

Incomes which do not form part of Total Income

Lesson 3

KEY CONCEPTS

- Exemption ■ Deduction ■ Rebate ■ Agriculture Income

Learning Objectives

To understand:

- Income which does not form part of Total Income
- The various exemptions available under the Income Tax Act, 1961

Lesson Outline

- Introduction
- Income which do not Form Part of total income
- Combination of Agriculture and Non-Agriculture Income
- List of Income which do not Form Part of total Income
- Agriculture Income
- Lesson Round-Up
- Test Yourself
- List of Further Readings
- Other References

INTRODUCTION

Income Tax is calculated on the total income of a person for the previous year. For providing relief to the tax payer, Income Tax laws provide various exemptions, deduction and rebate under the Income Tax Act, 1961 'the Act'. The exempt income is often confused with the deductions and rebate. However there is difference between these concepts. Deduction & Exemption are two Synonyms words in first appearance but has vital difference at length in Income Tax Act. Deduction means subtraction of an amount from the SUM of Income which is already having under different heads of Income. Whereas Exemption means the whole income itself is exempt from tax.

The same has been explained in the table below:

<i>Exemption</i>	<i>Deduction</i>	<i>Rebate</i>
<ul style="list-style-type: none"> ● Exemptions are claimed on the basis of the source of income. ● The exempted income is not included in the total Income of the assessee for computing Gross Total Income. 	<ul style="list-style-type: none"> ● Deductions are allowed on the basis of the payments/ investments made during the year. ● The tax deductions are allowed under different heads of income as well as from the gross income. 	<ul style="list-style-type: none"> ● Rebate is a percentage amount reduced from total income tax payable. ● Tax rebate is allowed as a reduction to the total tax payable

There are several incomes that do not form part of the total income of the assessee, which are entailed u/s 10 of the Act. Being exempt, these do not enter the computation of taxable incomes. The major difference between incomes exempt u/s 10 and the deductions under Chapter-VI-A, incomes u/s 10 do not enter into the computation of taxable income for assessee at all as they are exempt; whereas Chapter for VI-A, first incomes are added and form part of Gross Total Income (GTI) and only then these deductions under the Chapter are allowed.

Expenditure incurred in relation to any exempt income is not allowed as a deduction while computing income under any of the Heads of Income. For getting deduction you have either to expense out or invest in designated area in other words it is Cash outflow. On the other hand, Inflow of income is itself exempt from tax i.e. Exemption. It results in increase in cash inflow. The government declares the exemption through either circular or notification in public interest. The following are the receipts / income which are exempt under Income tax Act, 1961.

INCOMES WHICH DO NOT FORM PART OF TOTAL INCOME

Agricultural Income [Section 10(1)]

Section 10(1) states that agricultural incomes are not included in the total income of the assessee. The term Agricultural Income can be quite wide in scope as under:

- It could take the form of rent or revenues derived from a land in India (If agricultural land is situated in a foreign country, the entire income would be taxable), and 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 the other conditions mentioned above.
- It could take the form of income through agriculture / cultivation to render the produce fit for being taken in to the market for sale
 - ✓ Agriculture would include **basic operations** which are absolutely necessary for raising produce, and **subsequent operations** which are performed after the produce sprouts from the land.

- ✓ Therefore, activities like tilling of the land, sowing seeds, and both the basic and subsequent operations performed together in conjunction with each other would be construed as the agricultural purpose.
- ✓ In order to render the produce, fit for being taken to market for sale, the activities would include all activities, like cleaning, drying, winnowing, crushing etc. Example, let's assume the process being referred to is obtaining rice from paddy, the process ordinarily employed by the cultivator would include:
 - Removing hay from basic grains
 - Removing chaff from the grains
 - Filtering the grain to remove stones
 - Packing the rice in gunny bags.

Therefore, all activities, manual or otherwise, all the processes would be included in and therefore constitute the activities deployed to render the produce fit for being taken to the market.

- It could take the form of sale of agricultural produce itself
 - ✓ Here, the most important part to be understood is that the produce must be sold in its raw form, and then that will constitute agricultural income. However, if the produce is further subjected to processes other than the processes ordinarily employed to render the produce fit for the market, example, for tobacco, cotton, tea, these are subjected to further manufacturing processes before being commercially sold, and therefore the income so arising from such sale would be treated as a mix of agricultural and business income.

CASE LAW

30.11.2011

Dy. CIT v. Best Roses Biotech (P) Ltd.

