**Semester: IV (UG)**

**Subject: Taxation I**

**Name of the Teacher: Dr. Sujit Kumar Roy (SKR)**

**Lecture Note # 4**

**Exempted Incomes**

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4.1. **Introduction**: At the very outset it should be made clear that the tax base (total income) is net of exemptions and deductions provided under the Income Tax Act (henceforth the Act).

* **Exempted** incomes do not form part of the total income, hence these are to be excluded. Section 10 provides a long list of such incomes.
* **Deductions**: Under the Income Tax Act, there are two types of deductions, e.g. Those which are deducted while computing income under the respective heads. For example, while computing income under the head Salaries, some deductions are allowed under section 16. Similarly, under section 24, some deductions are allowed from the gross annual value of house property to arrive at income from house property. Again, some deductions u/s 80C to 80U are allowed from the Gross Total Income in order to arrive at the Total income.
* While detailed discussion has been made in Lecture 3 about Agricultural income, in this lecture we shall enumerate some important items which are exempt.

**4.2. Exempted incomes [Section 10] [** In this lecture only some relevant sections are being discussed]

**4.2.1 Agricultural income [Section 10(1)] : Already discussed in Lecture 3.**

**4.2.2. Receipts by a member from Hindu undivided family [Section 10(2)] :**

Any sum received by an individual out of the income of the Hindu undivided family or out of the income of the impartible estate of the Hindu undivided family is exempt from tax..

**4.2.3** **Share of profits from a partnership firm [Section 10(2A)] :**

Since a partnership firm is a separate assessable unit, Section 10(2A) provides for exemption of any partner’s share of total income in the firm.

**4.2.4**. **Leave travel concession in India *[Section 10(5)]* : Refer to the discussion on salary made by the relevant teacher.**

**4.2.5. Death-*cum*-retirement gratuity** *[Section 10(10)]* : Payment in commutation of pension *[Section 10(10A)]*  ; Encashment of leave salary *[Section 10(10AA)]*  Compensation for retrenchment *[Section 10(10B)]* : Refer to the discussion on salary made by the relevant teacher.

**4.2.6**. **Sums received under life insurance policy** *[Section 10(10D)]:*

Any sum received under a life insurance policy, including the sum allocated by way of bonus on such policy, is exempt from tax.

Exemption under this section does not include the following :

● any sum received under Section 80DD(3) ;

● any sum received under a \*Keyman insurance policy ; and

● any sum received under an insurance policy issued on or after 1st April, 2003 but on or before 31st March, 2012, in respect of which the premium payable for any of the years during the term of the policy exceeds 20% of the actual capital sum assured.

● any sum received under an insurance policy issued on or after 1st April, 2012 , in respect of which the premium payable for any of the years during the term of the policy does not exceed 10% of the actual capital sum assured.

● any sum received under an insurance policy issued on or after 1st April , 2013 on the life of a person mentioned below, in respect of which the premium payable for any of the years during the term of the policy does not exceed 15% of the actual capital sum assured:

(i) a person with disability or severe disability as mentioned in Section 80U ;

(ii) a person who is suffering from any of the disease or ailments specified in the rules made under Section 80 DDB (Diseases mentioned in this section are : neurological diseases; cancers; AIDS, Thalassaemia, etc.).

4.2.6. **Payment from provident fund *[Section 10(11); 10(12)]* : Refer to lecture on Salary 4.2.7. Exemption in respect of the income of a minor *[Section 10(32)]* :**

In the case of an assessee referred to in Section 64(1A), any income being included in his total income in respect of the income of a minor child, an exemption not exceeding ` 1,500 in respect of income of each child so included in the total income of the assessee, is exempt.

4.2.8. **Income from dividends *[Section 10(34)]* :**

A any income by way of dividends referred to in Section 115-O (i.e. dividends received from a domestic company) is exempt from tax. However, with effect from the assessment year 2017-18, Section 10(34) is subject to the provisions of Section 115BBDA. Under the provisions of this section dividend received from a domestic company by a resident assessee being an Individual, HUF, or a firm, shall be liable to pay tax @ 10% on dividends received in excess of Rs. 10 lakh.

4.2.9 **Income from units *[Section 10(35)]* :** Income received by a unit holder in respect of units of a Mutual Fund specified in Section 10 (23D) or in respect of units from the Administrator of the specified undertaking or in respect units from the specified company, is exempt from tax. Income arising from transfer of such units is, however, not exempt from tax.

**Exercise**

1. Mention any five incomes which are fully exempt from tax under the Income Tax Act. [ CU B.Com. (H) 2012]