



## TAX-FREE INCOMES

### *Agricultural Income [Section 10(1)]*

As per section 10(1), agricultural income earned by the taxpayer in India is exempt from tax. Agricultural income is defined under section 2(1A) of the Income-tax Act. As per section 2(1A), agricultural income generally means:

- (a) Any rent or revenue derived from land which is situated in India and is used for agricultural purposes.
- (b) Any income derived from such land by agriculture operations including processing of agricultural produce so as to render it fit for the market or sale of such produce.
- (c) Any income attributable to a farm house subject to satisfaction of certain conditions specified in this regard in section 2(1A).

Any income derived from saplings or seedlings grown in a nursery shall be deemed to be agricultural income.

### *Amount received by a member of the HUF from the income of the HUF, or in case of impartible estate out of income of family estate [Section 10(2)]*

As per section 10(2), amount received out of family income, or in case of impartible estate, amount received out of income of family estate by any member of such HUF is exempt from tax.

### *Share of profit received by a partner from the firm [Section 10(2A)]*

As per section 10(2A), share of profit received by a partner from a firm is exempt from tax in the hands of the partner. Further, share of profit received by a partner of LLP from the LLP will be exempt from tax in the hands of such partner. This exemption is limited only to share of profit and does not apply to interest on capital and remuneration received by the partner from the firm/LLP.

### *Certain interest to non-residents [Section 10(4)]*

As per section 10(4)(i), in the case of a non-resident any income by way of interest on certain notified securities or bonds (including income by way of premium on the redemption of such bonds) is exempt from tax.

As per section 10(4)(ii) in the case of an individual, any income by way of interest on money standing to his credit in a Non-Resident (External) Account in any bank in India in accordance with the Foreign Exchange Management Act, 1999, and the rules made thereunder is exempt from tax.

Exemption under section 10(4)(ii) is available only if such individual is a person resident outside India as defined in clause (w) of section 2 of the Foreign Exchange Management Act, 1999 or is a person who has been permitted by the Reserve Bank of India to maintain the aforesaid Account.

### *Interest on notified savings certificates [Section 10(4B)]*

As per section 10(4B), in the case of an individual, being a citizen of India or a person of Indian origin, who is a non-resident, any income by way of interest on notified savings certificates (subscribed in convertible foreign exchange) issued before the 1st day of June, 2002 by the Central Government is exempt from tax.





### *Interest on Rupee Denominated bonds [(Section 10(4C)]*

Any interest received or receivable by a non-resident or foreign company in respect of Rupee Denominated Bond (as referred to in Section 194LC) issued outside India during the period 17-09-2018 to 31-03-2019 by an Indian company/business trust shall be exempt from tax.

### *Income from transfer of GDRs, Rupee Denominated Bonds or Derivatives by Category-III AIFs [(Section 10(4D))]*

Specified funds shall be eligible to claim exemption with respect to income accrued or arisen or received by it which is attributable to units held by a non-resident (not being a PE in India) or to the investment division of offshore banking unit. Such exemption is allowed in respect of the following incomes:

- (a) Income from transfer of a capital asset as referred to in Section 47(viiab) on a recognised stock exchange located in IFSC and consideration is paid or payable in ‘convertible foreign exchange’;
- (b) Income arising from transfer of securities (other than shares in a company resident in India);
- (c) Income from securities issued by a non-resident (not being a PE of a non-resident in India) and where such income otherwise does not accrue or arise in India;
- (d) Income from a securitization trust which is chargeable under the head ‘Profits and gains from business or profession’; or
- (e) Income attributable to the investment division of offshore banking unit<sup>1</sup>.

‘Specified Fund’ mean the following funds:-

#### *(a) Investment Division of an Offshore Banking Unit*

An investment division of an offshore banking unit, being an investment division of a banking unit of a non-resident located in International Financial Services Centre (IFSC) as referred under Section 80LA(1A), shall be treated as specified fund if it satisfies the following conditions:-

- It should be granted a certificate of registration as a Category-I Foreign Portfolio Investor under the SEBI (Foreign Portfolio Investors) Regulations, 2019;
- It’s operations must be commenced on or before 31-03-2024; and
- It must fulfil prescribed conditions including maintenance of separate books of accounts for investment division.

#### *(b) Alternative Investment Fund*

An Alternative Investment Fund (AIF) shall be treated as specified fund if it satisfies the following conditions:-

- It should be established or incorporated in India in the form of a trust, company, LLP or body corporate;

<sup>1</sup> Inserted by the Finance Act, 2021, with effect from Assessment Year 2022-23.



- It should be granted a certificate of registration as Category-III AIF and is regulated under the SEBI (AIF) Regulations, 2012 or International Financial Services Centres Authority Act, 2019;
- It should be located in an International Financial Services Centre (IFSC);
- It's all the units must be held by non-residents except units held by sponsor or manager.

### **Income on transfer of non-deliverable forward contracts entered into with an offshore banking unit of IFSC [Section 10(4E)]**

Any income accrued or arisen to, or received by a non-resident as a result of the transfer of non-deliverable forward contracts or offshore derivative instruments or over – the counter derivative shall be exempt from tax. However, such non-deliverable forward contracts shall be entered into with an offshore banking unit of IFSC which commenced operations on or before the 31st March, 2024 and fulfils prescribed conditions.

### **Royalty income of non-resident on leasing of aircraft to an IFSC unit [Section 10(4F)]**

Royalty income of a non-resident on account of leasing of aircraft or ship in a previous year to an IFSC unit shall be exempt from tax if such unit is eligible for deduction under section 80LA in that year and has commenced its operations on or before the 31st March 2024

### **Income of non-resident from Portfolio Services [Section 10(4G)]**

Any 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. This exemption will be available only if income arises in an account maintained with an Offshore Banking Unit in any International Financial Services Centre. However, the exemption will be limited to the extent such income accrues or arises outside India and is not deemed to accrue or arise in India.

### **Leave travel concession [Section 10(5)]**

An employee can claim exemption under section 10(5) in respect of Leave Travel Concession. Exemption under section 10(5) is available to all employees (*i.e.* Indian as well as foreign citizens).

Exemption is available in respect of value of any travel concession or assistance received or due to the employee from his employer (including former employer) for himself and his family members in connection with his proceeding on leave to any place in India. Other provisions to be kept in mind in this regard are as follows:

**Where journey is performed by air:** Amount of exemption will be lower of amount of economy class air fare of the National Carrier by the shortest route or actual amount spent.

**Where journey is performed by rail:** Amount of exemption will be lower of amount of air-conditioned first class rail fare by the shortest route or actual amount spent. The same rule will apply where journey is performed by any other mode and the place of origin of journey and destination are connected by rail.

**Where the place of origin and destination are not connected by rail and journey is performed by any mode of transport other than by air:**

The exemption will be as follows:

- (a) *If recognised public transport exists:* Exemption will be lower of first class or deluxe class fare by the shortest route or actual amount spent.





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(b) *If no recognised public transport exists:* Exemption will be *lower of* amount of air-conditioned first class rail fare by the shortest route (considering as if journey is performed by rail) or actual amount spent.

**Block:** Exemption is available for 2 *journeys in a block of 4 years*. The block applicable for current period is calendar year 2014-17. The previous block was of calendar year 2010-2013.

**Carry over:** If an employee has not availed of travel concession or assistance in respect of one or two permitted journeys in a particular block of 4 years, then he is entitled to carry over *one* journey to the next block. In this situation, exemption will be available for 3 journeys in the next block. However, to avail of this benefit, exemption in respect of journey should be utilised in the first calendar year of the next block. In other words, in case of carry over, exemption is available in respect of 3 journeys in a block, provided exemption in respect of at least 1 journey is claimed in the first year of the next block.

Exemption is in respect of actual expenditure on fare, hence, if no journey is performed, then no exemption is available.

**Family:** Family will include spouse and children of the individual, whether dependent or not and parents, brothers, sisters of the individual or any of them who are wholly or mainly dependent on him.

Exemption is restricted to only 2 surviving children born after October 1, 1998 (multiple births after first single child will be considered as one child only), however, such restriction is not applicable to children born before October 1, 1998.

### ***Remuneration received by specified diplomats and their staff [Section 10(6)(ii)]***

As per section 10(6)(ii), in case of an individual who is not a citizen of India, remuneration received by him as an official (by whatever name called) of an embassy, high Commission, legation, Commission, consulate or trade representative of a foreign State, or member of the staff of any of that official is exempt from tax, if corresponding Indian official in that foreign country enjoys a similar exemption.

### ***Salary of a foreign employee and non-resident member of crew [Section 10(6)(vi), (viii)]***

As per section 10(6)(vi), the remuneration received by a foreign national as an employee of a foreign enterprise for services rendered by him during his stay in India is exempt from tax, provided the following conditions are fulfilled—

- (a) the foreign enterprise is not engaged in any trade or business in India ;
- (b) his stay in India does not exceed in the aggregate a period of 90 days in such year ; and
- (c) such remuneration is not liable to be deducted from the income of the employer.

As per section 10(6)(viii), any salaries received by or due to a non-resident foreign national for services rendered in connection with his employment on a foreign ship where his total stay in India does not exceed in the aggregate a period of 90 days in the year is exempt from tax.

### ***Remuneration of a foreign trainee [Section 10(6)(xi)]***

As per section 10(6)(xi), the remuneration received by a foreign trainee as an employee of foreign Government during his stay in India in connection with his training in any establishment or office





of, or in any undertaking owned by,—

- i. the Government ; or
- ii. any company owned by the Central Government, or any State Government
- iii. any company which is a subsidiary of a company referred to in item (ii) ; or
- iv. any corporation established by or under a Central, State or Provincial Act ; or
- v. any co-operative society wholly financed by the Central Government, or any State Government

***Tax paid on behalf of foreign company deriving income by way of royalty or fees for technical services [Section 10(6A)]***

Tax paid by Central Government, State Government or an Indian concern on behalf of a foreign company deriving income by way of royalty or fees for technical services in pursuance of an agreement made after March 31, 1976 but before June 1, 2002 will be exempt from tax in the hands of such foreign company provided such agreement is in accordance with the industrial policy of the Indian Government or it is approved by the Central Government.

***Tax paid on behalf of foreign company or non-resident in respect of other income [Section 10(6B)]***

Tax paid by Central Government, State Government or an Indian concern on behalf of a foreign company or non-resident in respect of any income (not being salary, royalty or fees for technical services) will be exempt from tax in the hands of such foreign company or non-resident if such income is received in pursuance of an agreement entered into before June 1, 2002 by the Central Government with the Government of a foreign State or international organisation or any other related agreement approved by the Central Government.

***Tax paid on behalf of foreign Government or foreign enterprise deriving income by way of lease of aircraft or aircraft engine [Section 10(6BB)]***

Tax paid by an Indian company, engaged in the business of operation of aircraft, on behalf of foreign Government or foreign enterprise deriving income by way of lease of aircraft or aircraft engine will be exempt from tax in the hands of such foreign Government or foreign enterprise if such lease rental is received under an agreement which is approved by Central Government and entered during the period between 31-3-1997 to 1-4-1999, or after 31-3-2007.

