
 - (c) the **sale**, by a cultivator or receiver of rent in kind, **of such agricultural produce raised or received by him**, in respect of which no process has been performed other than a process of the nature mentioned in point (b) above.
- (iii) Lastly, agricultural income may be derived from any **farm building** required for agricultural operations.

Now let us take a critical look at the following aspects:

- (i) **Rent or revenue derived from land situated in India and used for agricultural purposes:** The following three conditions have to be satisfied for income to be treated as agricultural income:
 - (a) Rent or revenue should be derived from land;

- (b) Land has to be situated in India (If agricultural land is situated in a foreign country, the entire income would be taxable); and
- (c) land should be used for agricultural purposes.

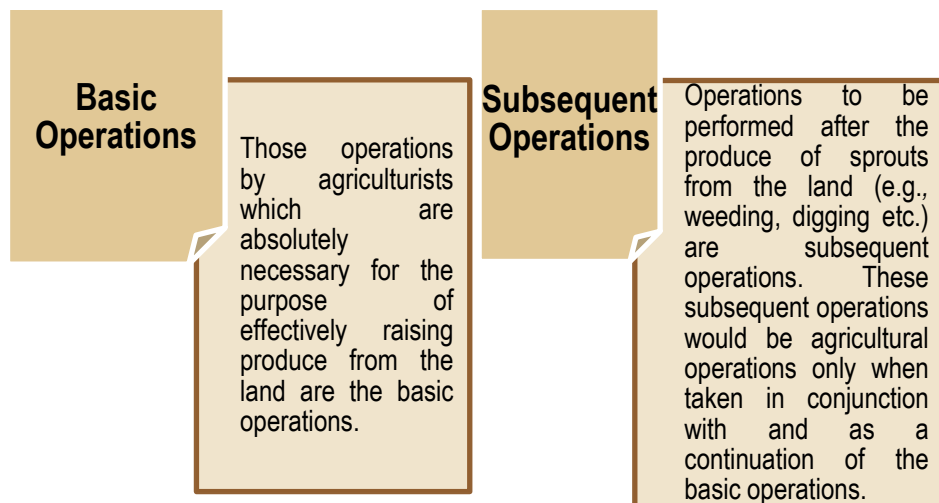
The amount received in money or in kind, by one person from another for right to use land is termed as **Rent**. The rent can either be received by the owner of the land or by the original tenant from the sub-tenant. It implies that ownership of land is not necessary. Thus, the rent received by the original tenant from sub-tenant would also be agricultural income subject to the other conditions mentioned above.

The scope of the term “**Revenue**” is much broader than rent. It includes income other than rent. For example, fees received for renewal for grant of land on lease would be revenue derived from land.

(ii) **Income derived from such land by**

- (a) **Agriculture:** The term “Agriculture” has not been defined in the Act. However, cultivation of a field involving human skill and labour on the land can be broadly termed as **agriculture**.

“Agriculture” means tilling of the land, sowing of the seeds and similar operations. It involves basic operations and subsequent operations.



“Agriculture” comprises within its scope the basic as well as the subsidiary operations regardless of the nature of the produce raised on the land. These produce may be grain, fruits or vegetables necessary for *sustenance* of human beings including plantation and groves or grass or pasture for consumption of beasts or

articles of luxury such as betel, coffee, tea, spices, tobacco or commercial crops like cotton flax, jute hemp and indigo. The term comprises of products of land having some utility either for consumption or for trade and commerce and would include forest products such as sal, tendu leaves etc.

Note: The term 'agriculture' cannot be extended to all activities which have some distant relation to land like dairy farming, breeding and rearing of live stock, butter and cheese making and poultry farming. This aspect is discussed in detail later on in this chapter.

Whether income from nursery constitutes agricultural income?

In the past, there have been court rulings that only if a nursery is maintained by carrying out the basic operations on land and subsequent operations in continuation thereof, income from such nursery would be treated as agricultural income and would qualify for exemption under section 10(1).

The Supreme Court has, in *CIT v. Raja Benoy Kumar Sahas Roy* (1957) 32 ITR 466, held that the basic operations must be performed before any income can be called as agricultural income. The basic operations involve cultivation of the ground, in the sense of tilling of the land, sowing of the seeds, planting and other 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. Therefore, income derived from sale of plants grown directly in pots would not be treated as agricultural income.

However, the Madras High Court, in *CIT v. Soundarya Nursery* (2000) 241 ITR 530, observed that nursing activity involves carrying out of several operations on land before the saplings were transplanted in suitable containers including pots and thereafter kept in shade or green house for further operation and growth. Therefore, income arising from nursery should be considered as agricultural income.

Explanation 3 to section 2(1A) provides that the income derived from saplings or seedlings grown in a nursery would be deemed to be agricultural income, whether or not the basic operations were carried out on land. This Explanation ratifies the view taken by the Madras High Court in favour of the taxpayer.

- (b) **Process ordinarily employed to render the produce fit to be taken to the market:** Sometimes, to make the agricultural produce a saleable commodity, it becomes necessary to perform some kind of process on the produce. The income

from the process employed to render the produce fit to be taken to the market would be agricultural income. However, it must be a process ordinarily employed by the cultivator or receiver of rent in kind and the process must be applied to make the produce fit to be taken to the market.

The ordinary process employed to render the produce fit to be taken to the market includes thrashing, winnowing, cleaning, drying, crushing etc. For example, the process ordinarily employed by the cultivator to obtain the rice from paddy is to first remove the hay from the basic grain, and thereafter to remove the chaff from the grain. The grain has to be properly filtered to remove stones etc. and finally the rice has to be packed in gunny bags for sale in the market.

After such process, the rice can be taken to the market for sale. This process of making the rice ready for the market may involve manual operations or mechanical operations. All these operations constitute the process ordinarily employed to make the product fit for the market. The produce must retain its original character in spite of the processing unless there is no market for selling it in that condition.

However, if marketing process is performed on a produce which can be sold in its raw form, income derived therefrom is partly agricultural income and partly business income.

- (c) **Sale of such agricultural produce in the market:** Any income from the sale of any produce to the cultivator or receiver of rent-in kind is agricultural income provided it is from the land situated in India and used for agricultural purposes. However, if the produce is subjected to any process other than process ordinarily employed to make the produce fit for market, the income arising on sale of such produce would be partly agricultural income and partly non-agricultural income.

Similarly, if other agricultural produce like tea, cotton, tobacco, sugarcane etc. are subjected to manufacturing process and the manufactured product is sold, the profit on such sale will consist of agricultural income as well as business income. That portion of the profit representing agricultural income will be exempted.

Apportionment of Income between business income and agriculture income: Rules 7, 7A, 7B & 8 of Income-tax Rules, 1962 provides the basis of apportionment of income between agricultural income and business income.

I. Rule 7 - Income from growing and manufacturing of any product

Where income is partially agricultural income and partially income chargeable to income-tax as business income, the market value of any agricultural produce which has been raised by

the assessee or received by him as rent in kind and which has been utilised as raw material in such business or the sale receipts of which are included in the accounts of the business shall be deducted. No further deduction shall be made in respect of any expenditure incurred by the assessee as a cultivator or receiver of rent in kind.

Determination of market value - There are two possibilities here:

- (i) The agricultural produce is capable of being sold in the market either in its raw stage or after application of any ordinary process to make it fit to be taken to the market. In such a case, the value calculated at the average price at which it has been so sold during the relevant previous year will be the market value.
- (ii) It is possible that the agricultural produce is not capable of being ordinarily sold in the market in its raw form or after application of any ordinary process. In such case the market value will be the total of the following:—
 - The expenses of cultivation;
 - The land revenue or rent paid for the area in which it was grown; and
 - Such amount as the Assessing Officer finds having regard to the circumstances in each case to represent at reasonable profit.

ILLUSTRATION 1

Mr. Amar grows sugarcane and uses the same for the purpose of manufacturing sugar in his factory. 40% of sugarcane produce is sold for ₹ 12 lakhs, and the cost of cultivation of such sugarcane is ₹ 6 lakhs. The cost of cultivation of the balance sugarcane (60%) is ₹ 15 lakhs and the market value of the same is ₹ 25 lakhs. After incurring ₹ 1.5 lakhs in the manufacturing process on the balance sugarcane, the sugar was sold for ₹ 30 lakhs. Compute Amar's business income and agricultural income.