ITAT Ahmadabad Bench

Facts of the Case: Assessee acquired land from agriculturist on lease and constructed a greenhouse flower project on said land. It started growing of rose flower / plants on bridge of plastic trays erected with help of M.S. stand 2.3 ft. above land. The assessee claimed the income from rose flower as exempt. The Assessing Officer held that the rose plants were not planted on earth land and no basis operation was carried out by assessee on land hence, not eligible for exemption. According to assessee, for plantation of roses a very well treated soil was required, manures were mixed in soil for preparing a base for growing rose plants trays were filed with mixture of soil, insecticides were sprinkled on plants to save plants from any disease, root stocks were brought from market and planted in green house, mother plant was otherwise reared on earth, subsequently saplings were planted on plastic trays which were kept at height of 2-3 ft. placed on M.S. stand, purpose of growing rose plants at a height was primarily to avoid pest and to develop in a controlled atmosphere and green house was used for various benefit so that sunlight and humidity level both could be maintained.

Judgment: In fact assessee's activity has already been endorsed as an agriculture activity by several other connected authorities certifying it as an agricultural operation. After an elaborate discussion of the facts as well as law pronounced by several courts, as also the decisions now cited from the side of the Revenue, it is finally held that considering the advancement of technology and the use of the advanced equipment in *DCIT Navsari v. Best Roses Biotech Pvt. Ltd.* cultivation; coupled with the conventional cultivation method, put together, made the operation carried out by the assessee was agricultural operation in nature. Respectfully placing reliance on this decision as also the few decisions

cited hereinabove, the considered view that the income in question cannot be included in total income being within the ambits of the provisions of Section 10(1) of the Act. The view taken by Ld. CIT(A) is hereby affirmed and this ground of Revenue's appeal is dismissed.

Illustration 1:

Whether income from nursery constitutes agricultural income?

Solution:

Yes, as per *Explanation 3* to section 2(1A), 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.

Rule 7 - Where the income is partially agricultural income and partially business income, **the market value** of any agricultural produce so raised by the assessee, which has been further utilised / processed in such business will be allowed as a deduction in such business.

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 2:

Kundan Lal grows sugarcane and uses the same for the purpose of manufacturing sugar in his factory. 40% of the sugarcane produce is sold for INR 15,00,000 and the cost of cultivation of this part is INR 8,00,000. 60% of the sugarcane produce is further subjected to manufacturing sugar and the Market Value (MV) of the same was INR 33,00,000 and the cost of cultivation of this part was INR 21,00,000.

Post incurring INR 3,00,000 in the manufacturing process for sugar, that the sugarcane was subjected to, the sugar was sold for INR 40,00,000.

You are required to advise on his Agricultural and Business Income.

Solution:

<i>Particulars</i>	<i>Figure in Lakhs</i>	<i>Figure in Lakhs</i>
Item	Sugarcane	Sugar
Sale	48.0	40.0

Cost of cultivation	29.0	33.0
Further Mfg.	0.0	3.0
Agriculture Income	19.0	
Business Income		4.0

Notes:

- 40% of the sugarcane produce was sold raw @ INR 15,00,000 and 60% of the sugarcane produce was subjected to further manufacturing, MV was INR 33,00,000. Therefore, for the purposes of agricultural income, the entire produce was disposed at a consideration of INR 48,00,000
- The cost of 100% produce is INR 800,000 and INR 21,00,000 for the 40% and 60% respectively, which is INR 29,00,000
- For sugar, the MV of the 60% produce would be taken as the cost hence, and therefore the cost of cultivation would be INR 33,00,000

Income from Manufacture of Rubber [Rule 7A]

This rule applies on income from sale of latex, or crepes derived from latex, coagulum obtained from rubber plants, grown by the seller in India. In such cases, 35% of profits on sales is taxable as business income and 65% as agricultural income, which stands exempt.

Illustration 3:

Nikhil manufactures latex from rubber plants grown by him in India. These are subsequently sold in the market at INR 50,00,000. The costs incurred are as under:

- Manufacturing Latex: INR 12,00,000
- Growing Rubber Plants: INR 18,00,000

Solution:

The treatment is explained as under:

Particulars	INR
Total Income	50,00,000
Total Costs	30,00,000
Profits	20,00,000
Business Income	7,00,000
Agricultural Income	13,00,000

Note: the business income chargeable to tax under the head "Profits and Gains from Business / Profession" is taken @ 35% of the profits and the agricultural income is taken @ 65%, which is subsequently exempt from tax.