***Technical fees received by a notified foreign company [Section 10(6C)]***

Section 10(6C) grants exemption from tax in respect of income arising to notified foreign company by way of royalty or fees for technical services received in pursuance of an agreement entered into with that Government for providing services in or outside India in projects connected with security of India.

***Royalty/Fees received by non-resident from National Technical Research Organisation [Section 10(6D)]***

As per section 10(6D), income arising to non-resident by way of royalty or fees for technical services from services rendered to National Technical Research Organization ('NTRO') will be exempt from tax in India.

***Allowance/perquisites to Government employee outside India [Section 10(7)]***



As per section 10(7), any allowances or perquisites paid or allowed as such outside India by the Government to a citizen of India for rendering service outside India is exempt from tax.

### *Income of foreign Government employee under co-operative technical assistance programme [Section 10(8)]*

As per section 10(8), remuneration received directly or indirectly by an individual, from the foreign Government in connection with a co-operative technical assistance programme and projects in accordance with an agreement entered into by the Central Government and such foreign Government, is exempt from tax. Further, exemption is available in respect of any other income of such an individual which accrues or arises outside India and is not deemed to accrue or arise in India, provided such individual is required to pay income-tax/ social security tax to the foreign Government.

### *Remuneration or fees received by a non-resident consultant/its foreign employees [Section 10(8A), (8B)]*

Under section 10(8A), (a) remuneration or fees received by a consultant\* directly or indirectly out of the funds made available to an international organisation, under a technical assistance agreement between such organisation and the Government of a foreign State and (b) any other income which accrues or arises to him outside India and is not deemed to accrue or arise in India, in respect of which such consultant is required to pay income-tax/social security tax to the foreign Government of the country of his origin, is exempt from tax.

\*Consultant means any individual who is either not a citizen of India, or being a citizen of India, is not ordinarily resident in India or any other person who is a non-resident and is engaged by the international organization for rendering technical services in India in accordance with an agreement entered into by the Central Government and the said international organization and the agreement relating to engagement of consultant is approved by the prescribed authority.

Section 10(8B) grants similar exemption to the employee of the above discussed consultant, if such employee is either not a citizen of India or being a citizen of India, is not ordinarily resident in India and the contract of his service is approved by prescribed authority before the commencement of his service.

**Note:** The provisions of sections 10(8A) and (8B) shall not be applicable with effect from Assessment Year 2023-24. [Amendment by the Finance Act, 2022]

### *Income of a family member of an employee serving under co-operative technical assistance programme [Section 10(9)]*

As per section 10(9), the income of any member of the family of any such individual as is referred to in section 10(8)/(8A)/(8B) accompanying him to India, which accrues or arises outside India and is not deemed to accrue or arise in India, in respect of which such member is required to pay any income or social security tax to the Government of that foreign State or country of origin of such member, as the case may be, is exempt from tax.

**Note:** The provisions of section 10(9A) shall not be applicable with effect from Assessment Year 2023-24. [Amendment by the Finance Act, 2022]

### *Death-cum-retirement gratuity received by Government servants [Section 10(10)(i)]*

Section 10(10)(i) grants exemption to gratuity received by Government employee (*i.e.*, Central Government or State Government or local authority).





***Gratuity received by a non-Government employee covered by Payment of Gratuity Act, 1972***  
***[Section 10(10)(ii)]***

As per section 10(10)(ii), exemption in respect of gratuity in case of employees covered by the Payment of Gratuity Act, 1972 will be lower of following :

- 15 days' salary × years of service.
- Maximum amount specified, *i.e.*, Rs. 20,00,000\*.
- Gratuity actually received.

\* Limit increased from Rs. 10 lakhs to Rs. 20 lakhs vide Notification No. 1420(E), dated 29-3-2018.

Note:

- 1) Instead of 15 days' salary, only 7 days salary will be taken into consideration in case of employees of seasonal establishment.
- 2) 15 days' salary = Salary last drawn × 15/26
- 3) Salary for this purpose will include basic salary and dearness allowance only. Items other than basic salary and dearness allowance are not to be considered.
- 4) In case of piece rated employee, 15 days' salary will be computed on the basis of average of total wages (excluding overtime wages) received for a period of three months immediately preceding the termination of his service.
- 5) Part of the year, in excess of 6 months, shall be taken as one full year.

***Gratuity received by a non-Government employee not covered by Payment of Gratuity Act, 1972***  
***[Section 10(10)(iii)]***

As per section 10(10)(iii), exemption in respect of gratuity in case of employees not covered by the Payment of Gratuity Act, 1972 will be lower of following :

- Half month's salary for each completed year of service, *i.e.*,  
[Average monthly salary × ½] × Completed years of service. .  
Rs. 10,00,000.
- Gratuity actually received.
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Note:

- 1) Average monthly salary is to be computed on the basis of average of salary for 10 months immediately preceding the month of retirement.
- 2) Salary for this purpose will include basic salary, dearness allowance, if the terms of service so provide and commission based on fixed percentage of turnover achieved by the employee.
- 3) While computing years of service, any fraction of a year is to be ignored.

***Pension [Section 10(10A)]:***

As per section 10(10A), any commuted pension, *i.e.*, accumulated pension in lieu of monthly pension received by a Government employee is fully exempt from tax. Exemption is available only in respect of commuted pension and not in respect of un-commuted, *i.e.*, monthly pension.





Exemption in respect of commuted pension in case of a non-Government employee will be as follows:

- If the employee receives gratuity, one third of full value of commuted pension will be exempt from tax under section 10(10A).
- If the employee does not receive gratuity, one half of full value of commuted pension will be exempt from tax under section 10(10A).

#### **Leave salary [Section 10(10AA)]**

As per section 10(10AA), leave encashment by a Government employee at the time of retirement (whether on superannuation or otherwise) is exempt from tax. In the hands of non-Government employee exemption will be least of the following:

1. Period of earned leave standing to the credit in the employee's account at the time of retirement (\*)  $\times$  Average monthly salary (\$).
2. Average monthly salary (\$)  $\times$  10 (*i.e.*, 10 months' average salary).
3. Maximum amount as specified by the Government, *i.e.*, Rs. 3,00,000.
4. Leave encashment actually received at the time of retirement.

(\*) Leave credit to the account of the employee at the time of retirement should be restricted to 30 days per year of service if leave entitlement as per service rules exceeds 30 days per year of actual service.

(\$) Salary for the above purpose means average salary drawn in the past ten months immediately preceding the retirement (*i.e.*, preceding the day of retirement) and will include basic salary, dearness allowance (if considered for computing all the retirement benefits) and commission based on fixed percentage of turnover achieved by the employee.

Apart from the above items, salary for this purpose does not include any other allowances or perquisites.

#### **Retrenchment compensation [Section 10(10B)]**

As per section 10(10B), compensation received at the time of retrenchment is exempt from tax to the extent of lower of the following:

- (a) An amount calculated in accordance with the provisions of section 25F(b) of the Industrial Dispute Act, 1947; or
- (b) Maximum amount specified by the Central Government (Rs. 5,00,000);
- (c) Actual amount received.

Under the Industrial Dispute Act, a workman is entitled to retrenchment compensation, equal to 15 days' average pay for each completed year of continuous service or any part in excess of six months.

Compensation in excess of aforesaid limits is taxable as salary. However, the aforesaid limit is not applicable in cases where compensation is paid under any scheme approved by the Central Government.

#### **Compensation for Bhopal Gas Leak Disaster [Section 10(10BB)]**





*Compensation [in accordance with Bhopal Gas Leak Disaster (Processing of Claims) Act, 1985] received by victims of Bhopal gas leak disaster is exempt from tax. However, compensation received for any expenditure which is allowed as deduction from taxable income is not exempt.*

***Compensation on account of any disaster [Section 10(10BC)]***

Any amount received from the Central Government or State Government or a Local Authority by an individual or his legal heirs as compensation on account of any disaster is exempt from tax. However, no deduction is available in respect of the amount received or receivable to the extent such individual or his legal heirs has been allowed a deduction under the Act on account of loss or damage caused due to such disaster. Disaster here means any disaster due to any natural or man-made causes or by accident/negligence which results in substantial loss of human life or damage to property or environment and the magnitude of such disaster is beyond coping capacity of community of the affected area.

***Payment at the time of voluntary retirement [Section 10(10C)]***

As per section 10(10C), any compensation received at the time of voluntary retirement or termination of service is exempt from tax, if the following conditions are satisfied:

- Compensation is received at the time of voluntary retirement or termination (or in the case of an employee of public sector Company, at the time of voluntary separation).
- Compensation is received by an employee of following undertakings-
  - a) public sector company ; or
  - b) any other company ; or
  - c) an authority established under a Central, State or Provincial Act ; or
  - d) a local authority ; or
  - e) a co-operative society ; or
  - f) a University established or incorporated by or under a Central, State or Provincial Act and an institution declared to be a University under section 3 of the University Grants Commission Act, 1956 (3 of 1956) ; or
  - g) an Indian Institute of Technology within the meaning of clause (g) of section 3 of the Institutes of Technology Act, 1961 (59 of 1961) ; or
  - h) any State Government; or
  - i) the Central Government; or
  - j) Notified institutes having importance throughout India or in any State or States,
  - k) Notified institute of management
- Compensation is received in accordance with the scheme of voluntary retirement/separation, which is framed in accordance with guidelines prescribed under Rule 2BA of Income-tax Rules, 1962\*.
- Maximum amount of exemption is Rs. 5,00,000.
- Where exemption is allowed to an employee under section 10(10C) for any assessment year, no exemption under this section shall be allowed to him for any other assessment





year.

- With effect from assessment year 2010-11, section 10(10C) has been amended to provide that where any relief has been allowed to an assessee under section 89 for any assessment year in respect of any amount received or receivable on his voluntary retirement or termination of service or voluntary separation, no exemption under section 10(10C) shall be allowed to him in relation to such or any other assessment year.

**\*Guidelines prescribed under Rule 2BA of Income-tax Rules, 1962**

Voluntary retirement scheme should be framed in accordance with the following guidelines:

- i. it should apply to an employee who has completed 10 years of service or completed 40 years of age. This requirement would not be in case of amount received by an employee of a public sector company under the scheme of voluntary separation framed by such public sector company.
- ii. it should apply to all employees (by whatever name called) including workers and executives of a company or of an authority or of a co-operative society, as the case may be, excepting directors of a company or of a co-operative society;]
- iii. the scheme of voluntary retirement or voluntary separation should be drawn to result in overall reduction in the existing strength of the employees;
- iv. the vacancy caused by the voluntary retirement or voluntary separation is not to be filled up;
- v. the retiring employee of a company shall not be employed in another company or concern belonging to the same management
- vi. the amount receivable on account of voluntary retirement or voluntary separation of the employee does not exceed the amount equivalent to
  - 3 months salary\* for each completed year of service or
  - salary at the time of retirement multiplied by the balance months of service left before the date of his retirement

\*Salary for this purpose will include basic salary, dearness allowance, if the terms of service so provide and commission based on fixed percentage of turnover achieved by the employee.