SOLUTION

Computation of Business Income and Agriculture Income of Mr. Amar

Particulars	Business Income	Agricultural Income	
	(₹)	(₹)	(₹)
<u>Sale of Sugar</u>			
<u>Business income</u>			
Sale Proceeds of sugar	30,00,000		
Less: Market value of sugar (60%)	25,00,000		

Less: Manufacturing exp.	1,50,000		
	3,50,000		
<u>Agricultural income</u>			
Market value of sugar (60%)		25,00,000	
Less: Cost of cultivation		15,00,000	
			10,00,000
<u>Sale of sugarcane</u>			
Agricultural Income			
Sale proceeds of sugarcane (40%)		12,00,000	
Less: Cost of cultivation		6,00,000	
			6,00,000
			16,00,000

II. Rule 7A – Income from growing and manufacturing of rubber

This rule is applicable when income derived from the sale of centrifuged latex or cenex or latex based crepes or brown crepes or technically specified block rubbers manufactured or processed from field latex or coagulum obtained from rubber plants grown by the seller in India. In such cases 35% profits on sale is taxable as business income under the head “Profits and gains from business or profession”, and the balance 65% is agricultural income and is exempt.

ILLUSTRATION 2

Mr. Nilesh manufactures latex from the rubber plants grown by him in India. These are then sold in the market for ₹ 36 lakhs. The cost of growing rubber plants is ₹ 16 lakhs and that of manufacturing latex is ₹ 12 lakhs. Compute his total income.

SOLUTION

The total income of Mr. Nilesh comprises of agricultural income and business income.

Total profits from the sale of latex = ₹ 36 lakhs – ₹ 16 lakhs – ₹ 12 lakhs = ₹ 8 lakhs.

Agricultural income = 65% of ₹ 8 lakhs = ₹ 5.2 lakhs

Business income = 35% of ₹ 8 lakhs = ₹ 2.8 lakhs

III. Rule 7B – Income from growing and manufacturing of coffee

- (i) In case of income derived from the sale of coffee grown and cured by the seller in India, 25% profits on sale is taxable as business income under the head “Profits and

gains from business or profession”, and the balance 75% is agricultural income and is exempt.

- (ii) In case of income derived from the sale of coffee grown, cured, roasted and grounded by the seller in India, with or without mixing chicory or other flavoring ingredients, 40% profits on sale is taxable as business income under the head “Profits and gains from business or profession”, and the balance 60% is agricultural income and is exempt.

IV. Rule 8 - Income from growing and manufacturing of tea

This rule applies only in cases where the assessee himself grows tea leaves and manufactures tea in India. In such cases 40% profits on sale is taxable as business income under the head “Profits and gains from business or profession”, and the balance 60% is agricultural income and is exempt.

Rule	Apportionment of income in certain cases	Agricultural Income	Business Income
7A	Income from sale of rubber products derived from rubber plant grown by the seller in India	65%	35%
7B	Income from sale of coffee		
	- grown and cured by the seller in India	75%	25%
	- grown, cured, roasted and grounded by the seller in India	60%	40%
8	Income from sale of tea grown and manufactured by the seller in India	60%	40%

- (iii) **Income from farm building** – Income from the farm building which is owned and occupied by the receiver of the rent or revenue of any such land or occupied by the cultivator or the receiver of the rent in kind, of any land with respect to which, or the produce of which, any process discussed above is carried on, would be treated as agricultural income.

However, the income arising from the use of such farm building for any purpose (including letting for residential purpose or for the purpose of business or profession) other than agriculture referred in (b) & (c) of (ii) of para (1) in page 2.5 would not be agricultural income.

Further, the income from such farm building would be agricultural income only if the following conditions are satisfied:

- (a) The building should be on or in the immediate vicinity of the land; and
- (b) The receiver of the rent or revenue or the cultivator or the receiver of rent in kind

should, by reason of his connection with such land require it as a dwelling house or as a store house.

In addition to the above conditions any one of the following two conditions should also be satisfied:

- (i) The land should either be assessed to land revenue in India or be subject to a local rate assessed and collected by the officers of the Government as such or;
- (ii) Where the land is not so assessed to land revenue in India or is not subject to local rate:-
 - a. It should not be situated in any area as comprised within the jurisdiction of a municipality or a cantonment board and which has a population not less than 10,000.
 - b. It should not be situated in any area within such distance, measured aerially, in relation to the range of population as shown hereunder –

	Shortest aerial distance from the local limits of a municipality or cantonment board referred to in item a.	Population according to the last preceding census of which the relevant figures have been published before the first day of the previous year.
(i)	≤ 2 kms	> 10,000
(ii)	> 2 kms but ≤ 6 kms	> 1,00,000
(iii)	> 6 kms but ≤ 8 kms	> 10,00,000

Example:

	Area	Shortest aerial distance from the local limits of a municipality or cantonment board referred to in item a.	Population according to the last preceding census of which the relevant figures have been published before the first day of the previous year	Would income derived from farm building situated in this area be treated as agricultural income?
(i)	A	1 km	9,000	Yes
(ii)	B	1.5 kms	12,000	No
(iii)	C	2 kms	11,00,000	No
(iv)	D	3 kms	80,000	Yes
(v)	E	4 kms	3,00,000	No
(v)	F	5 kms	12,00,000	No

(vi)	G	6 kms	8,000	Yes
(vii)	H	7 kms	4,00,000	Yes
(viii)	I	8 kms	10,50,000	No
(ix)	J	9 kms	15,00,000	Yes

Would income arising from transfer of agricultural land situated in urban area be agricultural income?

No, as per *Explanation 1* to section 2(1A), the capital gains arising from the transfer of such urban agricultural land would not be treated as agricultural income under section 10 but will be taxable under section 45.

Example: Suppose Bittoo sells agricultural land situated in New Delhi for ₹ 10 lakhs and makes a surplus of ₹ 8 lakhs over its cost of acquisition. This surplus will not constitute agricultural income exempt under section 10(1) and will be taxable under section 45.

Indirect connection with land

We have seen above that agricultural income is exempt, whether it is received by the tiller or the landlord. However, non-agricultural income does not become agricultural merely on account of its indirect connection with the land. The following examples will illustrate the above point.

Example: A rural society has as its principal business the selling on behalf of its member societies, butter made by these societies from cream sold to them by farmers. The making of butter was a factory process separated from the farm.

The butter resulting from the factory operations separated from the farm was not an agricultural product and the society was, therefore, not entitled to exemption under section 10(1) in respect of such income.

Example: X was the managing agent of a company. He was entitled for a commission at the rate of 10% p.a. on the annual net profits of the company. A part of the company's income was agricultural income. X claimed that since his remuneration was calculated with reference to the income of the company, part of which was agricultural income, such part of the commission as was proportionate to the agricultural income was exempt from income tax.

Since, X received remuneration under a contract for personal service calculated on the amount of profits earned by the company, such remuneration does not constitute agricultural income.

Example: Y owned 100 acres of agricultural land, a part of which was used as pasture for cows. The lands were purely maintained for manuring and other purposes connected with agriculture and

only the surplus milk after satisfying the assessee's needs was sold. The question arose whether income from such sale of milk was agricultural income.

The regularity with which the sales of milk were effected and quantity of milk sold showed that the assessee carried on regular business of producing milk and selling it as a commercial proposition. Hence, it was not agricultural income.

Example: In regard to forest trees of spontaneous growth which grow on the soil unaided by any human skill and labour there is no cultivation of the soil at all. Even though operations in the nature of forestry operations performed by the assessee may have the effect of nursing and fostering the growth of such forest trees, it cannot constitute agricultural operations.

Income from the sale of such forest trees of spontaneous growth does not, therefore, constitute agricultural income.

Examples of Agricultural income and non-agricultural income:

For better understanding of the concept, certain examples of agricultural income and non-agricultural income are given below:

Example: Agricultural income

- Income derived from saplings or seedlings grown in a nursery.
- Income from growing of flowers and creepers.
- Rent received from land used for grazing of cattle required for agricultural activities.
- Income from growing of bamboo.

Example: Non-agricultural income

- Income from breeding of livestock.
- Income from poultry farming.
- Income from fisheries.
- Income from dairy farming.

ILLUSTRATION 3

Ankur, the owner of a land situated in Kerala used for growing thereon different types of fruits, paddy, vegetables and flowers, received from Yahoo Movies Ltd., Chennai, ₹ 5 lakhs as rent towards the use of this land for shooting of a film. The amount so received was accounted by him in the books as revenue derived from land and claimed to be exempt under section 10(1). He now

wants to confirm from you whether the amount has been correctly treated by him as agricultural income.

SOLUTION

The income received by Mr. Ankur from a filmmaker for allowing them to shoot a film in the agricultural land owned by him is not in the nature of agricultural income because it 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.