Illustration 4:

Mr. A manufactures latex from the rubber plants grown by him in India. These are then sold in the market for Rs. 50 lacs. The cost of growing rubber plants is Rs. 20 lacs and that of manufacturing latex is Rs. 10 lacs. Compute his total income.

Solution:

The total income of Mr. A comprises of agricultural income and business income. Total profits from the sale of latex = Rs. 50 lacs – Rs. 20 lacs – Rs. 10 lacs = Rs. 20 lacs. Agricultural income = 65% of Rs. 20 lac = Rs. 13 lacs

Business income = 35% of Rs. 20 lacs = Rs. 7 lacs

Income from the Manufacture of Coffee [Rule 7B]

This rule applies on income from sale of coffee grown & cured by the seller in India. In such cases, 25% of profits on sales is taxable as business income and 75% as agricultural income, which stands exempt.

However, in case of income from sale of coffee, grown, cured, roasted and grounded by the seller in India, with / without mixing flavoured ingredients, 40% of the income would be taken as taxable as business income and 60% as agricultural income, which stands exempt.

CASE LAW

Whether claim of assessee of exemption under section 10(1) on proceeds from sale of coffee subjected to only pulping and drying was accepted for several years and there were hundreds of coffee growers whose income were also exempted, re-opening notice issued only against assessee during relevant assessment year was unjustified [Assessment year 2009-10] [In favour of assessee]

Karti P. Chidambaram vs. Asstt. CIT (2017) (Mad.)

The assessee, owner of coffee estates, was engaged, in growing coffee and after pulping and drying, sells coffee as raw coffee. For several assessment years, the assessee had been granted exemption under section 10(1) on income from sale of raw coffee. During relevant assessment year, reopening notice was issued against the assessee on ground that the assessee sold cured coffee and not raw coffee and hence 25 percent of total receipts from sale of coffee was eligible to tax. Subsequently, a reassessment order was passed making additions to income of the assessee.

Held that since re-assessment order was passed without disposing of the assessee's objections to re-opening of assessment and without passing a speaking order, same was unjustified. Further, where claim of the assessee of exemption of income under section 10(1) on proceeds from sale of coffee subjected to only pulping and drying was accepted for several years and there were hundreds of coffee growers whose income were also exempted, re-opening notice issued only against the assessee during relevant assessment year was unjustified.

Income from Growing and Manufacturing of Tea [Rule 8]

This rule applies on income, where the assessee themselves grow tea leaves and manufacture tea in India. In such cases, 40% of profits on sales are taxable as business income and 60% as agricultural income, which stands exempt.

Summary Chart			
Nature of Income	Income tax Rule applicable	Amount of agricultural income	Amount of non-agricultural income
Income from growing and manufacturing of rubber	Rule 7A	65% of such income	35% of such income
Income derived from sale of coffee grown and manufactured in India	Rule 7B(1)	75% of such income	25% of such income
Income derived from sale of coffee grown, cured, roasted and grounded in India	Rule 7B(1A)	60% of such income	40% of such income
Income from sale of tea manufactured or grown in India	Rule 8	60% of such income	40% of such income

Income from Farm Building

Income arising from the use of farm building for any purpose (including letting for residential purpose or for the purpose of business or profession) other than agriculture would not be agricultural income.

Further, the income from 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 or
 - b. It should not be situated in any area within such distance, measured aerially, in relation to the range of population as shown hereunder –

Sl. No.	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 kilometers	> 10,000 ≤ 1,00,000
(ii)	≤ 6 kilometers	> 1,00,000 ≤ 10,00,000
(iii)	≤ 8 kilometers	> 10,00,000

Illustration 5:

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

Solution:

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

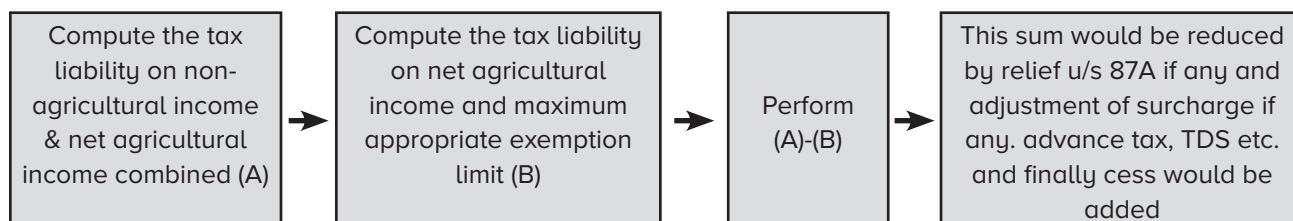
COMBINATION OF AGRICULTURAL AND NON-AGRICULTURAL INCOME

This is applicable to Individuals, HUF, AOP, BOI, and artificial juridical person.