***Tax on perquisites paid by the employer [Section 10(10CC)]***

Perquisites to employees mean any facility provided by the employer to the employees. There are two types of perquisites, viz., monetary and non-monetary. Value of perquisite is charged to tax in the hands of the employees, however, the employer may at his will pay tax (on behalf of employees) on such perquisites. In such a case, the amount of tax paid on such perquisites by the employer on behalf of the employees will be treated as income of the employees and is charged to tax in his (i.e., in employee's) hands. However, by virtue of section 10(10CC) tax paid by employer (on behalf of employee) on non-monetary perquisites will be exempt from tax in the hands of employees.

Such tax paid by the employer shall not be allowed as a deductible expenditure in the hands of employer under section 40. Section 10(10CC) provides exemption only in respect of tax on non-monetary perquisites. In other words, this section does not provide exemption in respect of perquisites or tax paid on monetary perquisites.



### *Amount paid on life insurance policy [Section 10(10D)]*

As per section 10(10D), any amount received under a life insurance policy, including bonus is exempt from tax. Following points should be noted in this regard:

- Exemption is available only in respect of amount received from life insurance policy.
- Exemption under section 10(10D) is unconditionally available in respect of sum received for a policy which is issued on or before March 31, 2003. However, in respect of policies issued on or after April 1<sup>st</sup>, 2003, the exemption is available only if the amount of premium paid on such policy in any financial year does not exceed 20% (10% in respect of policy taken on or after 1<sup>st</sup> April, 2012) of the actual capital sum assured. With effect from 1-4-2013, in respect of policy taken in the name of a person suffering from diseases specified under section 80DDB or in the name of a person suffering from disability specified under section 80U, the limit will be increased to 15% of capital sum assured.
- Value of premium agreed to be returned or of any benefit by way of bonus (or otherwise), over and above the sum actually assured, which is received under the policy by any person, shall not be taken into account while calculating the actual capital sum assured.
- Amount received on death of the person will continue to be exempt without any condition.

Note 1: No exemption would be available in case of any sum received under section 80DD(3) or under Keyman insurance policy.

Note 2: w.e.f. Assessment Year 2021-22, any sum received from Unit Linked Insurance Plan (ULIP) is not entitled for exemption if such ULIP is issued on or after the 01-02-2021 and the amount of premium payable for any of the previous year during the term of such policy exceeds 2,50,000.

Further, if premium is payable by a person for more than one ULIP, issued on or after 01-02-2021, the exemption under Section 10(10D) shall be available in respect to those ULIPs, where the aggregate amount of premium does not exceed Rs. 2,50,000 in any of the previous year during the term of any of those policies.

### *Exemption in respect of amount received from public provident fund/statutory provident fund/ recognised provident fund/ un-recognised provident fund [Section 10(11)/(12)]*

The tax treatment of various items in case of different provident funds is as follows:

#### *Statutory Provident Fund*

Employer's Contribution	Employer's contribution to such fund is not treated as income of the employee.
Interest	Interest credited to such fund is exempt in the hands of the employee. <b>[see note 4]</b>
Amount received at the time of termination	Lump sum amount received from such fund, at the time of termination of service is exempt in the hands of employees.

#### *Recognised Provident Fund*



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Employer's Contribution	Employer's contribution to such fund, up to 12% of salary is not treated as income of the employee ( <i>see</i> Note 1).
Interest	Interest credited to such fund up to 9.5% per annum is exempt in the hands of the employee, interest in excess of 9.5% is charged to tax in the hands of the employee. [ <b>see note 4</b> ]
Amount received at the time of termination	If certain conditions are satisfied, then lump sum amount received from such fund, at the time of termination of service, is exempt in the hands of employees. ( <i>see</i> Note 2)

### *Un-recognised Provident Fund*

Employer's Contribution	Employer's contribution to such fund is not treated as income of the employee.
Interest	Interest credited to such fund is exempt in the hands of the employees. [ <b>see note 4</b> ]
Amount received at the time of termination	( <i>See</i> note 3)

### *Public Provident Fund*

Employer's Contribution	Employers do not contribute to such fund.
Interest	Interest credited to such fund is exempt.
Amount received at the time of termination	Lump sum amount received from such fund at the time of termination of service is exempt from tax.

### Notes:

1. Salary for this purpose will include basic salary, dearness allowance, if the terms of service so provide and commission based on fixed percentage of turnover achieved by the employee.
2. Accumulated balance paid from a recognised provident fund will be exempt from tax in following cases:
  - (a) If the employee has rendered a continuous service of 5 years or more. If the accumulated balance includes amount transferred from other recognised provident fund maintained by previous employer, then the period for which the employee rendered service to such previous employer shall also be included in computing the aforesaid period of 5 years.
  - (b) If the service of employee is terminated before the period of 5 years, due to his ill health or discontinuation of business of the employer or other reason beyond his control.
  - (c) If on retirement, the employee takes employment with any other employer and the balance due and payable to him is transferred to his individual account in any recognised fund





maintained by such other employer, then the amount so transferred will not be charged to tax.

Except above situations, payment from a recognised provident fund will be charged to tax considering such fund as un-recognised from the beginning (*See* note 3 given below for tax treatment of un-recognised provident fund).

### **3. Treatment of payment (at the time of termination) from un-recognised provident fund:**

Payment on termination will include 4 things, *viz.*, employee's contribution and interest thereto and employer's contribution and interest thereto, the tax treatment of such payment is as follows:

- Employee's contribution is not chargeable to tax; interest on employee contribution is taxed under the head "Income from other sources".
- Employer's contribution and interest thereon are taxed as salary income, however, an employee can claim relief under section 89 in respect of such payment.

**4.** No exemption shall be available for the interest income accrued during the previous year in the recognized and statutory provident fund to the extent it relates to the contribution made by the employees over Rs. 2,50,000 in the previous year. However, if an employee is contributing to the fund but there is no contribution to such fund by the employer, then the interest income accrued during the previous year shall be taxable to the extent it relates to the contribution made by the employee to that fund in excess of Rs. 5,00,000 in a financial year.

### ***Payment from account opened in accordance with the Sukanya Samriddhi Account Rules, 2014 [Section 10(11A)]***

As per section 10(11A), any payment from an account opened in accordance with the Sukanya Samriddhi Account Rules, 2014 made under the Government Savings Bank Act, 1873 is exempt from tax. In other words, interest and withdrawals from such account will be exempt from tax under section 10(11A).

### ***Payment from the National Pension System Trust to an employee [Section 10(12A)]***

Any payment from the National Pension System Trust to an assessee on closure of account or his opting out of the pension scheme referred to in section 80CCD, to the extent it does not exceed 40 % of the total amount payable to him at the time of closure or his opting out of the scheme, is exempt from tax.

With effect from April 01, 2020, 60 % of the amount payable shall be exempt from tax.

### ***Partial withdrawal from NPS [Section 10(12B)]***

To provide relief to an employee withdrawing partial amount from National Pension System (NPS) Trust. A new clause (12B) is inserted under section 10 with effect from assessment year 2018-19 to provide that the withdrawal from NPS will not be chargeable to tax if the following conditions are satisfied:-

1. Amount of withdrawal should not exceed 25% of total contribution made by an employee in NPS.





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2. Partial withdrawal should be made in accordance with the terms and conditions specified under the Pension Fund Regulatory and Development Authority Act, 2013 and the regulations made thereunder.

### *Payment from approved superannuation fund in specified circumstances and subject to certain limits [Section 10(13)]*

Approved superannuation fund means superannuation fund which is approved by the Commissioner of Income-tax. Tax treatment of such fund is as follows:

- ✓ Employer's contribution is exempt from tax, however, from assessment year 2010-11 employer's contribution in excess of Rs. 1,50,000 per annum is charged to tax as perquisite. Employee's contribution qualifies for deduction under section 80C and interest on accumulated balance is not liable to tax.
- ✓ Payments made from the fund are exempt from tax under section 10(13) in following cases:
  - ✓ Payment on death of beneficiary; or
  - ✓ Payment to employee in lieu of, or in commutation of an annuity on his retirement at or after the specified age or on his becoming incapable prior to such retirement; or
  - ✓ Payment by way of refund of contributions on the death of a beneficiary; or
  - ✓ Payment to employee by way of refund of his contributions on leaving the service in connection with which the fund is established otherwise than by retirement at or after a specified age or on his becoming incapacitated prior to such retirement; or
  - ✓ Payment to employee by way of transfer to his account under a pension scheme referred to in section 80CCD.

### *House rent allowance [Section 10(13A)]*

As per section 10(13A), read with rule 2A, the exemption in respect of HRA will be lower of the following amounts:

- (1) 50% of salary, when residential house is situated at Mumbai, Kolkata, Delhi or Chennai and 40% of salary where residential house is situated at any other place.
- (2) HRA actually received by the employee in respect of the period during which rental accommodation is occupied by the employee during the previous year.
- (3) Rent paid in excess of 10% of salary.

Salary will include basic salary, dearness allowance forming part of salary while computing all retirement benefits and commission based on fixed percentage of turnover achieved by the employee. Apart from this, salary for this purpose does not include any other allowances/perquisites.

Salary for this purpose shall be computed on due basis in respect of period during which the accommodation is occupied by the employee in the previous year. Hence, any payments not pertaining to the previous year or not pertaining to the period of occupation of the accommodation shall be excluded.

### *Prescribed allowances or benefits [Section 10(14)]*

As per section 10(14), read with rule 2BB following allowances granted to an employee are exempt





from tax subject to certain limit:

<b>Allowances</b>	<b>Exemption Limit</b>
Children Education Allowance	Up to Rs. 100 per month per child up to a maximum of 2 children is exempt
Hostel Expenditure Allowance	Up to Rs. 300 per month per child up to a maximum of 2 children is exempt
Transport Allowance granted to an employee to (who is a blind and handicap) meet expenditure on commuting between place of residence and place of duty	Rs. 3,200 per month for blind and handicapped employees is exempt
Allowance granted to an employee working in any transport business to meet his personal expenditure during his duty performed in the course of running of such transport from one place to another place provided employee is not in receipt of daily allowance.	Amount of exemption shall be lower of following: a) 70% of such allowance; or b) Rs. 10,000 per month.
Conveyance Allowance granted to meet the expenditure on conveyance in performance of duties of an office	Exempt to the extent of expenditure incurred for official purposes
Travelling Allowance to meet the cost of travel on tour or on transfer	Exempt to the extent of expenditure incurred for official purposes
Daily Allowance to meet the ordinary daily charges incurred by an employee on account of absence from his normal place of duty	Exempt to the extent of expenditure incurred for official purposes
Helper/Assistant Allowance	Exempt to the extent of expenditure incurred for official purposes
Research Allowance granted for encouraging the academic research and other professional pursuits	Exempt to the extent of expenditure incurred for official purposes
Uniform Allowance	Exempt to the extent of expenditure incurred for official purposes
Special compensatory Allowance (Hilly Areas) (Subject to certain conditions and locations)	Amount exempt from tax varies from Rs. 300 to Rs. 7,000 per month.
Border area, Remote Locality or Disturbed Area or	Amount exempt from tax varies from Rs.



