

EKATVAM ACADEMY
SOLUTION FOR PAPER 13 EXEMPTIONS
CA/CMA INTER

SOLUTION 1

Computation of Business Income and Agriculture Income of Mr. B

Particulars	Business Income	Agricultural Income	
	(₹)	(₹)	(₹)
Sale of Sugar			
Business income			
Sale Proceeds of sugar	25,00,000		
Less: Market value of sugarcane (70%)	22,00,000		
Less : Manufacturing exp.	<u>1,50,000</u>		
Agricultural income	<u>1,50,000</u>		
Market value of sugarcane (70%)		22,00,000	
Less: Cost of cultivation		<u>14,00,000</u>	
Sale of sugarcane			
Agricultural Income			8,00,000
Sale proceeds of sugarcane (30%)		<u>10,00,000</u>	
Less: Cost of cultivation		<u>5,00,000</u>	
			<u>5,00,000</u>
			<u>13,00,000</u>

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.

SOLUTION 2

Computation of deduction under section 10AA of the Income-tax Act, 1961

As per section 10AA, in computing the total income of Rudra Ltd. from its unit located in a Special Economic Zone (SEZ), which begins to manufacture or produce articles or things or provide any services during the previous year relevant to the assessment year commencing on or after 01.04.2006 but before 01.04.2021, there shall be allowed a deduction of 100% of the profit and gains derived from export of such articles or things or from services for a period of five consecutive assessment years beginning with the assessment year relevant to the previous year in which the Unit begins to manufacture or produce such articles or things or provide services, as the case may be, and 50% of such profits for further five assessment years.

Computation of eligible deduction u/s 10AA [See Working Note below] :

(i) If Unit in SEZ was set up and began manufacturing from 22-05-2017 :

Since A.Y. 2024-25 is the 7th assessment year from A.Y. 2017-18, relevant to the previous year 2016-17, in which the SEZ unit began manufacturing of articles or things, it shall be eligible for deduction of 50% of the profits derived from export of such articles or things, assuming all the other conditions specified in section 10AA are fulfilled.

$$\begin{aligned} &= \text{Profits of Unit in SEZ} \times \frac{\text{Export turnover of Unit in SEZ}}{\text{Total turnover of Unit in SEZ}} \times 50\% \\ &= 60 \text{ lakhs} \times \frac{300 \text{ lakhs}}{400 \text{ lakhs}} \times 50\% = ₹ 22.50 \text{ lakhs} \end{aligned}$$

(ii) If Unit in SEZ was set up and began manufacturing from 14-05-2019 :

Since A.Y. 2024-25 is the 4th assessment year from A.Y. 2020-21, relevant to the previous year 2019-20, in which the SEZ unit began manufacturing of articles or things, it shall be eligible for deduction of 100% of the profits derived from export of such articles or things, assuming all the other conditions specified in section 10AA are fulfilled.

$$\begin{aligned} &\text{Profits of Unit in SEZ} \times \frac{\text{Export turnover of unit in SEZ}}{\text{Total turnover of Unit in SEZ}} \times 100\% \\ &60 \text{ Lakhs} \times \frac{300 \text{ Lakhs}}{400 \text{ Lakhs}} \times 100\% = ₹ 45 \text{ lakhs} \end{aligned}$$

The unit set up in Domestic Tariff Area is not eligible for the benefit of deduction under section 10AA in respect of its export profits, in both the situations.

Working Note :

Computation of total sales, export sales and net profit of unit in SEZ

Particulars	Rudra Ltd. (₹)	Unit in DTA (₹)	Unit in SEZ (₹)
Total Sales	6,00,00,000	2,00,00,000	4,00,00,000
Export Sales	4,60,00,000	1,60,00,000	3,00,00,000
Net Profit	80,00,000	20,00,000	60,00,000

SOLUTION 3

100% of the profit derived from export of articles or things or services is eligible for deduction under section 10AA, since F.Y. 2023-24 falls within the first five year period commencing from the year of manufacture or production of articles or things or provision of services by the Unit in SEZ. As per section 10AA(7), the profit derived from export of articles or things or services shall be the amount which bears to the profits of the business of the undertaking, being the Unit, the same proportion as the export turnover in respect of articles or things or services bears to the total turnover of the business carried on by the undertaking.

Deduction under section 10AA :

$$= \text{Profit of the business of Unit A} \times \frac{\text{Export Turnover of Unit A}}{\text{Total Turnover of Unit A}} \times 100\%$$

$$= ₹ 30 \text{ lakhs} \times \frac{50}{100} \times 100\% = ₹ 15 \text{ lakhs}$$

Note : No deduction under section 10AA is allowable in respect of profits of business of Unit B located in DTA.