To claim exemption in respect of agricultural income under section 10(1), the conditions contained in section 2(1A)(a) to (c) have to be first complied with/ fulfilled by the assessee. The Madras High Court in the case of *B. Nagi Reddi v. CIT* (2002) 258 ITR 719, following the judgment of Apex Court in the case of *CIT v Raja Benoy Kumar Sahas Roy* (1957) 32 ITR 466, has held, on identical facts, that the income derived for allowing a shooting of film in the agricultural land cannot be treated as agricultural income, as it has no nexus with the land, except that it was carried out on agricultural land.

Partial integration of agricultural income with non-agricultural income

As in the above discussion, we have seen that agricultural income is exempt subject to conditions mentioned in the definition clause of section 2(1A). However, a method has been laid down to levy tax on agricultural income in an indirect way. This concept is known as **partial integration of agricultural income with non-agricultural income**. It is applicable to individuals, HUF, AOPs, BOIs and artificial juridical persons. Two conditions which need to be satisfied for partial integration are:

1. The net agricultural income should exceed ₹ 5,000 p.a., and
2. Non-agricultural income should exceed the maximum amount not chargeable to tax. (i.e., If such person is paying tax under default tax regime u/s 115BAC, then ₹ 3,00,000 is the basic exemption limit irrespective of the age of the person. If such person has exercised the option to shift out of the default tax regime, then, the basic exemption limit would be ₹ 5,00,000 for resident individuals of the age of 80 years or more at any time during the previous year, ₹ 3,00,000 for resident individuals of the age of 60 years or more (but less than 80 years) at any time during the previous year and ₹ 2,50,000 for all others). Only if non-agricultural income exceeds this limit, partial integration would be required.

It may be noted that aggregation provisions do not apply to company, LLP, firm, co-operative society and local authority. The object of aggregating the net agricultural income with non-agricultural income is to tax the non-agricultural income at higher rates.

Tax calculation in such cases is as follows:

- Step 1:** Add non-agricultural income with net agricultural income. Compute tax on the aggregate amount.
- Step 2:** Add net agricultural income and the basic exemption limit available to the assessee. Compute tax on the aggregate amount.
- Step 3:** Deduct the amount of income tax calculated in step 2 from the income tax calculated in step 1 i.e., Step 1 – Step 2.
- Step 4:** The sum so arrived at shall be increased by surcharge, if applicable. It would be reduced by the rebate, if any, available u/s 87A.
- Step 5:** Thereafter, it would be increase by health and education cess @4%.

The above concept can be clearly understood with the help of the following illustration:

ILLUSTRATION 4

Mr. X, a resident, has provided the following particulars of his income for the P.Y.2024-25.

i.	Income from salary (computed)	- ₹ 4,00,000
ii.	Income from house property (computed)	- ₹ 3,80,000
iii.	Agricultural income from a land in Assam	- ₹ 4,50,000
iv.	Expenses incurred for earning agricultural income	- ₹ 1,60,000

Compute his tax liability for A.Y. 2025-26 assuming his age is -

- (a) 40 years
- (b) 75 years

SOLUTION

(a) Computation of tax liability (age 40 years)

Computation of total income of Mr. X for the A.Y. 2025-26 under default tax regime under section 115BAC

For the purpose of partial integration of taxes, Mr. X has satisfied both the conditions i.e.

1. Net agricultural income exceeds ₹ 5,000 p.a., and
2. Non-agricultural income exceeds the basic exemption limit of ₹ 3,00,000.

His tax liability is computed in the following manner:

Particulars	₹	₹
Income from salary		4,00,000
Income from house property		3,80,000
Net agricultural income [₹ 4,50,000 (-) ₹ 1,60,000]	2,90,000	
Less: Exempt under section 10(1)	(2,90,000)	-
Gross Total Income		7,80,000
Less: Deductions under Chapter VI-A		-
Total Income		7,80,000

Step 1 : ₹ 7,80,000 + ₹ 2,90,000 = ₹ 10,70,000

Tax on ₹ 10,70,000 = ₹ 60,500

(i.e., 5% of ₹ 4,00,000 plus 10% of ₹ 3,00,000 plus 15% of ₹ 70,000)

Step 2 : ₹ 2,90,000 + ₹ 3,00,000 = ₹ 5,90,000

Tax on ₹ 5,90,000 = ₹ 14,500

(i.e. 5% of ₹ 2,90,000)

Step 3 : ₹ 60,500 – ₹ 14,500 = ₹ 46,000

Step 4 & 5 : Total tax payable = ₹ 46,000 + 4% of ₹ 46,000 = ₹ 47,840

**Computation of total income of Mr. X for the A.Y. 2025-26
under normal provisions of the Act**

For the purpose of partial integration of taxes, Mr. X has satisfied both the conditions i.e.

1. Net agricultural income exceeds ₹ 5,000 p.a., and
2. Non-agricultural income exceeds the basic exemption limit of ₹ 2,50,000.

His tax liability is computed in the following manner:

Particulars	₹	₹
Income from salary		4,00,000
Income from house property		3,80,000
Net agricultural income [₹ 4,50,000 (-) ₹ 1,60,000]	2,90,000	
Less: Exempt under section 10(1)	(2,90,000)	-

Gross Total Income		7,80,000
Less: Deductions under Chapter VI-A		-
Total Income		7,80,000

Step 1 : ₹ 7,80,000 + ₹ 2,90,000 = ₹ 10,70,000

Tax on ₹ 10,70,000 = ₹ 1,33,500

(i.e., 5% of ₹ 2,50,000 plus 20% of ₹ 5,00,000 plus 30% of ₹ 70,000)

Step 2 : ₹ 2,90,000 + ₹ 2,50,000 = ₹ 5,40,000

Tax on ₹ 5,40,000 = ₹ 20,500

(i.e. 5% of ₹ 2,50,000 plus 20% of ₹ 40,000)

Step 3 : ₹ 1,33,500 – ₹ 20,500 = ₹ 1,13,000

Step 4 & 5 : Total tax payable = ₹ 1,13,000 + 4% of ₹ 1,13,000 = ₹ 1,17,520

(b) Computation of tax liability (age 75 years)

**Computation of total income of Mr. X for the A.Y. 2025-26
under default tax regime under section 115BAC**

Tax liability of Mr. X would be same under default tax regime whether he is of age of 40 years of 75 years i.e., ₹ 47,840.

**Computation of total income of Mr. X for the A.Y. 2025-26
under normal provisions of the Act**

His tax liability is computed in the following manner:

Step 1 : ₹ 7,80,000 + ₹ 2,90,000 = ₹ 10,70,000.

Tax on ₹ 10,70,000 = ₹ 1,31,000

(i.e. 5% of ₹ 2,00,000 plus 20% of 5,00,000 plus 30% of 70,000)

Step 2 : ₹ 2,90,000 + ₹ 3,00,000 = ₹ 5,90,000.

Tax on ₹ 5,90,000 = ₹ 28,000

(i.e. 5% of ₹ 2,00,000 plus 20% of ₹ 90,000)

Step 3 : ₹ 1,31,000 – ₹ 28,000 = ₹ 1,03,000

Step 4 & 5: Total tax payable = ₹ 1,03,000 + 4% of ₹ 1,03,000 = ₹ 1,07,120.

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

- (i) As explained in Chapter 1, a HUF is a 'person' and hence, a unit of assessment under the Act. Income earned by the HUF is assessable in its own hands.
- (ii) In order to prevent double taxation of one and the same income, once in the hands of the HUF which earns it and again in the hands of a member when it is paid out to him, section 10(2) provides that members of a HUF do not have to pay tax in respect of any amounts received by them from the family.
- (iii) The exemption applies only in respect of a payment made by the HUF to its member
 - (a) out of the income of the family or
 - (b) out of the income of the impartible estate belonging to the family.

(3) Share income of a partner [Section 10(2A)]

This clause exempts from tax a partner's share in the total income of the firm. In other words, the partner's share in the total income of the firm determined in accordance with the profit-sharing ratio will be exempt from tax.

Taxability of partner's share, where the income of the firm is exempt under Chapter III/ deductible under Chapter VI-A [Circular No. 8/2014 dated 31.03.2014]

Section 10(2A) provides that a partner's share in the total income of a firm which is separately assessed as such shall not be included in computing the total income of the partner. In effect, a partner's share of profits in such firm is exempt from tax in his hands.

Sub-section (2A) was inserted in section 10 by the Finance Act, 1992 with effect from 1.4.1993 consequent to change in the scheme of taxation of partnership firms. Since A.Y.1993-94, a firm is assessed as such and is liable to pay tax on its total income. A partner is, therefore, not liable to tax once again on his share in the said total income.