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Difficult Area Allowance (Subject to certain conditions and locations)	200 to Rs. 1,300 per month.
Tribal area allowance in (a) Madhya Pradesh (b) Tamil Nadu (c) Uttar Pradesh (d) Karnataka (e) Tripura (f) Assam (g) West Bengal (h) Bihar (i) Odisha	Up to Rs. 200 per month
Compensatory Field Area Allowance. If this exemption is taken, employee cannot claim any exemption in respect of border area allowance (Subject to certain conditions and locations)	Up to Rs. 2,600 per month
Compensatory Modified Area Allowance. If this exemption is taken, employee cannot claim any exemption in respect of border area allowance (Subject to certain conditions and locations)	Up to Rs. 1,000 per month
Counter Insurgency Allowance granted to members of Armed Forces operating in areas away from their permanent locations. If this exemption is taken, employee cannot claim any exemption in respect of border area allowance (Subject to certain conditions and locations)	Up to Rs. 3,900 per month
Underground Allowance to employees working in uncongenial, unnatural climate in underground mines	Up to Rs. 800 per month
High Altitude Allowance granted to armed forces operating in high altitude areas (Subject to certain conditions and locations)	a) Up to Rs. 1,060 per month (for altitude of 9,000 to 15,000 feet) b) Up to Rs. 1,600 per month (for altitude above 15,000 feet)
Highly active field area allowance granted to members of armed forces (Subject to certain conditions and locations)	Up to Rs. 4,200 per month
Island Duty Allowance granted to members of armed forces in Andaman and Nicobar and Lakshadweep group of Island (Subject to certain conditions and locations)	Up to Rs. 3,250 per month

### *Interest on securities [Section 10(15)]*

Interest incomes which are exempt under section 10(15) could be explained with the help of the following table-





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Section	Income	Exemption to
10(15)(i)	Interest, premium on redemption, or other payment on notified securities, bonds, certificates, and deposits, etc. (subject to notified conditions and limits)	All assesseees
10(15)(iib)	Interest on notified Capital Investment Bonds notified prior to 1-6-2002	Individual/HUF
10(15)(iic)	Interest on notified Relief Bonds	Individual/HUF
10(15)(iid)	Interest on notified bonds (notified prior to 1-6-2002) purchased in foreign exchange (subject to certain conditions)	Individual - NRI/ nominee or survivor of NRI/individual to whom bonds have been gifted by NRI
10(15)(iii)	Interest on securities	Issue Department of Central Bank of Ceylon
10(15)(iiia)	Interest on deposits made with scheduled bank with approval of RBI	Bank incorporated abroad
10(15)(iiib)	Interest payable to Nordic Investment Bank	Nordic Investment Bank
10(15)(iiic)	10(15)(iiic) Interest payable to the European Investment Bank on loan granted by it in pursuance of framework-agreement dated 25-11-1993 for financial corporation between Central Government and that bank	European Investment Bank
10(15)(iv)(a)	Interest received from Government or from local authority on moneys lent to it before 1-6-2001 or debts owed by it before 1-6-2001, from sources outside India	All assesseees who have lent money, etc., from sources outside India
10(15)(iv)(b)	Interest received from industrial undertaking in India on moneys lent to it under a loan agreement entered into before 1-6-2001	Approved foreign financial institution



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10(15)(iv)(c)	Interest at approved rate received from Indian industrial undertaking on moneys lent or debt incurred before 1-6-2001 in a foreign country in respect of purchase outside India of raw materials, components or capital plant and machinery, subject to certain limits and conditions	All assesseees who have lent such money, or in favour of whom such debt has been incurred
10(15)(iv)(d)	Interest received at approved rate from specified financial institutions in India on moneys lent from sources outside India before 1-6-2001	All assesseees who have lent such moneys
10(15)(iv)(e)	Interest received at approved rate from other Indian financial institutions or banks on moneys lent for specified purposes from sources outside India before 1-6-2001 under approved loan agreement	All assesseees who have lent such moneys
10(15)(iv)(f)	Interest received at approved rate from Indian industrial undertaking on moneys lent in foreign currency from sources outside India under loan agreement approved before 1-6-2001	All assesseees who have lent such moneys
10(15)(iv)(fa)	Interest payable by scheduled bank, on deposits in foreign currency when acceptance of such deposits by bank is approved by RBI	Non-resident or individual/HUF who is not ordinarily resident in India
10(15)(iv)(g)	Interest received at approved rate, from Indian public companies eligible for deduction under section 36(1)(viii) and formed with main object of providing long-term housing finance, on moneys lent in foreign currency from sources outside India under loan agreement approved before 1-6-2003	All assesseees who have lent such moneys
10(15)(iv)(h)	Interest received from any public sector company in respect of notified bonds or debentures and subject to certain conditions	All assesseees
10(15)(iv)(i)	Interest received from Government on deposits in notified scheme out of moneys due on account of retirement	Individual – Employee of Central Government/State Government/Public sector company
10(15)(v)	Interest on securities held in Reserve Bank's SGL A/c No. SL/DH-048 and Deposits made after 31-3-1994 for benefit of victims of Bhopal Gas Leak Disaster held in such account with RBI or with notified public sector bank	Welfare Commissioner, Bhopal Gas Victims, Bhopal





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10(15)(vi)	Interest on Gold Deposit Bonds issued under the Gold Deposit Scheme, 1999 or deposit certificates issued under the Gold Monetisation Scheme, 2015	All assesseees
10(15)(vii)	10(15)(vii) Interest on notified bonds issued by a local authority/State Pooled Finance Entity	All assesseees
10(15)(viii)	Interest on deposit made on or after 1-4-2005 in an Offshore Banking Unit referred to in section 2(u) of the Special Economic Zones Act, 2005	Non-resident or person who is not ordinarily resident
10(15)(ix)	Interest payable by a unit located in an International Financial Services Centre in respect of monies borrowed by it on or after the 1st day of September, 2019.	Non-resident

### *Lease rent of an aircraft [Section 10(15A)]*

Lease rent of an aircraft or an aircraft engine paid to a foreign Government or to a foreign enterprise by an Indian company, engaged in the business of operation of aircraft is not taxable in the hands of such foreign Government or non-resident concern, if such payment is in pursuance of an agreement (approved by the Central Government) made before April 1, 1997 or after March 31, 1999 but before April 1, 2007. If such agreement is entered into during April 1, 1997 and March 31, 1999 or after March 31, 2007, then exemption under section 10(15A) is not available. However, in such a case, if tax on such payments is borne by the payer, then tax so borne by the payer is exempt in the hands of payee under section 10(6BB), provided agreement is approved by the Central Government.

### *Educational scholarship [Section 10(16)]*

Any amount received as educational scholarship (*i.e.*, scholarship to meet the cost of education is exempt from tax in the hands of recipient).

### *Daily allowance to a Member of Parliament [Section 10(17)]*

Following allowances are exempt from tax in the hands of a Member of Parliament and a Member of State Legislature—

- Daily allowance received by a Member of Parliament or by a Member of State Legislature or by member of any committee thereof.
- Any other allowance received by a Member of Parliament under the Members of Parliament (Constituency Allowance) Rules, 1986.
- Any Constituency allowance received by a Member of State Legislature.

### *Awards [Section 10(17A)]*

Any payment received in pursuance of following (whether paid in cash or in kind) is exempt from tax:

- Any award instituted in the public interest by the Central Government or State Government or by any other body approved by the Central Government in this behalf.





- Any reward by the Central Government or any State Government for such purpose as may be approved by the Central Government in this behalf in the public interest.

#### *Pension to gallantry award winner [Section 10(18)]*

Pension received by an individual who was employee of the Central Government or State Government and who has been awarded Param Vir Chakra or Maha Vir Chakra or Vir Chakra or any other notified gallantry award is exempt from tax.

Family pension received by any member of such individual is also exempt.

#### *Family pension received by the family members of armed forces [Section 10(19)]*

From the assessment year 2005-06, family pension received by the widow or children or nominated heirs, of a member of armed forces (including paramilitary forces) of the Union, is exempt from tax in the hands of such family members, if the death of such member of armed forces has occurred in the course of operational duty in prescribed circumstances and subject to such conditions as may be prescribed (*see* rule 2BBA for prescribed circumstances and conditions).

#### *Annual value of one palace [Section 10(19A)]*

Annual value of any one palace in the occupation of a former ruler is exempt from tax under section 10(19A).

#### *Income of local authority [Section 10(20)]*

The following income of a local authority is exempt from tax:

- a) Income which is chargeable under the head “Income from house property”, “Capital gains” or “Income from other sources” or
- b) Income from a trade or business carried on by it which accrues or arises from the supply of a commodity or service (not being water or electricity) within its own jurisdictional area or
- c) Income from business of supply of water or electricity within or outside its own jurisdictional area.

#### *Income of research association [Section 10(21)]*

Any income of a research association, approved under section 35(1)(ii)/(iii) is exempt from tax, if following conditions as specified in section 10(21) are satisfied:

- 1) Income should be applied or accumulated wholly and exclusively for the objects for it established.
- 2) Funds should not be invested or deposited for any period during the previous year otherwise than in any one or more of the forms/modes specified in section 11(5). However, this condition is not applicable in respect of the following:-
  - (i) any assets held by the research association where such assets form part of the corpus of the fund of the association as on the 1st day of June, 1973;
  - (ii) Debentures of a company acquired by the research association before the 1st day of March, 1983;



- (iii) any accretion to the shares, forming part of the corpus of the fund mentioned in sub-clause (i), by way of bonus shares allotted to the research association;
- (iv) voluntary contributions received and maintained in the form of jewellery, furniture or any other article as the Board may, by notification in the Official Gazette, specify,

Note:

1. Exemption shall not be denied in relation to voluntary contribution [other than voluntary contribution in cash or voluntary contribution of the nature referred to in (i), (ii), (iii) or (iv) supra] subject to the condition that such voluntary contribution is not held by the research association otherwise than in any one or more of the forms or modes specified in sub-section (5) of section 11, after the expiry of one year from the end of the previous year in which such asset is acquired.
2. Exemption is not available in relation to any income of the research association, being profits and gains of business, unless the business is incidental to the attainment of its objectives and separate books of account are maintained by it in respect of such business

#### **Income of a news agency [Section 10(22B)]**

Any income of a notified news agency, set-up in India solely for collection and distribution of news is exempt from tax provided that the news agency applies its income or accumulates it for application solely for collection and distribution of news and does not distribute its income in any manner to its members.

#### **Income of a professional association [Section 10(23A)]**

Any income (other than income from house property and income from rendering any specific service or income by way of interest or dividend on investment) of an professional institution/association is exempt from tax, if the following conditions are satisfied:

- 1) Professional institution is established in India for the purpose of control, supervision, regulation or encouragement of the profession of law, medicine, accountancy, engineering or architecture or such other notified profession.
- 2) The institution applies its income, or accumulates it for application, solely to the objects for which it is established.
- 3) The institution is approved by the Central Government by general or special order.

#### **Income received on behalf of Regimental Fund [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.

#### **Income of a fund established for welfare of employees [Section 10(23AAA)]**

Any income received by any person on behalf of a fund established, for such purpose as may be notified by the Board in Official Gazette, for the welfare of employees or their dependents and of which fund such employees are members, is exempt from tax, if such fund applies or accumulates its income for exclusive application towards its objects, invests its funds in the modes specified in section 11(5) and such fund is approved by the Principal Commissioner or Commissioner in accordance with rule made in this behalf (*see* rule 16C and Form No. 9).