Two conditions which need to be satisfied for partial integration of agricultural income with non-agricultural income are:

- 1) The net agricultural income must be > INR 5000 p.a.; and
- 2) The non-agricultural income must be > the maximum amount not chargeable to tax (which is INR 250,000 for all individuals / HUF's; INR 300,000 for senior citizens and INR 500,000 for very senior citizens)

The manner of computation of Income in such cases would be as under:

**Illustration 6:**

Income of Mr. A for the previous year 2025-26 is as follows: Compute Tax Liability for the Assessment year 2026-27.

<i>Particulars</i>	<i>INR</i>
Income from salary (computed)	2,50,000
Income from house property (computed)	1,25,000
Net Agricultural Income	1,00,000

Solution:

<i>Particulars</i>	<i>INR</i>
Income from salary (computed)	2,50,000
Income from house property (computed)	1,25,000
Net Agricultural Income	1,00,000
Total (A)	4,75,000

Tax Liability	11,250
Total (B)	3,50,000
Tax Liability	5,000
(A)-(B)	6,250
Less: Rebate 87A [12500 or tax payable i.e. 6,250 whichever is lower]	6,250
Total tax payable	Nil

Note:

- 1) The (A) would be the combined income and the tax liability is computed per the current slabs and rates
- 2) The (B) would be the net agricultural income as increased by the minimum exemption amount and the tax liability is computed per the current slabs and rates
- 3) The (A)-(B) would be the tax liability on which rebate 87A is allowed to determine the final total tax Liability.
- 4) It is assumed that the assessee has not opted for Section 115BAC of the Income tax Act, 1961.

LIST OF INCOMES WHICH DO NOT FORM PART OF TOTAL INCOME

Sections	Following Income exempt under section 10 of the Income Tax Act, 1961
Section 10(1)	Agriculture Income
Section 10(2)	Amount received by a member of the HUF from the income of the HUF
Section 10(2A)	Share of profit received by a partner from the Firm
Section 10(4)	Interest to Non-Residents
Section 10(4B)	Interest on notified savings certificates
Section 10(4D)	Transfer of capital asset on a recognized in Stock exchange located in any International Financial Services Centre
Section 10(4E)	Income accrued or arisen to, or received by a non-resident as a result of transfer of non-deliverable forward contracts or offshore derivative instruments or over-the-counter derivatives, or distribution of Income on offshore derivative instruments entered into with an offshore banking unit of an International Financial Services Centre
Section 10 (4F)	Income of a non-resident by way of royalty or interest , on account of lease of an aircraft or a ship

Sections	Following Income exempt under section 10 of the Income Tax Act, 1961
Section 10(4G)	Income received by a non-resident from portfolio of securities or financial products or funds, managed or administered by any portfolio manager on behalf of such non-resident or such activity carried out by such person, as may be notified by the Central Government in the Official Gazette
Section 10(4H)	Any income of a non-resident or a Unit of an International Financial Services Centre as referred to in sub-section (1A) of section 80LA, engaged primarily in the business of leasing of an aircraft, by way of capital gains arising from the transfer of equity shares of domestic company, being a Unit of an International Financial Services Centre, as referred to in sub-section (1A) of section 80LA, engaged primarily in the business of lease of an aircraft which has commenced operations on or before the 31st day of March, 2026
Section 10(5)	Leave Travel Concession
Section 10(6)	Remuneration received by individuals, who are not citizens of India
Section 10(6A)	Tax paid on behalf of foreign company deriving income by way of royalty or fees for technical services
Section 10(6B)	Tax paid on behalf of foreign company or non-resident in respect of other income
Section 10(6BB)	Tax paid on behalf of foreign Government or foreign enterprise deriving income by way of lease of aircraft or aircraft engine
Section 10(6C)	Technical fees received by a notified foreign company
Section 10 (6D)	Royalty or fees for technical services payment by NTRO to a non resident
Section 10(7)	Allowance / perquisites to Government employee outside India
Section 10 (10)	Death-cum-Retirement Gratuity
Section 10(10A)	Commutated Pension
Section 10(10AA)	Leave Encashment
Section 10(10B)	Retrenchment compensation
Section 10(10BB)	Compensation for Bhopal Gas Leak Disaster
Section 10(10BC)	Compensation on account of any disaster
Section 10(10C)	Payment at the time of voluntary retirement
Section 10(10CC)	Tax on perquisites paid by the employer