An issue has arisen as to the amount which would be exempt in the hands of the partners of a partnership firm, in cases where the firm has claimed exemption/deduction under Chapter III or Chapter VI-A.

The CBDT has clarified that the income of a firm is to be taxed in the hands of the firm only and the same can under no circumstances be taxed in the hands of its partners. Therefore, the entire profit credited to the partners' accounts in the firm would be exempt from tax in the hands of such partners, even if the income chargeable to tax becomes Nil in the hands of the firm on account of any exemption or deduction available under the provisions of the Act.

(4) Payments to Bhopal Gas Victims [Section 10(10BB)]

Any payment made to a person under Bhopal Gas Leak Disaster (Processing of Claims) Act, 1985 and any scheme framed thereunder will be fully exempt.

However, payments made to any assessee in connection with Bhopal Gas Leak Disaster to the extent he has been allowed a deduction under the Act on account of any loss or damage caused to him by such disaster will not be exempted.

(5) Compensation received on account of disaster [Section 10(10BC)]

- (i) This clause exempts any amount received or receivable as compensation by an individual or his legal heir on account of any disaster.
- (ii) Such compensation should be granted by the Central Government or a State Government or a local authority.
- (iii) However, exemption would not be available in respect of compensation for alleviating any damage or loss, which has already been allowed as deduction under the Act.
- (iv) "Disaster" means a catastrophe, mishap, calamity or grave occurrence in any area, arising from natural or manmade causes, or by accident or negligence. It should have the effect of causing -
 - (a) substantial loss of life or human suffering; or
 - (b) damage to, and destruction of, property; or
 - (c) damage to, or degradation of, environment.

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

ILLUSTRATION 5

An amount of ₹ 5 lakhs was paid on 17.3.2025 to the parents of Amit by the Government of Chattisgarh as compensation to the aggrieved family, whose only son Amit lost his life in Maoist local bus bomb blast in Dantewada.

Examine with reasons, whether the amount of compensation received is chargeable to tax in A.Y. 2025-26.

SOLUTION

As per section 10(10BC), the meaning of “disaster” shall be derived from Disaster Management Act, 2005 which defines disaster to mean a catastrophe, mishap, calamity or grave occurrence in any area, arising from natural or manmade causes, or by accident or negligence. It should have the effect of causing substantial loss of life or human suffering or damage to, and destruction of property, or damage to, or degradation of environment. It should be of such a nature or magnitude to be beyond the coping capacity of the community of the affected area.

If, for this reason, any compensation is paid by the Central Government or by a State Government or by a local authority, then, the same will be exempt from tax. Accordingly, the amount of ₹ 5 lakhs received by the parents of deceased Amit from the Government of Chattisgarh for the disaster because of Dantewada bus bomb blast is exempt under section 10(10BC).

(6) Educational scholarships [Section 10(16)]

The value of scholarship granted to meet the cost of education would be exempt from tax in the hands of the recipient irrespective of the amount or source of scholarship.

(7) Payments to MPs & MLAs [Section 10(17)]

The following incomes of Members of Parliament or State Legislatures will be exempt:

- (i) **Daily Allowance** - Daily allowance received by any Member of Parliament or of State Legislatures or any Committee thereof.
- (ii) **Constituency Allowance of MPs** - In the case of a Member of Parliament, any allowance received under Members of Parliament (Constituency Allowance) Rules, 1986; and
- (iii) **Constituency allowance of MLAs** - Any constituency allowance received by any person by reason of his membership of any State Legislature under any Act or rules made by that State Legislature.

(8) Awards for literary, scientific and artistic works and other awards by the Government [Section 10(17A)]

Any payment, whether in cash or in kind -

- in pursuance of any award instituted in the public interest by the Central/ State Government or any body approved by the Central Government or
- as a reward by Central/ State Government for such purposes as may be approved by the Central Government in public interest,

will enjoy exemption under this clause.

(9) Pension received by recipient of gallantry awards [Section 10(18)]

- (i) **Exemption of Pension** - Any income by way of pension received by an individual is exempt from income-tax if -
- (a) such individual was an employee of Central or State Government and
 - (b) has been awarded "Param Vir Chakra" or "Maha Vir Chakra" or "Vir Chakra" or such other gallantry award notified by the Central Government in this behalf.
- (ii) **Exemption of Family Pension** - In case of the death of such individual, any income by way of family pension received by any member of the family of the individual shall also be exempt under this clause.
- (iii) **Meaning of Family** - Family, in relation to an individual, means –
- the spouse and children of the individual; and
 - the parents, brothers and sisters of the individuals or any of them wholly or mainly dependent on the individual.

Exemption of disability pension granted to disabled personnel of armed forces who have been invalided on account of disability attributable to or aggravated by such service [Circular No. 13/2019, dated 24.6.2019]

The entire disability pension, i.e. "disability element" and "service element" of pension granted to members of naval, military or air forces who have been invalided out of naval, military or air force service on account of bodily disability attributable to or aggravated by such service would be exempt from tax.

The CBDT has, vide this circular, clarified that exemption in respect of disability pension would be available to all armed forces personnel (irrespective of rank) who have been invalided out of such service on account of bodily disability attributable to or aggravated by such service. However, such tax exemption will be available only to armed forces personnel who have been invalided out of service on account of bodily disability attributable to or aggravated by such service and not to personnel who have been retired on superannuation or otherwise.

(10) Annual value of palaces of former rulers [Section 10(19A)]

The annual value of any one palace in the occupation of former Ruler during the relevant previous year would be excluded from the total income, provided the annual value was exempt before

28.12.1971 by virtue of the provisions of the prevailing orders, i.e., the Merged States (Tax Concessions) Order, 1949 or the Part B States (Tax Concessions) Order, 1950.

The Supreme Court has, in *Maharao Bhim Singh of Kota v. CIT* (2017) 390 ITR 532, observed that, in order to claim exemption from payment of income-tax on the residential palace of the Ruler under section 10(19A), it is necessary for the Ruler to satisfy the following conditions:

- (i) He should own the palace as his ancestral property;
- (ii) Such palace should be in his occupation as his residence; and
- (iii) The palace should be declared by the Central Government to be exempt from payment of Income-tax under paragraph 15(iii) of the 1950 Order.

The Supreme Court, accordingly, held that where part of the residential palace is found to be in occupation of the tenant and the remaining is in occupation of the Ruler for his residence, the Ruler is entitled to claim exemption for the whole of his residential palace under section 10(19A). Such exemption cannot be confined to that portion of the palace which is in his actual occupation thereby subjecting the income derived from the portion let out to payment of income-tax in the hands of the Ruler.

(11) Income of local authorities [Section 10(20)]

- (i) **Exempt income** - Following income arising to a local authority would be exempt
 - Income under the head house property; or
 - Income from Capital gains; or
 - Income from Other Sources; or
 - Income from trade or business carried on by it which accrues or arises
 - ✓ from the supply of commodity or service under its jurisdictional area
 - ✓ from the supply of water or electricity within or outside its own jurisdictional area.
- (ii) **Meaning of Local Authority** - For the purposes of this clause, "local authority" means the following:
 - (a) Panchayat
 - (b) Municipality
 - (c) Municipal Committee and District Board legally entitled to, or entrusted by the Government with the control or management of a Municipal or local Fund
 - (d) Cantonment Board

(12) **Income of research associations approved under section 35(1)(ii)/(iii) [Section 10(21)]**

This clause provides for exemption in respect of any income of research associations which are approved under section 35(1)(ii)/(iii)². This exemption has, however, been made subject to the following conditions:

- (i) **Application and accumulation for the objects** - It should apply its income or accumulate for application wholly and exclusively to its objects and provisions of section 11(2) and (3)³ would also apply in relation to such accumulation.
- (ii) **Approved modes of investment/ deposit** - The association should invest or deposit its funds in the forms or modes specified in section 11(5)⁴. This condition would however not apply to -
 - (a) any assets held by the research association where such assets form part of the corpus of the fund of the association as on 1-6-1973;
 - (b) any bonus shares allotted to the research institution, in respect of the shares mentioned above forming part of the corpus of such fund, etc.;
 - (c) any voluntary contributions received and maintained in the form of jewellery, furniture or other article as the Board may specify for any period during the previous year.
- (iii) **Exemption in relation voluntary contribution** – Exemption would not be denied in relation to voluntary contribution, other than voluntary contribution in cash or voluntary contribution of the nature referred in (a) to (c) above, subject to the condition that such voluntary contribution is not held by the association otherwise than in any one or more of the forms or modes specified in section 11(5), after the expiry of one year from the end of the previous year in which such asset is acquired.
- (iv) **Non-applicability of exemption in respect of business income** - The exemption will not apply to income of such association which are in the nature of profits and gains of business unless the business is incidental to the attainment of its objectives and separate books of account are maintained in respect of such business.
- (v) **Withdrawal of Approval** - The approval once granted may be withdrawn if at any time the Government is satisfied that –
 - (a) the research association has not applied its income in accordance with sections 11(2) and (3);

²Section 35(1)(ii)/(iii) will be discussed in Chapter 3

³Section 11(2) and (3) will be discussed in Chapter 10

⁴Section 11(5) will be discussed in Chapter 10

- (b) the research association has not invested or deposited its funds in accordance with point (ii) above.
- (c) the activities of the research association are not genuine;
- (d) the activities of the research association are not being carried out in accordance with the conditions imposed on the basis of which the approval was granted.