### ***Income of pension fund [Section 10(23AAB)]***

Any income of a fund set-up by the Life Insurance Corporation of India on or after August 1, 1996 or any other insurer to which contribution is made by any person for receiving pension from such fund, and which is approved by the Controller of Insurance or the Insurance Regulatory and Development Authority, is exempt from tax.

### ***Income from Khadi or village industry [Section 10(23B)]***

Income of an institution constituted as a public charitable trust or society which is established for the development of khadi and village industries (not for profit purpose) is exempt from tax, if following conditions are satisfied:

- 1) Income is attributable to the business of production, sale, or marketing, of khadi or products of village industries.
- 2) Institution applies its income, or accumulates it for application, solely for the development of khadi or village industries or both
- 3) Institution is approved by the Khadi and Village Industries Commission.

### ***Income of Khadi and Village Industries Boards [Section 10(23BB)]***

Any income of Khadi and Village Industries Boards is exempt from tax under section 10(23BB).

### ***Incomes of statutory bodies for the administration of public charitable trust [Section 10(23BBA)]***

Any incomes of bodies or authority established or constituted or appointed under any Central, State or Provincial Act for the administration of public, religious or charitable trust or endowments (including any place of religious worship) or societies for religious or charitable purpose, is exempt from tax. However, this exemption shall not apply to income of any such trust, endowment, or society.

### ***Income of European Economic Community [Section 10(23BBB)]***

Any income of European Economic Community derived in India by way of interest, dividends or capital gains, from investments made out of its funds under a notified scheme is exempt from tax.

### ***Income of SAARC fund [Section 10(23BBC)]***

Any income of SAARC fund for Regional Projects is exempt from tax under section 10(23BBC).

### ***Income of Secretariat of Asian Organisation of Supreme Audit Institutions [Section 10(23BBD)]***

Any income of Secretariat of Asian Organisation of Supreme Audit Institutions is exempt from tax for the assessment years 2001-02 to 2010-11.

### ***Income of Insurance Regulatory and Development Authority [Section 10(23BBE)]***

Any income of the Insurance Regulatory and Development Authority established under section 3(1) of the Insurance Regulatory and Development Authority Act, 1999 is exempt from tax.

### ***Income of North-Eastern Development Financial Corporation Limited [Section 10(23BBF)]***

No exemption is available under section 10(23BBF) from assessment year 2010-11.





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

Income of Central Electricity Regulatory Commission is exempt from tax from the assessment year 2008-09.

***Income of the Prasar Bharati [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 from tax.

***Income of certain national funds [Section 10(23C)(i)/(ii)/(iii)]***

Any income received by any person on behalf of the Prime Minister's National Relief Fund or the Prime Minister's Citizen Assistance and Relief in Emergency Situations Fund (PM CARES FUND), the Prime Minister's Fund (Promotion of Folk Art) or the Prime Minister's Aid to Students Fund is exempt from tax under clause (i), (ii) and (iii) of section 10(23C) respectively.

***Income of National Foundation for Communal Harmony [Section 10(23C)(iiia)]***

Any income of National Foundation for Communal Harmony is exempt from tax under section 10(23C)(iiia).

***Income of Swachh Bharat Kosh [Section 10(23C)(iiiaa)]***

Income of the Swachh Bharat Kosh, set up by the Central Government is exempt under section 10(23C)(iiiaa).

***Income of Clear Ganga Fund [Section 10(23C)(iiiaaa)]***

Income of the Clear Ganga Fund, set up by the Central Government is exempt under section 10(23C)(iiiaaa).

***Income of Chief Minister's Relief Fund or Lieutenant Governor's Relief Fund [Section 10(23C)(iiiaaaa)]***

As per section 10(23C)(iiiaaaa) (as inserted by the Finance Act, 2017 with retrospective effect from the assessment year 1998-99), income of the Chief Minister's Relief Fund or the Lieutenant Governor's Relief Fund in respect of any state or union territory is exempt from tax.

***Income of Educational Institutions [Section 10(23C)(iiiaab)/(iiiaad)/(vi)]***  
***Section 10(23C)(iiiaab)***

Income of any university or other educational institution existing solely for educational purposes and not for purposes of profit, and which is wholly or substantially financed by the Government would be exempt under section 10(23C)(iiiaab).

***Section 10(23C)(iiiaad)***

Income of any university or other educational institution existing solely for educational purposes and not for purposes of profit would be exempt under section 10(23C)(iiiaad) if the aggregate annual receipts of such university or educational institution do not exceed Rs. 1 Core.

**Note:**

W.e.f. Assessment Year 2022-23, the Finance Act, 2021 has increased the limit of aggregate annual receipts from Rs. 1 crore to Rs. 5 crore.

***Section 10(23C)(vi)***



Income of any university or other educational institution existing solely for educational purposes and not for purposes of profit, other than those mentioned in sub-clause (iiiab) or sub-clause (iiiad) and which may be approved by the Principal Commissioner or Commissioner. An application in the prescribed form and manner has to be made to the Principal Commissioner or Commissioner, for grant of approval.

***Income of Hospital [Section 10(23C)(iiiac)/(iiiae)/(via)]***

Income arises to any hospital or other institution for the reception and treatment of persons suffering from illness or mental defectiveness or for the reception and treatment of persons during convalescence or of persons requiring medical attention or rehabilitation, existing solely for philanthropic purposes and not for purposes of profit, shall be exempt from tax under following situations:

- 1) If the hospital or other institution is wholly or substantially financed by the Government then exemption would be available under section 10(23C)(iiiac).
- 2) If the aggregate annual receipt of such hospital or institution do not exceed Rs. 1 Crore then exemption would be available under section 10(23C)(iiiae).

***Note:***

*W.e.f. Assessment Year 2022-23, the Finance Act, 2021 has increased the limit of aggregate annual receipts from Rs. 1 crore to Rs. 5 crore.*

- 3) If the hospital is approved by the Principal Commissioner or Commissioner. An application in the prescribed form and manner has to be made to the Principal Commissioner or Commissioner, for grant of approval.

***Receipt from university/institution/hospital referred in section 10(23C)(iiiad) and section 10(23C)(iiiae)***

If the person has receipts from university or universities or educational institution or institutions as referred to in section 10(23C)(iiiad), as well as from hospital or hospitals or institution or institutions as referred to in section 10(23C)(iiiae), the exemptions under these clauses shall 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 Rs. 5 crore.

***Income of Charitable Institution or Fund [Section 10(23C)(iv)]***

Any income of a charitable institution or fund which is approved by the Principal Commissioner or Commissioner having regard to its objects and its importance throughout India or throughout any State or States is exempt from tax.

An application in the prescribed form and manner has to be made to the Principal Commissioner or Commissioner, for grant of approval.

***Income of religious/charitable trust [Section 10(23C)(v)]***

Income of any trust (including any other legal obligation) or institution formed wholly for public religious purposes or wholly for public religious and charitable purposes, which is approved by the Principal Commissioner or Commissioner having regard to the manner in which the affairs of the trust or institution are administered and supervised for ensuring that the income accruing thereto is properly applied for the objects thereof, is exempt from tax.



An application in the prescribed form and manner has to be made to the Principal Commissioner or Commissioner, for grant of approval.

**Conditions for claiming exemption under section 10(23C)(iv)/(v)/(vi)/(via)**

In order to claim exemption under section 10(23C)(iv)/(v)/(vi)/(via), the fund or trust or institution or any university or other educational institution or any hospital or other medical institution, as the case may be, had to comply with the following conditions:

1. An application in the prescribed form and manner has to be made to the Principal Commissioner or Commissioner, for grant of approval within the prescribed time limits. Timelines to make an application for approval has been summarised in the below table:

S. No.	Category	Time limit for making application*
i.	If entity is approved on or before 31-03-2021	On or before 31-03-2022
ii.	If entity is approved and the period of such approval is due to expire	At least 6 months prior to expiry of said period
iii.	If entity has been provisionally approved	Earlier of the following: <ul style="list-style-type: none"><li>• At least 6 months prior to expiry of the period of the provisional approval; or</li><li>• Within 6 months of commencement of its activities.</li></ul>
iv.	In any other case	At least 1 month prior to commencement of the previous year relevant to the assessment year from which said approval is sought

\* If the due date to file the application for re-registration in Form 10AB falls on or before 29-09-2022, it shall be extended to 30-09-2022. The due date has been extended by Circular No. 8/2022, dated 31-03-2022.

2. On receipt of application for grant of approval, the Principal Commissioner or Commissioner is required to pass an order granting approval within the following period:





<b>Passing of order by CIT or PCIT</b>	
If entity is approved on or before 31-03-2021	Within 3 months calculated from end of month in which application is received
If entity is approved and the period of such approval is due to expire	Within 6 months calculated from end of month in which application is received
If entity has been provisionally approved	Within 6 months calculated from end of month in which application is received
In any other case	Within 1 months calculated from end of month in which application is received

3. Where application is made by an assessee (already approved for exemption) for renewal of approval or by an assessee which is provisionally approved for exemption, the Principal Commissioner or Commissioner may call for such documents or information or make such inquiries as he thinks necessary in order to satisfy himself about:
- The genuineness of activities of assessee; and
  - The compliance of such requirements of any other law for the time being in force by it as are material for the purpose of achieving its objects.

If he is not satisfied about the genuineness of activities and compliance required he may pass an order rejecting the application and cancelling its approval. However, he is required to grant an opportunity of being heard to the assessee.

4. It should apply its income, or accumulates it for application, wholly and exclusively to the objects for which it is established and, in a case, where more than fifteen per cent of its income is accumulated on or after the 1st day of April, 2002, the period of the accumulation of the amount exceeding fifteen per cent of its income shall in no case exceed five year.
5. Funds should not be invested or deposited for any period during the previous year otherwise than in any one or more of the forms/modes specified in section 11(5). However, this condition is not applicable in respect of the following:-
- any assets which form part of the corpus of the fund, trust or institution or any university or other educational institution or any hospital or other medical institution as on the 1st day of June, 1973;
  - Equity shares of a public company, held by any university or other educational institution or any hospital or other medical institution where such equity shares form part of the corpus of any university or other educational institution or any hospital or other medical institution as on the 1st day of June, 1998
  - Debentures of a company acquired by the fund, trust or institution or any university or other educational institution or any hospital or other medical institution before the 1st day of March, 1983;





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- (iv) any accretion to the shares, forming part of the corpus of the fund mentioned in point no. (i) and (ii), by way of bonus shares allotted to the fund, trust or institution or any university or other educational institution or any hospital or other medical institution; voluntary contributions received and maintained in the form of jewellery, furniture or any other article as the Board may, by notification in the Official Gazette, specify's;
6. Any corpus donations received by such fund or institution or any university or other educational institution or any hospital or other medical institution, shall not be included in the income of such entities. Such voluntary contributions made with a specific direction that it shall form part of the corpus shall be invested or deposited in one or more of the forms or modes specified in Section 11(5) maintained specifically for such corpus.
7. The Finance Act 2022 inserted Explanation 1A and 1B to the third proviso to section 10(23C) with retrospective effect from the assessment year 2021-22. It provides that where the property held under a trust or institution includes any temple, mosque, gurdwara, church or other place notified under section 80G(2)(b), any sum received by such trust or institution as a voluntary contribution for renovation or repair of such temple, mosque, gurdwara, church or other place, may, at its option, be treated by such trust or institution as forming part of the corpus of the trust or the institution.