Sections	Following Income exempt under section 10 of the Income Tax Act, 1961
Section 10(10D)	Amount paid on life insurance policy
Section 10(11)	Any payment from a provident fund to which the Provident Funds Act, 1925, applies or from any other provident fund set up by the Central Government and notified by it in this behalf in the Official Gazette
Section 10(12)	The accumulated balance due and becoming payable to an employee participating in a recognised provident fund, to the extent provided in rule 8 of Part A of the Fourth Schedule
Section 10(12A)	Payment from the National Pension System Trust to an employee
Section 10(12B)	Partial withdrawal from NPS
Section 10(12C)	Any payment from the Agniveer Corpus Fund to a person enrolled under the Agnipath Scheme, or to his nominee.
Section 10(13)	Payment from approved superannuation fund in specified circumstances and subject to certain limits
Section 10(13A)	House Rent Allowance
Section 10(14)	Special Allowance
Section 10(15)	Interest Incomes
Section 10(16)	Educational scholarship
Section 10(17)	Daily allowance to a Member of Parliament
Section 10(17A)	Awards
Section 10(18)	Pension to gallantry award winner
Section 10(19)	Family pension received by the family members of armed forces
Section 10(19A)	The annual value of any one palace in the occupation of a Ruler
Section 10(20)	Income of Local Authority
Section 10(21)	Income of Research Association
Section 10(22B)	Income of a news agency [Exemption withdrawn vide Finance Act, 2023 w.e.f. 1st April, 2024]
Section 10(23A)	Income of a professional association
Section 10(23AA)	Income received on behalf of Regimental Fund

Sections	Following Income exempt under section 10 of the Income Tax Act, 1961
Section 10(23AAA)	Income of a fund established for welfare of employees
Section 10(23AAB)	Income of Pension Fund
Section 10(23B)	Income from Khadi or village industry
Section 10(23C)	Income received by any person on behalf of hospital, university, institution, trust, educational institution
Section 10(23D)	Income of Mutual Fund
Section 10(23DA)	Income of a securitization trust from the activity of securitization
Section 10(23EA)	Income of notified Investor Protection Fund
Section 10(23EC)	Income of the notified investor protection fund set-up by commodity exchange
Section 10(23ED)	Income of Investor Protection Fund set by a depository
Section 10(23EE)	Specified income of Core Settlement Guarantee Fund
Section 10(23FB)	Income of a venture capital fund or a venture capital company from investment in a venture capital undertaking
Section 10(23FBA)	Income of an Investment Fund
Section 10(23FBB)	Income referred to in section 115UB
Section 10(23FBC)	Income accruing or arising to, or received by, a unit holder from a specified fund or on transfer of units in a specified fund
Section 10(23FC)	Income of a Business Trust
Section 10(23FCA)	Income of a business trust, being a real estate investment trust, by way of renting or leasing or letting out any real estate asset owned directly by such business trust
Section 10(23FD)	Distributed income referred to in section 115UA

Sections	Following Income exempt under section 10 of the Income Tax Act, 1961
Section 10(23FE)	Any income of a specified person in the nature of dividend, interest, any sum referred to in clause (xii) of sub-section (2) of section 56 or long-term capital gains arising from an investment made by it in India, whether in the form of debt or share capital or unit, if the investment
Section 10(23FF)	Income of the nature of capital gains, arising or received by a non-resident or a specified fund, which is on account of transfer of share of a company resident in India, by the resultant fund or a specified fund to the extent attributable to units held by non-resident (not being a permanent establishment of a non-resident in India)
Section 10(24)	Income of a Registered Trade Union
Section 10(25)	Income of Provident Fund
Section 10(25A)	Income of the Employees' State Insurance Fund
Section 10(26)	Income of a member of a Scheduled Tribe
Section 10(26AAA)	Specified income of a Sikkimese Individual
Section 10(32)	Income of Minor
Section 10(33)	Any income arising from the transfer of a capital asset, being a unit of the Unit Scheme, 1964
Section 10(34A)	Income on Buyback of Shares [Deleted w.e.f. 1st October, 2024]
Section 10(34B)	Any income of a unit of any International Financial Services Centre, primarily engaged in the business of leasing of an aircraft, by way of dividends from a company being a unit of any International Financial Services Centre primarily engaged in the business of leasing of an aircraft.
Section 10(37)	Income chargeable under the head "Capital gains" arising from the transfer of agricultural land
Section 10(39)	Income from international sporting event
Section 10(40)	Income received as grant by a subsidiary company
Section 10(42)	Income of a body or authority set up by two or more countries
Section 10(43)	Reverse Mortgage
Section 10(44)	New Pension System Trust
Section 10(46)	Exemption of 'specified income' of certain bodies or authorities