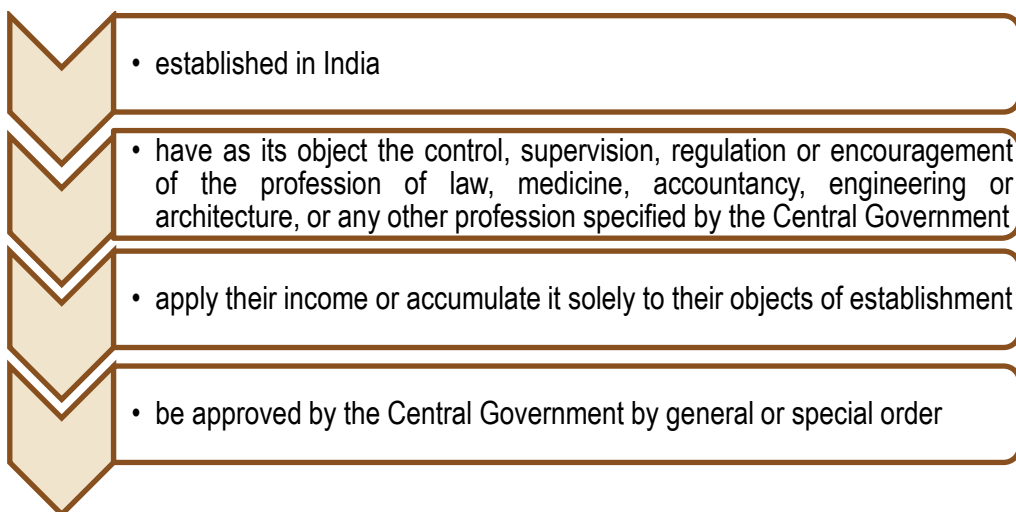
Such withdrawal shall be made after giving reasonable opportunity to the assessee. A copy of the order shall be sent to the Assessing Officer as well as the assessee.

(13) Income of professional associations [Section 10(23A)]

- (i) **Exempt and Non-exempt income** - All income arising to an association is exempt from inclusion in income, except the following categories of income, provided it satisfies the specified conditions:

- (a) income under the head 'income from house property';
- (b) income received for rendering any specific service; and
- (c) income by way of interest or dividends derived from its investments.

- (ii) **Conditions to be satisfied** - Associations or institutions must.



- (iii) **Withdrawal of Approval** - However, approval once granted may be withdrawn if, at any time, the Government is satisfied that –

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

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

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

(14) Income of institutions established by armed forces [Section 10(23AA)]

Any income received by any person on behalf of any regimental fund or non-public fund established by the armed forces of the Union for the welfare of the past and present members of such forces or their dependents is exempt from tax.

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

(15) Income of Funds established for welfare of employees of which such employees are members [Section 10(23AAA)]

A number of funds have been established for the welfare of employees or their dependents in which such employees themselves are members. These funds are utilised to provide benefits to a member on his superannuation, or in the event of his illness or illness of any member of his family, or to the dependents of a member on his death.

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

-  the fund should have been established for the welfare of employees or their dependents and for such purposes as may be notified by the Board
-  such employees should be the members of the fund
-  the fund should apply its income, or accumulate it for application, wholly and exclusively to the objects for which it is established
-  the fund shall invest its fund and contributions made by the employees and other sums received by it in any one mode specified u/s 11(5)
-  the fund should be approved by the Principal Commissioner or Commissioner in accordance with the prescribed rules

The approval shall have effect for such assessment year or years not exceeding three assessment years as may be specified in the order of approval.

(16) Income of Fund set up by Life Insurance Corporation or other insurer under pension scheme [Section 10(23AAB)]

Any income of a fund set up by the LIC of India or any other insurer under a pension scheme to which contribution is made by any person for receiving pensions from such fund. Such scheme should be approved by the Controller of Insurance or the IRDA.

(17) Income of institution established for development of Khadi and Village industries [Section 10(23B)]

- (i) **Institutions eligible for exemption** - The exemption will be available to institutions constituted as public charitable trusts or registered under the Societies Registration Act, 1860 or under any law corresponding to that Act in force in any part of India existing solely for development of khadi and village industries or both and not for purpose of profit.
- (ii) **Income eligible for exemption** - Income derived by such institutions from the production, sale or marketing of Khadi products or village industries would be exempt from income-tax.
- (iii) **Conditions for availing exemption** -
 - (a) The institution has to apply its income or accumulate it for application, solely for the development of khadi or village industries or both.
 - (b) They should be approved by the Khadi and Village Industries Commission.

The approval shall have effect for such assessment year or years not exceeding three assessment years as may be specified in the order of approval.
- (iv) **Withdrawal of Approval** - The approval once granted may be withdrawn if at any time the Government is satisfied that –
 - (a) the institution has not applied or accumulated its income in accordance with the provisions of the section;
 - (b) the activities of the institution are not being carried out in accordance with the conditions imposed on the basis of which the approval was granted.

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

(18) Income of authorities set up under State or Provincial Act for promotion of Khadi and Village Industries [Section 10(23BB)]

Income derived by authorities similar to Khadi and Village Industries Board, set up under any State or Provincial Act, for the development of Khadi or Village industries in the state is exempt from tax.

(19) Income of authorities set up to administer religious or charitable trusts [Section 10(23BBA)]

Income of bodies or authorities established, constituted or appointed under any enactment for the administration of public religious or charitable trusts or endowments (including maths, temples, gurudwaras, wakfs, churches, synagogues, agiaries or other places of public religious worship) or societies for religious or charitable purpose is exempt from tax.

However, it is clarified that this section does not provide exemption in respect of income of any trust, endowment or society.

(20) Income of the IRDA [Section 10(23BBE)]

Any income of the IRDA established under section 3(1) of the IRDA Act, 1999 will be exempt.

(21) Income of Central Electricity Regulatory Commission [Section 10(23BBG)]

This clause provides exemption to any income of Central Electricity Regulatory Commission constituted under section 76(1) of the Electricity Act, 2003.

(22) Income of Prasar Bharati (Broadcasting Corporation of India) [Section 10(23BBH)]

Any income of the Prasar Bharati (Broadcasting Corporation of India) established under section 3(1) of the Prasar Bharati (Broadcasting Corporation of India) Act, 1990 is exempt.

(23) Income of certain funds or institutions [Section 10(23C)]

An exemption is available in respect of any income received by any person on behalf of the following entities:

- (i) the Prime Minister's National Relief Fund or the Prime Minister's Citizen Assistance and Relief in Emergency Situations Fund (PM CARES FUND) [Sub-clause (i)];
- (ii) the Prime Minister's Fund (Promotion of Folk Art) [Sub-clause (ii)];
- (iii) the Prime Minister's Aid to Students Fund [Sub-clause (iii)];
- (iv) the National Foundation for Communal Harmony [Sub-clause (iiia)];
- (v) the Swachh Bharat Kosh, set up by the Central Government [Sub-clause (iiiaa)];
- (vi) the Clean Ganga Fund, set up by the Central Government [Sub-clause (iiiaaa)];
- (vii) the Chief Minister's Relief Fund or the Lieutenant Governor's Relief Fund in respect of any State or Union Territory [Sub-clause (iiiaaaa)];

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

If the government grant to a university or other educational institution, hospital or other institution during the relevant previous year exceeds **50%** of the total receipts (including any voluntary contributions), of such university or other educational institution, hospital or other institution, as the case may be, then, such university or other educational institution, hospital or other institution shall be considered as being **substantially financed by the Government** for that previous year.