The following conditions are to be satisfied by such trust or institution:

- Corpus to be applied only for the purpose for which the voluntary contribution was made;
- Corpus shall not be applied for making a contribution or donation to any person;
- Corpus to be maintained as separately identifiable;
- Corpus to be invested in Section 11(5) modes.

If any trust or institution has treated any sum received by it as forming part of the corpus, and subsequently, any of the specified conditions is violated. In that case, such sum shall be deemed to be the income of such trust or institution of the previous year during which the violation takes place.

Application out of corpus shall not be considered as an application for charitable or religious purposes. However, when it is invested or deposited back, into one or more of the forms or modes specified in Section 11(5) maintained specifically for such corpus from the income of the previous year, such amount shall be allowed as an application in the previous year in which it is deposited back to the corpus to the extent of such deposit or investment.

8. Application from loans and borrowings shall not be considered as an application for charitable or religious purposes. However, when loan or borrowing is repaid from the income of the previous year, such repayment shall be allowed as an application in the previous year in which it is repaid to the extent of such repayment.
9. The income is not applied towards charitable purposes in the year of receipt and is proposed to be accumulated, such accumulation will be allowed only if the following conditions are complied with:
- (a) The person furnishes a statement in the prescribed form stating the purpose/period for accumulation.
- (b) The accumulated money shall be invested in permissible modes under section 11(5).





- (c) The statement is furnished on or before the due date for furnishing the return of income under section 139(1).
10. In the following circumstances, the accumulated income shall be taxed in the hands of a fund or institution:
- (a) Any accumulated income, if it is applied for purposes other than wholly and exclusively to the objects for which the fund or institution is established or ceases to be accumulated or set apart for application thereto shall be deemed to be the income of such person of the previous year in which it is so applied or ceases to be so accumulated or set apart.
  - (b) If it ceases to remain invested or deposited in any of the forms or modes specified in Section 11(5), it shall be deemed to be the income of such person of the previous year in which it ceases to remain so invested or deposited.
  - (c) If it is not utilized for the purpose for which it is so accumulated or set apart during the period, it shall be deemed to be the income of such person of the previous year being the last previous year of the period, for which the income is accumulated or set apart, but not utilized for the purpose for which it is so accumulated or set apart.
  - (d) If it is credited or paid to any trust or institution registered under section 12AA or section 12AB or to any fund or institution or trust or any university or other educational institution or any hospital or other medical institution referred to in sub-clause (iv) or sub-clause (v) or sub-clause (vi) or sub-clause (via), it shall be deemed to be the income of such person of the previous year in which it is credited or paid to any fund or institution or trust or any university or other educational institution or any hospital or other medical institution.
11. The Finance Act 2022 inserted an Explanation 5 to the third proviso to section 10(23C) with effect from the assessment year 2023-24. It provides that where due to circumstances beyond the control of the person in receipt of the income, any income invested or deposited for a specified purpose cannot be applied for the purpose for which it was accumulated or set apart, the Assessing Officer may, on an application made to him in this behalf, allow such person to apply such income for such other purpose in India as is specified in the application by that person and as is in conformity with the objects for which the fund or institution or trust or any university or other educational institution or any hospital or other medical institution.
12. For claiming exemption under section 10(23C)(iv) and (v), the fund, trust or institution, as the case may be, should disinvest by March 30, 1993, all the investment made before April 1, 1989, otherwise than in any one or more of the forms or modes specified in section 11(5).
13. For claiming exemption under section 10(23C)(vi) and (via), the university or other educational institution or any hospital or other medical institution, as the case may be, should disinvest by March 30, 2001, all the investment made before June 1, 1998, otherwise than in any one or more of the forms or modes specified in section 11(5).
14. The exemption shall not apply in relation to any income of the fund or trust or institution or any university or other educational institution or any hospital or other medical institution, being profits and gains of business, unless the business is incidental to the attainment of its objectives and separate books of account are maintained by it in respect of such business.
15. If the total income of the fund or institution or trust or any university or other educational institution or any hospital or other medical institution referred to in Section 10(23C) (iv)/ (v)/ (vi)/ (via), without giving effect to the provisions of the said sub-clauses, exceeds the maximum



amount which is not chargeable to tax in any previous year, such fund or institution or trust or any university or other educational institution or any hospital or other medical institution shall keep and maintain books of account and other documents in such form and manner and at such place, as may be prescribed.

16. If taxable income [before giving exemption under section 10(23C)] exceeds the exemption limit, the institution should get books of account audited in Form No. 10BB and audit report should be furnished one month prior to the due date for furnishing the return of income.
17. Any amount of donation received by the fund or institution in terms of clause (d) of [section 80G\(2\)](#) in respect of which accounts of income and expenditure have not been rendered to the authority prescribed under clause (v) of section 80G(5C), in the manner specified in that clause, or which has been utilised for purposes other than providing relief to the victims of earthquake in Gujarat or which remains unutilised in terms of [section 80G\(5C\)](#) and not transferred to the Prime Minister's National Relief Fund on or before the 31st day of March, 2004 shall be deemed to be the income of the previous year and shall accordingly be charged to tax.
18. Any donation given by a trust/institution [registered under section 12AA/12AB or referred to in section 10(23C)(iv)/(v)/(vi)/(via)] to any other trust [which is registered under section 12AA or referred to in section 10(23C)(iv)/(v)/(vi)/(via)] as contribution with specific direction that they shall form part of the corpus of the recipient trust/institution, shall not be treated as an application of income.
19. If tax is deductible from any payment but it is not deducted and payment is made to a resident person, 30% of such payment will be disallowed. In other words, only 70% of an expense shall be deemed as application of income if tax is not deducted from such payment in accordance with Chapter XVII-B. The disallowance shall be made in accordance with [Section 40\(a\)\(ia\)](#).
20. The Finance Act, 2018 has extended the provisions of Section 40A(3) and 40A(3A) mutatis mutandis to the institutions approved under section 10(23C)(iv)/(v)/(vi)/(via)]. Consequently, if payment for an expense exceeding Rs. 10,000 is made in any mode other than account payee cheque, bank draft, net banking (i.e., payment in cash or bearer cheque) that payment or expense will not be considered while computing the application of income.
21. If the fund or trust or institution does not apply its income during the year of receipt and accumulates it, any payment or credit out of such accumulation to any trust or institution registered under [section 12AA](#) or [section 12AB](#) or to any fund or trust or institution approved under section 10(23C) shall not be treated as application of income to the objects for which such fund or trust or institution or university or educational institution or hospital or other medical institution, as the case may be, is established.
22. The normal or provisional approval can be cancelled by the Principal Commissioner (PCIT) or Commissioner (CIT). The approval can be cancelled under the following circumstances:
  - (a) The Principal Commissioner or Commissioner has noticed occurrence of one or more 'Specified Violations' during any previous year.
  - (b) The Principal Commissioner or Commissioner has received a reference from the Assessing Officer under the *second proviso* to Section 143(3) for any previous year.

(c) Such a case has been selected in accordance with the risk management strategy, formulated by the Board from time to time for any previous year

The following shall be considered as '*Specified Violation*':

- If any income of the fund or institution or trust or any university or other educational institution or any hospital or other medical institution has been applied other than for the objects for which it is established
- If the fund or institution or trust or any university or other educational institution or any hospital or other medical institution has income from profits and gains of business, which is not incidental to the attainment of its objectives
- Separate books of account are not maintained by it in respect of the business which is incidental to the attainment of its objectives.
- Any activity being carried out by the trust or institution is not genuine or is not being carried out in accordance with the conditions subject to which it was registered.
- The trust or institution has not complied with the requirement of any other law for the time being in force as is material to achieve its objects, and the order, direction or decree, by whatever name called, holding that such non-compliance has occurred, has either not been disputed or has attained finality.

***Procedure to be followed by PCIT/CIT***

The PCIT or CIT shall call for such documents or information from the trust or institution or make such inquiry as he thinks necessary to satisfy himself about the occurrence or otherwise of any specified violation.

He shall pass an order in writing, cancelling the approval of such trust or institution after affording a reasonable opportunity of being heard, for such previous year and all subsequent previous years, if he is satisfied that one or more specified violations have taken place.

Suppose he is not satisfied about the occurrence of one or more specified violations. In that case, he shall pass an order in writing, refusing to cancel the approval of such trust or institution.

PCIT/CIT shall forward a copy of the cancellation order or order refusing to cancel the approval, as the case may be, to the Assessing Officer and such trust or institution.

***Time-limit to pass cancellation order***

The cancellation order or order refusing to cancel the approval, as the case may be, shall be passed before the expiry of 6 months, calculated from the end of the quarter in which the first notice is issued by the PCIT or CIT, on or after the 01-04-2022, calling for any document or information, or for making any inquiry.

23. Any anonymous donation referred to in [section 115BBC](#) on which tax is payable in accordance with the provisions of the said section shall be included in the total income.
24. The provisions of section 2(15) shall apply and the organization should not engage in commercial activities
25. No exemption under section 10 other than agricultural income under section 10(1) shall operate to exclude any income received on behalf of such fund or trust or institution or university or other



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educational institution or hospital or other medical institution, as the case may be, from the total income of the person in receipt thereof for that previous year.

26. The Finance Act 2022 inserted an explanation to the *nineteenth proviso* to section 10(23C) with effect from 01-04-2022. It provides that if an institution approved under Section 10(23C) (iv)/(v)/(vi)/(via) is notified under Section 10(46), the approval or provisional approval granted to such institution shall become inoperative from the date of notification of under Section 10(46).
27. The Finance Act 2022 inserted the *twentieth proviso* to Section 10(23C) to provide that for the purpose of exemption under this clause, any trust or institution is required to furnish the return of income for the previous year in accordance with the provisions of section 139(4C) of the Act, within the time allowed under that Section.
28. The Finance Act 2022 inserted the twenty-first proviso to Section 10(23C) of the Act to provide that where the income or part of income or property of any trust or institution has been applied directly or indirectly for the benefit of any person referred to in Section 13(3), such income or part of income or property shall be deemed to be the income of such person of the previous year in which it is so applied. The provisions of Section 13(2),(4) and (6) of the Act shall also apply to trust or institution referred to in Section 10(23C).
29. The Finance Act 2022 inserted *Twenty-second* proviso to section 10(23C) has been inserted to provide that where an Institution violates the following provisions, its income will be computed in a specified manner:
  - *Tenth proviso* to section 10(23C) (Maintenance of books of account, etc. and audit of accounts)
  - *Twentieth proviso* to section 10(23C) (Filing of return of income)
  - *Eighteenth proviso* to section 10(23C) (Income in violation of proviso to section 2(15))

The income chargeable to tax shall be computed after allowing the deduction for the expenditure (other than capital expenditure) incurred in India for the objects of the trust or institution, subject to fulfilment of the following conditions, namely:

- (a) Such expenditure is not from the corpus standing to the credit of such trust or institution as on the last day of the financial year immediately preceding the previous year relevant to the assessment year for which the income is being computed;
- (b) Such expenditure is not from any loan or borrowing;
- (c) Claim of depreciation is not in respect of an asset, acquisition of which has been claimed as an application of income in the same or any other previous year; and
- (d) Such expenditure is not in the form of any contribution or donation to any person.