Sections	Following Income exempt under section 10 of the Income Tax Act, 1961
Section 10(46A)	any income arising to a body or authority or Board or Trust or Commission, not being a company, which has been established or constituted by or under a Central Act or State Act with certain specified purposes.
Section 10(46B)	any income accruing or arising to National Credit Guarantee Trustee Company Limited or a credit guarantee fund established and wholly financed by the Central Government and managed by the National Credit Guarantee Trustee Company Limited; or Credit Guarantee Fund Trust for Micro and Small Enterprises
Section 10(47)	Exemption of Income of notified 'Infrastructure debt fund'
Section 10 (48)	Exemption of Income of a foreign company from sale of Crude Oil in India
Section 10(48B)	Exemption of income of foreign company from sale of leftover stock of crude oil on termination of agreement or arrangement
Section 10(48C)	Income accruing or arising to Indian Strategic Petroleum Reserves Limited (ISPRL)
Section 10(49)	Exemption of income of National Financial Holdings Company
Section 10(50)	Any income arising from any specified service provided on or after the date on which the provisions of Chapter VIII of the Finance Act, 2016 (28 of 2016) comes into force; or e-commerce supply or services made or provided or facilitated on or after the 1st day of April, 2020 but before the 1st day of August, 2024, and chargeable to equalisation levy under that Chapter.
Section 10A	Special provision in respect of newly established undertakings in free trade zone, etc
Section 10AA	Special provisions in respect of newly established Units in Special Economic Zones
Section 10B	Special provisions in respect of newly established hundred per cent export-oriented undertakings
Section 10BA	Special provisions in respect of export of certain articles or things
Section 10C	Special provision in respect of certain industrial undertakings in North- Eastern Region

These detailed provisions with respect to the various terms and conditions as well as situation on the basis of which exemptions are available is given in the respective provisions of the section. The weblink for reference to detailed provisions of various exemption are available at <https://incometaxindia.gov.in/pages/acts/income-tax-act.aspx>

Illustration 7:

Mr. P, a member of a HUF, received Rs. 5,000 as his share from the income of the HUF. Is such income includible in his chargeable income?

Solution:

No. Such income is not includible in Mr. P's chargeable income since section 10(2) exempts any sum received by an individual as a member of a HUF where such sum has been paid out of the income of the family.

Illustration 8:

HUF earned Rs. 5,00,000 during the previous year and paid tax on its income. Mr. A, a co-parcener is an employee and earns a salary of Rs. 20,000 p.m. During the previous year Mr. A also received Rs. 1,00,000 from HUF. What will be the tax treatment on the above receipt?

Solution:

Mr. A will pay tax on his salary income but any sum of money received from his HUF is not chargeable to tax in Mr. A's hands.

Illustration 9:

HUF earned Rs. 90,000 during the previous year 2024-25 and it is not chargeable to tax. Mr. A, a co-parcener is earning individual income of Rs. 20,000 p.m. Besides his individual income, Mr. A receives Rs. 30,000 from his HUF. What will be the tax treatment on the above receipt?

Solution:

Mr. A will pay tax on his individual income but any sum of money received (as his share for HUF of Rs. 2,40,000) by him from his HUF is not chargeable to tax in the hands of co-parcener whether the HUF has paid tax or not on that income.

Illustration 10:

Rajveer Turbines has 2 undertakings, one in a SEZ and one in a normal zone. The summarised results are as under:

<i>Item</i>	<i>SEZ</i>	<i>DTA</i>
Domestic turnover	50	125
Export turnover	200	0
Gross Profit	75	25
Expenses & Depreciation	15	10
Net profit	60	15

Compute the business income of the assessee.

