



# RAMA UNIVERSITY

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**FACULTY OF COMMERCE AND MANAGEMENT**

**COURSE: B.COM III SEM.**

**SUBJECT: Income Tax Laws and Practice**

**SUBJECT CODE: BCH 320**

**LECTURE: 9**

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## LECTURE-9



## **INCOME EXEMPT FROM TAX:**

Income tax act provides a scheme of exemptions, deductions and tax rebates. Incomes fully exempt from income tax do not form part of the total income at all. Incomes partly exempt from tax are to be included in the total income only to the extent to which they are in excess of the quantum of exemption available. Incomes for which deductions have been specified by the act are also liable to be included in the gross total income, but a deduction is allowed to the extent of the quantum specified. Similarly, incomes which are entitled to rebate or relief from tax are basically included in the total income only for the purpose of determining the gross tax liability and a rebate from the gross tax liability is then allowed in the manner specified. Rebate able incomes are therefore included in the total income only for determining the slab rate of tax applicable to the assessee.

### **Agricultural Income [Sec.10 (1)]**

Agricultural income is exempt from income tax. However, it is included in the total income only for the purpose of determining the slab rate of tax applicable to the assessee.

### **Exemption for certain —salary incomes**

The following incomes falling under the head salaries are exempt from tax subject to certain conditions:

1. Leave travel concession or assistance to employees
2. Allowances or perquisites to government employees serving abroad
3. Death cum retirement gratuity
4. Commuted value of pension
5. Encashment of earned leave by retiring employees
6. Retrenchment compensation to workmen
7. Compensation received by an employee on his voluntary retirement or termination of his service
8. Tax paid by an employer on the value of non monetary perquisite provided by him under section 17 (2)
9. payment of statutory provident fund
10. payment from recognized provident fund
11. House rent allowance

12. Payment from approved superannuation fund

13. Special allowance to reimburse expenses incurred by an employee in the performance of official duties or to compensate him for personal expenses incurred at the place of his posting or residence or to compensate him for the increased cost of living.

#### **RECEIPTS BY MEMBERS FROM HUF:**

Any sum received by an assessee in his capacity as member of an HUF is exempt from tax to avoid double taxation as HUF is also assessable separately on its income in its own capacity.

The sum should be received in the capacity as a member of the HUF: If the recipient is not a member of HUF, he cannot claim the exemption.

The sum should be received wither out of the income of the HUF, or out of the income of impartible estate, owned by the HUF.

#### **Share of profits from partnership firm:**

Where any person is a partner in a firm, his share of profit in the total income of the firm is exempt from tax. The share of profit of a partners in the total of the firm is to be computed by dividing the total income of the firm in profit sharing ratio specified in the partnership deed.

No partner will pay tax on the share of his income from a firm. Share of income from the firm is exempt in the hands of partner. Share of loss from the firm cannot be set off by partners against their personal income. The share of loss from a source, the income of which is exempt from tax, cannot be set off against any taxable income from any other source.

#### **Interest or premium accruing to non-residents:**

In the case of a non-resident the following incomes are exempt:

Any income from interest on securities and bonds notified by the central government prior to 1st June 2002 is exempt. Any income from premium on the redemption of such bonds as aforesaid is also exempt. Any interest on moneys standing under non-resident (external) account in any bank in India is exempt, such account can be maintained only by individuals, resident outside India of the foreign exchange regulation act, 1973.

#### **Interest from notified savings certificates to a non-resident:Indian citizen or non-**

### **resident POI [sec.10 (4B)]**

Any income from interest on savings certificates issued before 1st June 2002 by the central government and notified by it is fully exempt, provided the following conditions are satisfied:

a) Assessee is a non-resident Indian citizen or a non-resident foreign national of Indian origin. Therefore, a non-resident individual who is neither an Indian citizen nor a person of Indian origin cannot avail this exemption.

b) Certificate should be subscribed in foreign currency remitted from outside India in accordance with foreign exchange regulation act 1973. If the certificates are subscribed from foreign currency not remitted from outside India or in violation of FERA, the exemption cannot be availed.

### **Exemption to foreign citizens [sec.10 (6)]**

The following exemptions are provided to individuals who are not citizens of India. Remuneration of diplomatic personnel of foreign countries [sec.10 (6) ii]

The remuneration received by a foreign citizen as an official of an embassy, high commission, legation, commission, consulate or the trade representative of a foreign state or as member of staff of any of these officials for services in such capacity is exempt subject to the following conditions.

Remuneration of trade commissioner or official representative of a foreign government is exempt only on reciprocal basis, i.e., only if the corresponding official of Indian government posted in that country enjoys a similar exemption.

### **Remuneration of an employee of a foreign enterprise [sec.10 (6) vi]**

The remuneration received by such individual as an employee of a foreign enterprise for services rendered by him during his stay in India may be exempt if the following conditions are fulfilled.

#### **CONDITIONS:**

a) The foreign enterprise is not engaged in any trade or business in India

b) His stay in India does not exceed in aggregate a period of 90 days in such previous year

c) Such remuneration is not liable to be deducted from the income of the employer chargeable under this act.

Salary of Non-resident foreign crew of a foreign ship [Sec.10 (6) viii]

Any income chargeable under the head „salaries“ received by or due to an individual, who is not a citizen of India and also not-resident in India, as remuneration for services rendered in connection with his employment on a foreign ship is exempt, provided his total stay in India does not exceed in the aggregate 90 days in the previous year.

Remuneration of foreign government employee in connection with his training in India at specified undertakings [Sec.10 (6) xi]

Remuneration received by non-Indian citizen employee of a foreign state during his stay in India in connection with his training is exempt.

Establishment for training: The training may be imparted in any establishment or office of, or in any undertaking owned by;

- a) The government or
- b) Any company in which the entire paid up share capital is held by the central government or any state government, partly by the central government and partly by one or more state government; or
- c) Any company which is the subsidiary of a company referred to in item (b) or
- d) Any corporation established by or under a central, state, or provincial act, or
- e) Any society registered under the society“s registration act 1860 or under any other corresponding law for the time being in force and wholly financed by the central government or any state government or partly by the central government and partly by one or more state government.

### **Tax on Royalty or technical service fee payable to a foreign company [sec10 (6A)]**

When a foreign company derives any royalty or fees for technical services from government or an Indian concern and the tax on such income is payable by the government or an Indian concern, the tax so paid is not to be treated as income of the foreign company.

### **Remuneration of an individual in connection with technical assistance programme:**

Where an individual is assigned duties in India in connection with any technical assistance programme and project in accordance with an agreement entered into by the central government and an international organization, the following incomes are exempt:

- a) Any remuneration received by the individual, directly or indirectly, from approved non-resident consultant. The individual may or may not be an employee of the consultant.

b) Any other income of such individual which accrues or arises outside India but not deemed to accrue or arise in India, in respect of which such individual is required to pay any income or social security tax to the country of his origin is also exempt subject to the following conditions:

- i) The individual is an employee of the consultant
- ii) The individual is either not a citizen of India or being a citizen of India is not ordinarily resident in India
- iii) The contract of service of such individual is approved by the prescribed authority before commencement of his service.