The provisions of Section 40(a)(ia), Section 40A(3) and Section (3A) shall, *mutatis mutandis*, apply as they apply in computing the income chargeable under the head "Profits and gains of business or profession".

30. For the purpose of claiming exemption under section 10(23C), where any income is required to be applied or accumulated, then, for such purpose the income shall be determined without any deduction or allowance by way of depreciation or otherwise in respect of any asset, acquisition of which has been claimed as an application of income under this clause in the same or any other previous year.

31. No set-off or deduction or allowance of any excess application, of any of the year preceding





the previous year, shall be allowed during the previous year. Therefore, the charitable trusts shall not be permitted to carry forward the losses or excess application of earlier years.

32. The Finance Act 2022 inserted an *Explanation 3* to section 10(23C) with effect from the assessment year 2022-23 to provide that any sum payable by an institution shall be considered as an application of income in the previous year in which such sum is actually paid by it (irrespective of the previous year in which the liability to pay such sum is incurred by the institution according to the method of accounting regularly employed by it).

However, where during any previous year any sum has been claimed to have been applied by the fund or institution or trust or any university or other educational institution or any hospital or other medical institution, such sum shall not be allowed as an application in any subsequent previous year.

#### *Income of mutual fund [Section 10(23D)]*

Any income of following mutual funds is exempt from tax:

- A mutual fund registered under the Securities and Exchange Board of India Act or regulation made thereunder.
- A mutual fund set-up by a public sector bank, or a public financial institution or authorised by RBI (subject to conditions notified by the Central Government).

#### *Income of a securitisation trust [Section 10(23DA)]*

*Any income of a securitisation trust from the activity of securitisation is exempt from tax.*

#### *Income of notified investor protection fund [Section 10(23EA)]*

Any income by way of contributions received from recognised stock exchanges and the members thereof, of a notified Investor Protection Fund set up by recognised stock exchanges in India is exempt from tax.

Provided that 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.

#### *Income of Credit Guarantee Fund Trust [Section 10(23EB)]*

Any income of Credit Guarantee Fund Trust for Small Industries, being a trust created by the Government of India and the Small Industries Development Bank of India, is exempt from tax for 5 years relevant to the assessment years 2002-03 to 2006-07.

#### *Income of the notified investor protection fund set-up by commodity exchange [Section 10(23EC)]*

Any income by way of contributions received from commodity exchanges and the members thereof, of a notified Investor Protection Fund set up by commodity exchanges in India is exempt from tax.

Provided that 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 commodity 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.





### ***Income of Investor Protection Fund set by a depository [Section 10(23ED)]***

Any income, by way of contributions received from a depository, of notified Investor Protection Fund set up by a depository in accordance with the regulations made under the SEBI Act and Depository Act is exempt from tax.

Provided that 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 depository, 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.

### ***Income of Core Settlement Guarantee Fund [Section 10(23EE)]***

Section 10(23ED) grants exemption to Income of any specified income of such Core Settlement Guarantee Fund, set up by a recognised clearing corporation in accordance with the regulations, as the Central Government may, by notification in the Official Gazette, specify in this behalf.

It should be checked that 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 so shared and shall, accordingly, be chargeable to income-tax.

"Recognised clearing corporation" shall have the same meaning as assigned to it in clause (o) of sub-regulation (1) of regulation 2 of the Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) Regulations, 2012 made under the Securities and Exchange Board of India Act, 1992 and the Securities Contracts (Regulation) Act, 1956.

"Regulations" means the Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) Regulations, 2012 made under the Securities and Exchange Board of India Act, 1992 and the Securities Contracts (Regulation) Act, 1956.

"specified income" shall mean,—

- (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" shall mean :

- (a) any recognised clearing corporation which establishes and maintains the Core Settlement Guarantee Fund.
- (b) any recognised stock exchange being a shareholder in such recognised clearing corporation or a contributor to the Core Settlement Guarantee Fund.
- (c) any clearing member contributing to the Core Settlement Guarantee Fund.

### ***Income of a venture capital fund or a venture capital company from investment in a venture capital undertaking [Section 10(23FB)]***

Income of a venture capital fund or a venture capital company from investment in a venture capital undertaking is exempt from tax from assessment year 2001-02. However, this exemption is subject to satisfaction of conditions specified in section 10(23FB).





These provisions shall not apply in respect of any income of a venture capital company or venture capital fund, being an investment fund specified in clause (a) of the *Explanation 1* to section 115UB, of the previous year relevant to the assessment year beginning on or after the 1st day of April, 2016.

#### ***Income of an investment fund [Section 10(23FBA)]***

Any income of an investment fund other than the income chargeable under the head "Profits and gains of business or profession" is exempt under Section 10(23FBA).

"Investment fund" shall have the same meaning assigned to it in clause (a) of the *Explanation 1* to section 115UB.

#### ***Income arising to unit holder from specified fund [Section 10(23FBC)]***

Any income accruing or arising to, or received by, a unit holder from a specified fund or on transfer of units in a specified fund is exempt from tax under section 10(23FBC)

#### **Note:**

- a) "specified fund" shall have the same meaning as assigned to it in clause (c) of the *Explanation* to clause (4D);
- b) "unit" means beneficial interest of an investor in the fund and shall include shares or partnership interests;

#### ***Income referred to in section 115UB of a unit holder of an investment fund [Section 10(23FBB)]***

Any income referred to in section 115UB, accruing or arising to, or received by, a unit holder of an investment fund, being that proportion of income which is of the same nature as income chargeable under the head "Profits and gains of business or profession" is exempt under section 10(23FBB).

"Investment fund" shall have the same meaning assigned to it in clause (a) of the *Explanation 1* to section 115UB.

#### ***Income of a Business Trust [Section 10(23FC)]***

Any income of a business trust by way of:

- a) interest received or receivable from a special purpose vehicle; or
- b) dividend received or receivable from a special purpose vehicle

"special purpose vehicle" means an Indian company in which the business trust holds controlling interest and any specific percentage of shareholding or interest, as may be required by the regulations under which such trust is granted registration.

#### ***Certain income of a business trust being a real estate investment trust [Section 10(23FCA)]***

Any 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 is exempt under section 10(23FCA).

"Real estate asset" shall have the same meaning as assigned to it in clause (zj) of sub-regulation (1) of regulation 2 of the Securities and Exchange Board of India (Real Estate Investment Trusts) Regulations, 2014 made under the Securities and Exchange Board of India Act, 1992.





***Income of specified person in nature of dividend, interest or long-term capital gains arising from investment made in India [Section 10(23FE)]***

Any income of a specified person in the nature of dividend, interest 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, is exempt under section 10(23FE).

However, the exemption is available if specified conditions are fulfilled by the specified entity.

*Note: Kindly refer section 10(23FE) to read the details conditions and specified entities eligible for exemption.*

***Income in nature of capital gains earned by non-resident or specified fund [Section 10(23FF)]***

Any income of the nature of capital gains, arising or received by a non-resident/specified fund, 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) shall be exempt from tax under section 10(23FF). However, the exemption shall be available if:

- 1) such shares were transferred from the original fund to the resultant fund in relocation; and
- 2) capital gains on such shares were not chargeable to tax if that relocation had not taken place.

***Note:***

“original fund”, “relocation” and “resultant fund” shall have the meanings respectively assigned to them in the Explanation to clause (viiac) and clause (viiad) of section 47

“specified fund” shall have the meaning assigned to it in clause (c) of the Explanation to clause (4D) of section 10;’

***Distributed Income of a Unit Holder from the Business Trust [Section 10(23FD)]***

Any distributed income, referred to in section 115UA, received by a unit holder from the business trust, not being that proportion of the income which is of the same nature as the income referred to in sub-clause (a) of clause (23FC) or clause (23FCA) of section 10 is exempt from tax.

***Income of a registered trade union [Section 10(24)]***

Any income chargeable under the head “Income from house property” and “Income from other sources” of a registered union within the meaning of the Indian Trade Union Act, 1926, formed primarily for the purpose of regulating the relation between workmen and employers or between workmen and workmen is exempt from tax. Similar exemption is available to an association of registered unions.

***Income of provident fund [Section 10(25)]***

Following income is exempt from tax under this section:

- Interest on securities held by a statutory provident fund and any capital gains arising from such securities.
- Any income received by the trustee on behalf of a recognised provident fund or an approved superannuation fund or an approved gratuity fund; and
- Any income received by the Board of Trustees on behalf of Deposit-linked Insurance Fund.





### ***Income of the Employees' State Insurance Fund [Section 10(25A)]***

Any income of the Employees' State Insurance Fund of the Employees' State Insurance Corporation set-up under the provisions of the Employees' State Insurance Act, 1948 is exempt from tax under section 10(25A).

### ***Income of a member of a Scheduled Tribe [Section 10(26)]***

Income of a member of a Scheduled Tribe [as per article 366(25) of the Constitution] is exempt from tax, if following conditions are satisfied:

- Such member resides in any area in the State of Nagaland, Manipur, Tripura, Arunachal Pradesh, Mizoram or district of North Cachar Hills, Mikir Hills, Khasi Hills, Jaintia Hills and Garo Hills or in the Ladakh region of the State of Jammu and Kashmir.
- Such exemption is available in respect of income which accrues/arises from any source in such areas or income by way of dividends/interest on securities arises from any area.

### ***Income of a "Sikkimese" individual [Section 10(26AAA)]***

Following income of a Sikkimese individual [as explained in section 10(26AAA)], is exempt from tax:

- Any income from the State of Sikkim; or
- Income by way of dividend or interest on securities (generated in Sikkim or any other place). This exemption is not available to a Sikkimese woman who, on or after April 1, 2008 marries a non- Sikkimese individual.

### ***Income of an Agricultural Produce Marketing Committee/Board [Section 10(26AAB)]***

With effect from assessment year 2009-10, any income of an Agricultural Produce Marketing Committee/Board constituted under any law for the purpose of regulating the marketing of agricultural produce is exempt from tax under section 10(26AAB).

### ***Income of corporation or other body or institution or association established for promoting the interest of members of Scheduled Caste, etc. [Section 10(26B)]***

Any income of a corporation established by a Central, State or Provincial Act or of any other body, institution or association (wholly financed by the Government), formed for promoting the interests of the members of the Scheduled Castes/Tribes/backward classes or of any two or all of them [as explained in section 10(26B)], is exempt from tax under section 10(26B).

### ***Income of corporation established for promoting interest of minority caste [Section 10(26BB)]***

Any income of a corporation established by the Central Government or State Government for promoting the interests of the members of such minority community as notified by the Central Government from time-to-time, is exempt from tax under section 10(26BB).