- (x) any university or other educational institution existing solely for educational purposes and not for profit and aggregate annual receipts of the person from such university(ies) or educational institution(s) do not exceed ₹ 5 crore [Sub-clause (iiiad)];
- (xi) any hospital or other institution which exists solely for philanthropic purposes and not for profit and which exists for the reception and treatment of persons suffering from illness or mental defectiveness or reception and treatment of convalescing persons or persons requiring medical attention or rehabilitation if aggregate annual receipts of the person from such hospital(s) or institution(s) do not exceed ₹ 5 crore [Sub-clause (iiiae)];

If the person has receipts from university or universities or educational institution or institutions as referred to in (x) as well as from hospital or hospitals or institution or institutions as referred to in (xi), the exemptions would not apply, if the aggregate of annual receipts of the person from such university or universities or educational institution or institutions or hospital or hospitals or institution or institutions, exceed ₹ 5 crore;

- (xii) any other fund or institution for charitable purposes approved by the Principal Commissioner or Commissioner of Income-tax, having regard to the objects of the fund or institution and its importance throughout India or throughout any State or States [Sub-clause (iv)];
- (xiii) any trust (including any other legal obligation) or institution wholly for public religious or wholly for public religious and charitable purposes approved by the Principal Commissioner or

Commissioner of Income-tax [Sub-clause (v)];

- (xiv) any university or other educational institutions which exists solely for educational purposes and not for profit approved by Principal Commissioner or Commissioner of Income-tax [Sub-clause (vi)];
- (xv) any hospital or other institution which exists solely for philanthropic purposes and not for profit and which exists for the reception and treatment of persons suffering from illness or mental defectiveness or reception and treatment of convalescing persons or persons requiring medical attention or rehabilitation approved by the Principal Commissioner or Commissioner of Income-tax [Sub-clause (via)].

However, on or after 1st October 2024, no application for approval under sub-clause (iv), (v), (vi) or (via) of section 10(23C) can be made before the Principal Commissioner or Commissioner.

Refer to “Chapter 10: Assessment of Trusts or institutions, Political Parties and Other special entities, wherein the provisions of section 10(23C) are discussed in detail.

(24) Income of Mutual Fund [Section 10(23D)]

- (i) The income of a Mutual Fund registered under the SEBI Act and regulations made thereunder or other Mutual Fund set up by a public sector bank/public financial institution/RBI subject to certain conditions is exempt.
- (ii) “Public sector bank” means SBI or any nationalised bank or a bank included in the category “other public sector banks” by the RBI, for example, IDBI Bank.

Note: *The income of a mutual fund registered under the SEBI will be exempt without any conditions laid down by the Central Government. In the case of other mutual funds, the conditions will be applicable.*

(25) Income of Investor Protection Funds set up by recognised stock exchanges in India [Section 10(23EA)]

- (i) Clause (23EA) excludes any income by way of contributions received from recognized stock exchanges and the members thereof, of an Investor Protection Fund set up by recognised stock exchanges in India, either jointly or separately, and notified by the Central Government in this behalf.
- (ii) Where any amount standing to the credit of the Fund and not charged to income-tax during any previous year is shared, either wholly or in part, with a recognised stock exchange, the

whole of the amount so shared shall be deemed to be the income of the previous year in which such amount is so shared and shall accordingly be chargeable to income-tax.

(26) Specified income of Investor Protection Fund set up by commodity exchanges [Section 10(23EC)]

- (i) This clause exempts any income, by way of contributions received from commodity exchanges and the members thereof, of such Investor Protection Fund set up by commodity exchanges in India, either jointly or separately, as the Central Government may, by notification in the Official Gazette, specify in this behalf.
- (ii) Where any amount standing to the credit of the said Fund and not charged to income-tax during any previous year is shared, either wholly or in part, with a commodity exchange, the entire amount so shared shall be deemed to be the income of the previous year in which the amount is so shared and shall accordingly be chargeable to income-tax.
- (iii) A “commodity exchange” means a “registered association” as defined in section 2(jj) of the Forward Contracts (Regulation) Act, 1952 i.e., an association to which for the time being a certificate of registration has been granted by the Forward Markets Commission u/s 14B.

(27) Income of Investor Protection Fund set up by depositories [Section 10(23ED)]

- (i) Under section 10(23EA), any income by way of contributions from a recognised stock exchange received by an Investor Protection Fund set up by the recognised stock exchange is exempt from taxation.
- (ii) In line with section 10(23EA), section 10(23ED) provides that any income, by way of contribution from a depository, of such Investor Protection Fund set up by a depository in accordance with the regulations made under the SEBI Act, 1992 and the Depositories Act, 1996, will not be included while computing the total income of such investor protection fund.
- (iii) The Central Government, would, by way of notification in the Official Gazette, specify such investor protection funds set up by depositories in accordance with the SEBI and depositories regulations.
- (iv) Where any amount standing to the credit of the fund and not charged to income-tax during any previous year is shared wholly or partly with a depository, the amount so shared shall be deemed to be the income of the previous year in which such amount is shared. Accordingly, such amount would be chargeable to income-tax.
- (v) “Depository” means a company formed and registered under the Companies Act, 1956 and

which has been granted a certificate of registration under section 12(1A) of the SEBI Act, 1992.

(28) Specified income of Core Settlement Guarantee Fund (SGF) set up by a recognized Clearing Corporation [Section 10(23EE)]

- (i) The Clearing Corporations are required, under the provisions of Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) Regulations, 2012 notified by SEBI, to establish a fund, called Core Settlement Guarantee Fund (Core SGF) for each segment of each recognized stock exchange to guarantee the settlement of trades executed in respective segments of the exchange.
- (ii) Under sections 10(23EA), 10(23EC) and 10(23ED), any income by way of contributions received from recognized stock exchanges or commodity exchanges and the members thereof or depositories of Investor Protection Fund set up by such recognised stock exchanges in India, or by commodity exchanges in India or by such depository, respectively, as the Central Government may notify in this behalf, are exempt from taxation.
- (iii) On parallel lines, section 10(23EE) exempts any specified income of such Core SGF set up by a recognized clearing corporation in accordance with the regulations, notified by the Central Government.
- (iv) Where any amount standing to the credit of the Fund and not charged to income-tax during any previous year is shared, either wholly or in part with the specified person, the whole of the amount so shared shall be deemed to be the income of the previous year in which such amount is shared, and shall accordingly be chargeable to income-tax.
- (v) **Meaning of certain terms:**

Terms	Meaning
Regulations	Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) Regulations, 2012 made under the SEBI Act, 1992 and Securities Contracts (Regulation) Act, 1956 or <i>International Financial Services Centres Authority (Market Infrastructure Institutions) Regulations, 2021 made under the IFSC Act, 2019.</i>
Recognised clearing corporation	Meaning assigned as per Regulation 2(1)(o) of the Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) Regulations, 2012 made under the SEBI Act, 1992 and Securities Contracts (Regulation) Act, 1956 i.e., "Recognised clearing corporation" means a clearing corporation which is recognised by the SEBI under section 4 read with section 8A of the SEBI Act, 1992 <i>or under regulation 2(1)(n) of the International Financial Services</i>

	<i>Centres Authority (Market Infrastructure Institutions) Regulations, 2021 made under the IFSC Act, 2019 i.e., a clearing corporation in an IFSC recognised by the Authority;</i>
Specified Income	(a) the income by way of contribution received from specified persons; (b) the income by way of penalties imposed by the recognised clearing corporation and credited to the Core Settlement Guarantee Fund; or (c) the income from investment made by the Fund.
Specified person	(a) any recognised clearing corporation which establishes and maintains the Core Settlement Guarantee Fund; (b) any recognised stock exchange being shareholder in such recognised clearing corporation or a contributor to Core Settlement Guarantee Fund; and (c) any clearing member contributing to the Core Settlement Guarantee Fund.

(29) Income of trade unions [Section 10(24)]

Any income under the heads "Income from house property" and "Income from other sources" of a registered trade union, within the meaning of the Trade Unions Act, 1926, formed primarily for the purpose of regulating the relations between workmen and the employers or between workmen and workmen will be exempt.

Further, this exemption is also available in respect of an association of such registered unions.

(30) Income of provident funds, superannuation funds, gratuity funds [Section 10(25)]

Any income of a recognized provident fund (RPF) and of an approved superannuation fund or gratuity fund is exempt from tax and the trustees of these funds would not be liable to pay tax thereon.

The exemption also applies to -

- (i) the interest on securities which are held by or are the property of statutory provident fund (SPF) governed by the Provident Funds Act, 1925;
- (ii) the capital gains of the fund, if any, arising to it from the sale, exchange or transfer of such securities;
- (iii) any income received by the Board of Trustees constituted
 - under Coal Mines Provident Fund and Miscellaneous Provisions Act, 1948 and
 - under the Employees' Provident Funds and Miscellaneous Provisions Act, 1952,

on behalf of the Deposit Linked Insurance Funds established under these respective Acts.