Solution:

The treatment is as under:

Total profit	75
Less : Exempt u/s 10AA	48 (60 × $\frac{200}{200}$)
	250
Taxable profits	27

Note:

- Total profits is the sum of the respective net profits for both the units
- The exemption is in the proportion of the export turnover to total turnover

3. It is assumed that the current FY falls within the First 5 years commencing from the year of manufacture of goods / provision of services by the SEZ Unit, as the quantum of deduction available is 100% of export profits for the first 5 years and 50% for the next 5 years and 50% of the next 5 years as is credited to a special reserve a/c.

Illustration 11:

Whether the payment of Compensation on agreed terms in respect of land acquired would be entitled for exemption under section 10(37) of the Income tax Act, 1961?

Solution: Even if the amount of compensation is paid on agreed terms it would not change the character of the acquisition from that of compulsory acquisition to the voluntary sale and the exemption provided under the Income tax Act, 1961 would be available and such negotiations would be confined to the quantum of compensation only. [**Supreme Court decision in case of *Balakrishnan v. Union of India***]

CASE LAW

Retiring employees of ICICI under VRS was eligible for section 10(10C) exemption [Assessment year 2004- 05] [In favour of assessee]

R. Banumathy v. CIT [2018] (Madras High Court)

The assessee an employee of ICICI bank opted for Early Retirement Optional Scheme and received a consolidated payment. According to the Income Tax Department, Voluntary Retirement Scheme issued by the ICICI Bank was not in conformity with the Rules. Therefore, the employees were not entitled to any exemption under section 10(10CC) of the Income tax Act, 1961.

Held that the Supreme Court and the Bombay High Court have dealt with voluntary retirement scheme of the RBI and held that retiring employees are eligible for section 10 (10C) exemptions. Section 10(10C) and rule 2BA, do not specifically apply to the RBI alone and, therefore, benefit was applicable to the assessee also and thus, the assessee was entitled to section 10(10C) benefit.

CASE LAW

Merely because surplus earned by assessee educational institution was invested for expansion of school building, it could not be held that assessee did not exist solely for educational purpose so as to deny assessee exemption under section 10(23C)(vi) of the Income tax Act, 1961 [In favour of assessee]

Mallikarjun School Society v. Chief CIT [2018] (Uttarakhand)

The assessee, educational society, applied for exemption under section 10(23C)(vi) of the Income tax Act, 1961. Exemption was denied to the assessee on grounds that surplus of society was utilized for expansion/addition of school building, thus, it did not apply its funds for purpose of education.

Held that it was noted that main purpose, aim and object, as stated in Memorandum of Association of the assessee, was to impart education along with ancillary objects. Merely because surplus earned by the assessee educational institution was used for expansion of school building etc. it could not be held that the assessee did not exist solely for educational purpose. Thus, the assessee was to be allowed exemption under section 10(23C)(vi) of the Income tax Act, 1961.

LESSON ROUND-UP

- **Exemptions:** An exemption is the income which is not charged to tax at all. Exemption means exclusion, i.e. if certain income is exempt from tax then it will not contribute to the total income of a person.
- **Deduction:** Deduction means subtraction i.e. an amount that is eligible to reduce taxable income.
- **Rebate** is a percentage amount reduced from total income tax payable. Tax rebate is allowed as a reduction to the total tax payable
- This Lesson list out the general exempted incomes enumerated under section 10 and other specific exempted income dealt under section 10A, 10AA, 10B, 10BA, 10C.

TEST YOURSELF

(These are meant for re-capitulation only. Answers to these questions are not to be submitted for evaluation)

Multiple Choice Questions (MCQs)

Choose the most appropriate answer from the given options in respect of the following:

1. Any rent or revenue derived from land may be treated as agricultural income if-
 - (a) It is derived from land
 - (b) The land is situated in India
 - (c) The land is used for agricultural purpose
 - (d) All the above conditions are satisfied.

Answer: (d)

2. Which of the following income is agricultural income—
 - (a) Rent received from agricultural land
 - (b) Income from dairy farm
 - (c) Income from poultry farm
 - (d) Dividend from a company engaged in agriculture.

Answer: (a)

3. Income of an assessee engaged in the business of growing and manufacturing tea in India is taxable to the extent of-
 - (a) 40% of such income
 - (b) 60% of such income
 - (c) 70% of such income
 - (d) 30% of such income.

Answer: (a)

4. If non-agricultural income is Rs. 2,02,000 and net agricultural income is Rs. 40,000, the tax liability of an individual assessee will be (assuming assessee has not opted for Section 115BAC of the Income tax Act, 1961:

- (a) Nil (b) Rs. 200
(c) Rs. 206 (d) Rs. 4,326.