(31) Income of Employees' State Insurance (ESI) Fund [Section 10(25A)]

The contributions paid under ESI Act, 1948 and all other moneys received on behalf of the ESI Corporation are paid into a Fund called the ESI Fund. This Fund is held and administered by the ESI Corporation. The amounts lying in the Fund are to be expended for payment of cash benefits and provision of medical treatment and attendance to insured persons and their families, establishment and maintenance of hospitals and dispensaries, etc. Any income of the ESI Fund is exempted from income-tax.

(32) Income of member of a scheduled tribe [Section 10(26)]

A member of a Scheduled Tribe residing in -

- (i) any area specified in the Constitution i.e., The North Cachar Hills District, The Karbi Anglong District, The Bodoland Territorial Areas District, Khasi Hills District, Jaintia Hills District or The Garo Hills District or
- (ii) in the States of Manipur, Tripura, Arunachal Pradesh, Mizoram and Nagaland, or
- (iii) in Ladakh

is exempt from tax on his income arising or accruing -

- (a) from any source in the areas or States aforesaid.
- (b) by way of dividend or interest on securities.

(33) Specified income of a Sikkimese Individual [Section 10(26AAA)]

The following income, which accrues or arises to a Sikkimese individual, would be exempt from income-tax –

- (a) income from any source in the State of Sikkim; or
- (b) income by way of dividend or interest on securities.

(34) Income of an Agricultural Produce Market Committee or Board [Section 10(26AAB)]

Any income of an Agricultural Produce Market Committee or Board constituted under any law for the time being in force for the purpose of regulating the marketing of agricultural produce would be exempt.

(35) Income of a corporation etc. for the promotion of interests of members of Scheduled Casts or Tribes or backward classes or any two or all of them [Section 10(26B)]

Any income of a corporation (established by a Central, State or Provincial Act) or other body, institution or association (wholly financed by Government) formed for promotion of the interests of the members of Scheduled Castes or Tribes or backward classes or of any two or all of them is exempt from tax.

(36) Income of corporations established to protect interests of minority community [Section 10(26BB)]

Any income of a corporation established by the Central Government or any State Government for promoting the interests of the members of a minority community will be exempt from income tax.

Section 80G also provides tax relief in respect of donations made to these corporations.

(37) Income of corporation established for welfare and economic upliftment of ex-servicemen [Section 10(26BBB)]

Any income of a corporation established by a Central, State or Provincial Act for the welfare and economic upliftment of ex-servicemen, being citizens of India, would be exempt from income-tax.

(38) Income of a co-operative society for promoting interest of members of Scheduled castes or Tribes or both [Section 10(27)]

Any income of a co-operative society formed for promoting the interests of the members of either the scheduled castes or scheduled tribes or both will be exempted from being included in the total income of the society.

Conditions:

- (i) The membership of the co-operative society should consist of only other co-operative societies formed for similar purposes, and
- (ii) The finances of the society shall be provided by the Government and such other societies.

(39) Incomes of certain bodies like Coffee/Tea/Rubber Board, etc. [Section 10(29A)]

Under this clause, any income accruing or arising to the following bodies is exempt from tax:

- (i) the Coffee Board constituted under section 4 of the Coffee Act, 1942,
- (ii) the Rubber Board constituted under section 4(1) of the Rubber Board Act, 1947,
- (iii) the Tea Board established under section 4 of the Tea Act, 1953,
- (iv) the Tobacco Board constituted under the Tobacco Board Act, 1975,

- (v) the Marine Products Export Development Authority established under section 4 of the Marine Products Export Development Authority Act, 1972,
- (vi) the Agricultural and Processed Food Products Export Development Authority established under section 4 of the Agricultural and Processed Food Products Export Development Act, 1985,
- (vii) the Spices Board constituted under section 3(1) of the Spices Board Act, 1986,
- (viii) the Coir Board established under the Coir Industry Act, 1953.

(40) Tea board subsidy [Section 10(30)]

The amount of any subsidy received by any assessee engaged in the business of growing and manufacturing tea in India through or from the Tea Board will be wholly exempt from tax.

Conditions:

- (i) The subsidy should have been received under any scheme for replantation or replacement of the bushes or for rejuvenation or consolidation of areas used for cultivation of tea, as notified by the Central Government.
- (ii) The assessee should furnish a certificate from the Tea Board, as to the amount of subsidy received by him during the previous year, to the Assessing Officer.

(41) Other subsidies [Section 10(31)]

Amount of any subsidy received by an assessee engaged in the business of growing and manufacturing rubber, coffee, cardamom or other specified commodity in India, as notified by the Central Government, will be wholly exempt from tax.

Conditions:

- (i) The subsidies should have been received from or through the Rubber Board, Coffee Board, Spices Board or any other Board in respect of any other commodity under any scheme for replantation or replacement of rubber, coffee, cardamom or other plants or for rejuvenation or consolidation of areas used for cultivation of all such commodities.
- (ii) The assessee should furnish a certificate from the Board, as to the amount of subsidy received by him during the previous year, to the Assessing Officer.

(42) Specified income arising from any international sporting event in India [Section 10(39)]

- (i) This clause exempts income of the nature and to the extent, arising from any international

sporting event in India, to the person or persons notified by the Central Government in the Official Gazette.

- (ii) Such international sporting event should -
 - (a) be approved by the international body regulating the international sport relating to such event;
 - (b) have participation by more than two countries;
 - (c) be notified by the Central Government in the Official Gazette for the purposes of this clause.

(43) Certain grants etc. received by a subsidiary from its Indian holding company engaged in the business of generation or transmission or distribution of power [Section 10(40)]

- (i) This clause exempts income of any subsidiary company by way of grant or otherwise received from an Indian company, being its holding company engaged in the business of generation or transmission or distribution of power.
- (ii) The receipt of such income should be for settlement of dues in connection with reconstruction or revival of an existing business of power generation.
- (iii) The exemption under this clause is available if the reconstruction or revival of any existing business of power generation is by way of transfer of such business to the Indian company notified under section 80-IA(4)(v)(a).

(44) Specified income of certain bodies or authorities [Section 10(42)]

- (i) This clause exempts income, of the nature and to the extent, arising to a body or authority, notified by the Central Government.
- (ii) Such body or authority should have been established or constituted or appointed -
 - (a) under a treaty or an agreement entered into by the Central Government with two or more countries or a convention signed by the Central Government;
 - (b) not for the purposes of profit.

(45) Income received by any person on behalf of NPS Trust [Section 10(44)]

The NPS Trust would exempt from the applicability of –

- (i) income-tax on any income received by any person for, or on behalf of, the NPS Trust [Section 10(44)]; and

(ii) securities transaction tax on all purchases and sales of equity and derivatives by the NPS Trust. Further, the NPS Trust shall receive all income without any deduction of tax at source. [Section 197A(1E)].

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

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

- (i) Section 10(46) provides for exemption of income arising to a body or authority or Board or Trust or Commission, other than those covered under section 10(46A), or a class thereof, the nature and extent of which is to be specified by the Central Government.
- (ii) For availing the benefit of exemption under this clause, the body or authority or Board or Trust or Commission or a class thereof should be established or constituted by or under a Central, State or Provincial Act or constituted by the Central or State Government with the object of regulating or administering an activity for the benefit of the general public.
- (iii) Further, the body or authority or Board or Trust or Commission should –
 - (a) not be engaged in any commercial activity; and
 - (b) be notified by the Central Government in this behalf.

(47) Any income of notified entities established or constituted under a Central Act or State Act [Section 10(46A)]

- (i) Section 10(46A) provides for exemption of any income arising to a body or authority or Board or Trust or Commission, not being a company.
- (ii) For availing the benefit of exemption under this clause, the body or authority or Board or Trust or Commission, not being a company, should be established or constituted by or under a Central Act or State Act with one or more of the following purposes -
 - dealing with and satisfying the need for housing accommodation;
 - planning, development or improvement of cities, towns and villages;
 - regulating, or regulating and developing, any activity for the benefit of the general public; or
 - regulating any matter, for the benefit of the general public, arising out of the objects for which it has been created.

- (iii) Further, the body or authority or Board or Trust or Commission, not being a company should be notified by the Central Government in this behalf.