Answer: (a)

5. Which of the following additional incomes will not be treated as agricultural income under the Income- Tax Act, 1961:

- (a) Additional income from selling ginned cotton as compared to unginned cotton
(b) Additional income from selling dried-up coffee as compared to raw coffee
(c) Additional income from selling cured tobacco as compared to green tobacco leaves
(d) Additional income from selling dried-up tea leaves as compared to raw tea leaves.

Answer: (a)

6. Pawan reports net income of Rs. 5 lakh from the activity of growing and manufacturing rubber. How much of such income is to be treated as non-agricultural income:

- (a) Rs. 1,75,000 (b) Rs. 2,00,000
(c) Rs. 1,25,000 (d) Nil

Answer: (a) Rs.1,75,000

7. Mr. Vinayak derived income from sale of tea manufactured and grown in Coorg, Karnataka. His income for the previous year 2025-26 from the said activity is Rs. 20 lakhs. The amount exempt from tax by way of agricultural income is:

- (a) Rs. 8 lakhs (40%) (b) Rs. 5 lakhs (25%)
(c) Rs. 12 lakhs (60%) (d) Rs. 7 lakhs (35%)

Answer: (c) Rs. 12 lakhs (60%)

8. Mr. Sankar received Rs. 50,000 as educational scholarship from Nehru Memorial Trust (a charitable trust). The scholarship is to assist Mr. Sankar for pursuing M.A. (History) at Jawaharlal Nehru University, New Delhi. The amount of scholarship liable to tax is:

- (a) Rs. 50,000 (b) Rs. 10,000
(c) Rs. 25,000 (d) Nil

Answer: (d) Nil

9. Mr. Chandan (age 70) received Rs. 30,000 every month during the financial year 2025-26 on reverse mortgage of his property with State Bank of India. The amount of receipt liable to tax in the hands of Mr. Chandan is:

- (a) Rs. 3,60,000 (b) Rs. 2,52,000
(c) Rs. 40,000 (d) Nil

Answer: (d) Nil

10. Mr. Menon having tea estate in Munnar (Kerala) earned Rs. 5 lakhs by way of growing tea leaves and manufacturing tea. The income chargeable to tax would be:

- (a) Rs. 2,00,000 (b) Rs. 1,75,000
(b) Rs. 1,25,000 (d) None of the above

Answer: (a) Rs. 2,00,000

11. Ms. Laxmi received Rs. 60,000 by way of family pension from State Government. The amount of family pension eligible for exemption under section 10(19) of the Income tax Act 1961 is:

- (a) Rs. 60,000 (b) Rs. 40,000
(c) Rs. 20,000 (d) Nil

Answer: As per section 10(19) family pension received by the widow or children or nominated heirs, as the case may be, of a member of the armed forces (including paramilitary forces) of the Union, where the death of such member has occurred in the course of operational duties, in such circumstances and subject to such conditions, as may be prescribed shall be fully exempted. Exemption is available only to union and not state, hence exemption under 10(19) is NIL.

12. A registered trade union earned income by way of interest on fixed deposit held with State Bank of India of Rs. 5,60,000. The interest income chargeable to tax in the hands of trade union would be:

- (a) Rs. 5,60,000 (b) Nil
(c) Rs. 2,60,000 (d) Rs. 3,10,000

Answer: (b) Nil

13. The income derived from growing, manufacturing and sale of Centrifuged latex or Cenex or Latex based cops as per Rule 7A of the Income-tax Rules, 1962 shall be taken as agricultural and non-agricultural income in the following ratio:

- (a) 75% and 25% (b) 60% and 40%
(c) 65% and 35% (d) None of the above

Answer: (c) 65% and 35%

Descriptive Questions

1. What is Agriculture Income? Explain its Tax Treatment under Income tax Act, 1961
2. What is the difference between Exemption and Deduction under the Income tax Act, 1961.
3. Justify the correctness of the statement "Exempt Income is not chargeable at all and therefore not to be included in Total Income of the Assessee".
4. Income of Mr. Arun for the previous year 2025-26 is as follows:

Particulars	INR
Income from salary (computed)	5,00,000
Income from house property (computed)	50,000
Net Agricultural Income	2,00,000

Compute Tax Liability for the Assessment year 2025-26 assuming assessee has not opted for section 115BAC of the Income Tax Act, 1961.