(48) Any income of National Credit Guarantee Trustee Company Ltd, credit guarantee fund or credit guarantee Fund Trust [Section 10(46B)]

Section 10(46B) provides exemption of any income accruing or arising to

- National Credit Guarantee Trustee Company Ltd., being a company established and wholly financed by the Central Government for the purpose of operating credit guarantee funds established and wholly financed by the Central Government;
- Credit guarantee funds established and wholly financed by the Central Government and managed by the National Credit Guarantee Trustee Company Ltd.;
- Credit Guarantee Fund Trust for Micro and Small Enterprises, being a trust created by the Government of India and the Small Industries Development Bank of India established under Small Industries Development Bank of India Act, 1989.

(49) Income of notified infrastructure debt funds [Section 10(47)]

In order to give a fillip to infrastructure and encourage inflow of long-term foreign funds to this sector, the Central Government to notify infrastructure debt funds to be set up in accordance with the prescribed guidelines, the income of which would be exempt from tax.

(50) Certain income of Indian Strategic Petroleum Reserves Limited [Section 10(48C)]

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 would be exempt.

However, exemption would not available in respect of an arrangement, if the crude oil is not replenished in the storage facility within three years from the end of the financial year in which the crude oil was removed from the storage facility for the first time.

(51) Income of an institution established for financing infrastructure and development [Section 10(48D)]

Any income accruing or arising to an institution established for financing the infrastructure and development, set up under an Act of Parliament and notified by the Central Government, for 10 consecutive assessment years beginning from the assessment year relevant to the previous year in which such institution is set up would be exempt.

(52) Income of a developmental financing institution licensed by RBI [Section 10(48E)]

Any income accruing or arising to a developmental financing institution, licensed by the RBI under an Act of Parliament referred to in section 10(48D) and notified by the Central Government, for 5 consecutive assessment years beginning from the assessment year relevant to the previous year in which the developmental financing institution is set up would be exempt.

Further, the Central Government may, by issuing notification, extend the exemption for a further period, not exceeding 5 more consecutive assessment year, subject to fulfillment of such conditions as may be specified in the said notification.

Students should carefully note that all the items under section 10 listed above are either wholly or partially exempt from taxation and the exempt portion is not even includible in the total income of the person concerned.



2.3 RESTRICTIONS ON ALLOWABILITY OF EXPENDITURE [SECTION 14A]

As per section 14A, notwithstanding anything to the contrary, expenditure incurred in relation to any exempt income is not allowed as a deduction while computing income under any of the five heads of income [Sub-section (1)].

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

The method for determining expenditure in relation to exempt income is to be prescribed by the CBDT for the purpose of disallowance of such expenditure under section 14A. Such method should be adopted by the Assessing Officer in the following cases –

- (i) if he is not satisfied with the correctness of the claim of the assessee, having regard to the accounts of the assessee. [Sub-section (2)]; or
- (ii) where an assessee claims that no expenditure has been incurred by him in relation to income which does not form part of total income [Sub-section (3)].

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

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

- (a) the correctness of the claim of expenditure by the assessee; or
- (b) the claim made by the assessee that no expenditure has been incurred

in relation to exempt income for such previous year, he shall determine the amount of expenditure in relation to such income in the manner provided hereunder –

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

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

However, the amount referred to in clause (i) and clause (ii) shall not exceed the total expenditure claimed by the assessee.

Expenditure incurred during a previous year (say, P.Y. 2024-25) in relation to exempt income would be disallowed while computing total income of that previous year by applying the provisions of section 14A even though such exempt income has not accrued or arisen or has not been received during the said previous year.

Clarification regarding disallowance of expenses under section 14A in cases where corresponding exempt income has not been earned during the financial year [Circular No. 5/2014, dated 11.2.2014]

Section 14A provides that no deduction shall be allowed in respect of expenditure incurred relating to income which does not form part of total income. A controversy has arisen as to whether disallowance can be made by invoking section 14A even in those cases where no income has been earned by an assessee, which has been claimed as exempt during the financial year.

The CBDT has, through this Circular, clarified that the legislative intent is to allow only that expenditure which is relatable to earning of income. Therefore, it follows that 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.

The above position is clarified by the usage of the term “includible” in the heading to section 14A [Expenditure incurred in relation to income not includible in total income] and Rule 8D [Method for determining amount of expenditure in relation to income not includible in total income], which indicates that it is not necessary that exempt income should necessarily be included in a particular year’s income, for triggering disallowance. Also, the terminology used in section 14A is “income under the Act” and not “income of the year”, which again indicates that it is not material that the assessee should have earned such income during the financial year under consideration.

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.

SIGNIFICANT SELECT CASES

Case Law	
<i>CIT v. Kribhco (2012) 349 ITR 0618 (Delhi)</i>	
Issue	Analysis & Decision
Is section 14A applicable in respect of deductions, which are permissible and allowed under Chapter VI-A?	Deductions under Chapter VIA are different from the exclusions/exemptions provided under Chapter III. Section 14A is applicable only if an income is not included in the total income as per the provisions of Chapter III of the Income-tax Act, 1961. Therefore, no disallowance can be made u/s 14A in respect of income included in total income in respect of which deduction is allowable u/s 80C to 80U.

TEST YOUR KNOWLEDGE**Questions**

1. *Examine with reasons, based on the provisions of the Act, as to chargeability of the following receipts to tax in the assessment year 2025-26:*
 - (i) *Rent of ₹ 60,000 charged from tenants occupying houses constructed on the land situated in India and used for agricultural purposes. The tenants, working in the nearby industrial area, occupy these houses for their own residential purposes.*
 - (ii) *Income of ₹ 75,000 derived by Anand Nursery from the sale of seedlings grown without carrying out all the basic operations on land.*
 - (iii) *Mr. Gaitonde, born and brought up in the State of Sikkim, had a net profit of ₹ 2,25,000 from the business located in Sikkim and interest of ₹ 55,000 on the securities/ bonds issued by the Government of Rajasthan.*
2. *Mr. Akash, a resident Indian, earns income of ₹ 22 lakhs from sale of rubber manufactured from latex obtained from rubber plants grown by him in India and ₹ 30 lakhs from sale of rubber manufactured from latex obtained from rubber plants grown by him in Malaysia during the A.Y.2025-26. What would be his business income, assuming he has no other business?*
3. *Mr. Ram, a resident Indian, earns income of ₹ 15 lakhs from sale of coffee grown and cured in India during the A.Y.2025-26. His friend, Mr. Shyam, a resident Indian, earns income of ₹ 25 lakhs from sale of coffee grown, cured, roasted and grounded by him in India during the A.Y.2025-26. What would be the business income chargeable to tax in India of Mr. Ram and Mr. Shyam?*

Answers

1. (i) As per section 10(1), agricultural income is exempt from tax. The meaning and scope of agricultural income is defined in section 2(1A). According to *Explanation 2* to section 2(1A), any income derived from any building from the use of such building for any purpose (including letting for residential purposes or for the purpose of any business or profession) other than agriculture shall not be agricultural income. Therefore, the rent of ₹ 60,000 from letting out of houses constructed on agricultural land for residential purposes of industrial workers shall not be treated as agricultural

income by virtue of *Explanation 2* to section 2(1A). Hence, such income would be chargeable to tax.

- (ii) *Explanation 3* to section 2(1A) provides that the income derived from saplings or seedlings grown in a nursery shall be deemed to be agricultural income, whether or not the basic operations were carried out on land. Accordingly, the income of ₹ 75,000 derived by Anand Nursery from the sale of seedlings grown without carrying out all the basic operations on land shall be treated as agricultural income and exempt from tax under section 10(1).
- (iii) Section 10(26AAA) exempts the income which accrues or arises to a Sikkimese individual from any source in the State of Sikkim and the income by way of dividend or interest on securities. Therefore, the income of Mr. Gaitonde from a business located in Sikkim and interest income on the securities/bonds of Government of Rajasthan shall not be subject to tax.

2. Since Mr. Akash is a resident, his global income would be taxable in India. Income of ₹ 30 lakhs from sale of rubber manufactured from latex obtained from rubber plants grown by him in Malaysia would be his business income since it is from rubber plants grown **outside India**. 35% income from sale of rubber manufactured from latex obtained from rubber plants grown by him in India would be taxable as business income and balance 65% would be exempt as agricultural income.

Business income = 35% of ₹ 22 lakhs + ₹ 30 lakhs = ₹ 37.70 lakhs

3. In case of income derived from the sale of coffee grown and cured by the seller in India, 25% income on such sale is taxable as business income. In case of income derived from the sale of coffee grown, cured, roasted and grounded by the seller in India, 40% income on such sale is taxable as business income.

Business income of Mr. Ram = 25% of ₹ 15 lakhs = ₹ 3.75 lakhs

Business income of Mr. Shyam = 40% of ₹ 25 lakhs = ₹ 10 lakhs