### ***Income of corporation established for ex-servicemen [Section 10(26BBB)]***

From assessment year 2004-05, any income of a statutory corporation established by Central, State or Provincial Act for the welfare and economic upliftment of ex-servicemen (being citizen of India) is exempt from tax under section 10(26BBB).

“ex-serviceman” means a person who has served in any rank, whether as combatant or non-combatant, in the armed forces of the Union or armed forces of the Indian States before the





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commencement of the Constitution (but excluding the Assam Rifles, Defence Security Corps, General Reserve Engineering Force, Lok Sahayak Sena, Jammu and Kashmir Militia and Territorial Army) for a continuous period of not less than six months after attestation and has been released, otherwise than by way of dismissal or discharge on account of misconduct or inefficiency, and in the case of a deceased or incapacitated ex-serviceman includes his wife, children, father, mother, minor brother, widowed daughter and widowed sister, wholly dependant upon such ex-serviceman immediately before his death or incapacitation

### *Income of a co-operative society formed for promoting the interests of the members of Scheduled Castes or Scheduled Tribes [Section 10(27)]*

Any income of a co-operative society formed for promoting the interests of the members of Scheduled Castes or Scheduled Tribes or both [as given in section 10(26B)] is exempt from tax. Exemption is available only if the membership of the co-operative society consists of only other co-operative societies formed for similar purposes and the finances of the society are provided by the Government and such other societies [Section 10(27)].

### *Income of coffee board, rubber board, etc. [Section 10(29A)]*

Any income of Coffee Board, Rubber Board, Tea Board, Tobacco Board, Marine Products Export Development Authority, Agricultural and Processed Food Products Export Development Authority, Spices Board and Coir Board, is exempt from tax under section 10(29A).

### *Subsidy from the Tea Board [Section 10(30)]*

In the case of a taxpayer, who carries on business of growing and manufacturing tea in India, the amount of any subsidy received from or through the Tea Board under the notified scheme for replantation or replacement of tea bushes or for rejuvenation or consolidation of the area used for cultivation of tea, is exempt from tax (for notified schemes see Notification No. S.O. 3616, dated September 27, 1976).

To claim exemption, a certificate from the Tea Board as to the amount of subsidy paid to the taxpayer during the year is to be obtained.

A similar exemption is available under section 10(31) in respect of subsidy received by an taxpayer engaged in the business of growing and manufacturing rubber, coffee, cardamom or such other commodities as the Central Government may by notification specify [Section 10(31)].

### *Income of minor [Section 10(32)]*

Under section 64(1A) income of a minor child is clubbed along with the income of his/her parent, subject to certain conditions. If the income of an individual includes any income of his/her minor child, then such individual can claim exemption (in respect of each minor child) of lower of following amount:

- (a) Rs. 1,500 per minor child; or
- (b) Amount of income of each minor child (which is clubbed).

### *Capital gains on transfer of US 64 [Section 10(33)]*

As per section 10(33), long-term or short-term capital gains arising on transfer of units of Unit Scheme, 1964 (US 64) are exempt from tax if the transfer of such asset takes place on or after 1/04/2002.





### *Income of a shareholder on account of buy back of shares by the company [Section 10(34A)]*

Any income arising to an assessee, being a shareholder, on account of buy back of shares by the company (whether listed or unlisted) as referred to in section 115QA is exempt from tax under section 10(34A). This exemption is available only in those cases where additional income-tax is payable on distributed income under section 115QA by the company opting for buy back of such shares.

With effect from 05/07/2019, Section 115QA has been amended to levy additional tax on buy back of shares by listed companies as well. Consequently, Section 10(34A) has also been amended to exempt income arising in hands of shareholder on account of buy back of shares by listed companies.

### *Income of an investor received from a securitisation trust [Section 10(35A)]*

Any distributed income referred to in section 115TA received from a securitisation trust by any person being an investor of the said trust is exempt from tax under section 10(35A).

Note: The exemption shall not be available from 1<sup>st</sup> June 2016.

### *Capital gains in case of compulsory acquisition of urban agricultural land [Section 10(37)]*

An individual or Hindu Undivided Family (HUF) can claim exemption in respect of capital gain arising on transfer by way of compulsory acquisition of agricultural land situated in an urban area provided compensation is received on or after April 1, 2004. This exemption is available if the land was used by the taxpayer (or by his parents in the case of an individual) for agricultural purpose for a period of 2 years immediately preceding the date of its transfer.

### *Capital gain on transfer of specified capital assets under land pooling scheme of the Andhra Pradesh Government [section 10(37A)]*

Section 10(37A) (as inserted by the Finance Act, 2017 w.r.e.f. 1-4-2015) provides exemption in respect of capital gain arising on transfer of specified capital asset by an Individual or HUF under the land pooling scheme of the Andhra Pradesh Government.

“specified capital asset” means,—

- (a) the land or building or both owned by the assessee as on the 2nd day of June, 2014 and which has been transferred under the scheme; or
- (b) the land pooling ownership certificate issued under the scheme to the assessee in lieu of land or building or both transferred under the scheme; or
- (c) the reconstituted plot or land, as the case may be, received by the assessee in lieu of land or building or both transferred under the scheme, if such plot or land, as the case may be, so received is transferred within 2 years from the end of the financial year in which the possession of such plot or land was handed over to assessee.

### *Long-term capital gains on transfer of equity shares or units of an equity oriented mutual fund or a unit of a business trust covered by securities transaction tax [Section 10(38)]*

Long-term capital gains arising on transfer of securities are not chargeable to tax in the hands of any person, if following conditions are satisfied:

The asset transferred should be equity shares of a company or units of an equity oriented mutual fund or a unit of a business trust.





1. The transaction should be liable to securities transaction tax, at the time of transfer.
2. Such asset should be a long-term capital asset.
3. Transfer should have taken place on or after October 1, 2004.

Equity oriented mutual fund means a mutual fund specified under section 10(23D) and 65% of its investible funds, out of total proceeds are invested in equity shares of a domestic company.

Note:

- (1) With effect from 1-4-2016, exemption from capital gains under Section 10(38) shall be available even in respect of long-term capital gains arising from transfer of units of a business trust which were acquired in lieu of shares of special purpose vehicle as referred to in section 47(xvii) and on which securities transaction tax has been paid.
- (2) Exemption from long term capital gains under section 10(38) shall be available w.e.f April 1, 2017 even where STT is not paid, provided that -
  - transaction is undertaken on a recognised stock exchange located in any International Financial Service Centre, and
  - consideration is paid or payable in foreign currency
- (3) With effect from the assessment year 2018-19, exemption under section 10(38) will not be available even if STT is paid at the time of transfer if the following conditions are satisfied-
  - a. Long-term capital gain is arise from transfer of equity shares in a company.
  - b. The shares were acquired on or after 1/10/2004.
  - c. At the time of acquisition of shares, the transaction was not chargeable to security transaction tax.
  - d. The transaction of acquisition shouldn't be a notified transaction. The Central Government will notify certain transaction to protect the exemption in genuine cases.
- 4) No exemption under section 10(38) is available with effect from Assessment Year 2019-20. The long-term capital gains arising from sale of listed securities in excess of Rs. 1 lakh is taxable at the rate of 10% under Section 112A (subject to certain conditions).

#### ***Income from international sporting event [Section 10(39)]***

From the assessment year 2006-07, any specified income of notified person, arising from an international sporting event held in India is exempt from tax, if the event is approved by the international body and is notified by the Central Government and has participation by more than two countries.

#### ***Grants received by specified subsidiary company [Section 10(40)]***

Income of any subsidiary company by way of grant or otherwise received from its Indian holding company which is engaged in the business of generation/ transmission/distribution of power is exempt, if such receipt is for settlement of dues in connection with reconstruction or revival of an existing business of power generation. The exemption is available, if the reconstruction or revival is by way of transfer of business to the Indian company notified under section 80 IA(4)(v)(a).

Under section 10(41), any capital gain arising in the above case is not chargeable to tax, if the transfer has taken place before April 1, 2006.



***Income of certain non-profit body or authority [Section 10(42)]***

Any specified income of non-profit body/authority notified by the Central Government and established, constituted or appointed under a multilateral treaty agreement or convention to which Central Government is a signatory is exempt from tax under section 10(42).

***Loan in the case of reverse mortgage [Section 10(43)]***

Any amount received by an individual as a loan (either in lump sum or in instalments) in a transaction of reverse mortgage referred to in section 47(xvi), is not chargeable to tax.

***Income of New Pension System Trust [Section 10(44)]***

With effect from assessment year 2009-10, any income received by any person for, or on behalf of the New Pension System Trust established on 27-2-2008 under the provisions of the Indian Trust Act, 1882 will be exempt from tax.

***Exemption of specified income of notified body/ authority/trust/board/commission [Section 10(46)]***

Under section 10(46), any specified income arising to any notified body/authority/Board/Trust/Commission (or a class thereof) which has been established or constituted by or under a Central, State or Provincial Act, or has been constituted by the Government or a State Government with the object of regulating or administering any activity for the benefit of the general public and is not engaged in any commercial activity and is notified by the Central Government in the Official Gazette for the purposes of this clause is exempt from tax.

***Any income of a notified infrastructure debt fund set-up in accordance with prescribed guidelines [Section 10(47)]***

As per section 10(47), any income of a notified infrastructure debt fund set-up in accordance with the guidelines prescribed in Rule 2F of the Income-tax Rules is exempt from tax.

***Income received by certain foreign companies in Indian currency for import of crude oil etc. [Section 10(48)]***

Any income received in India in Indian currency by a foreign company on account of sale of crude oil, any other notified goods or rendering of notified services to any person in India is exempt from tax provided-

- (i) receipt of such income in India by the foreign company is pursuant to an agreement or an arrangement entered into by the Central Government or approved by the Central Government;
- (ii) having regard to the national interest, the foreign company and the agreement or arrangement are notified by the Central Government in this behalf; and
- (iii) the foreign company is not engaged in any activity, other than receipt of such income, in India.

***Any income of a foreign company on account of storage and sale of crude oil [Section 10(48A)]***

Any income arising to a foreign company through storage of crude oil in a facility in India and sale therefrom to any person resident in India is exempt from tax provided that-

- a) the storage and sale by the foreign company is pursuant to an agreement or an arrangement entered into by the Central Government or approved by the Central Government; and
- b) having regard to the national interest, the foreign company and the agreement or arrangement are notified by the Central Government in this behalf; ]





***Any income of a foreign company on account of sale of leftover stock of crude oil [Section 10(48B)]***

Section 10(48B) provides that any income accruing or arising to a foreign company on account of sale of leftover stock of crude oil, if any, from a facility in India after the expiry of an agreement or an arrangement or on termination of said agreement in accordance with the terms mentioned therein shall be exempt subject to such conditions as may be notified by the Central Government in this behalf.

***Exemption to Financial Institution [Section 10(48D)]***

Section 10(48D) provides exemption for any income accruing or arising to an institution established for financing the infrastructure and development. The institution shall be set up under an Act of Parliament and later would be notified by the Central Government. The exemption shall be available for a period of 10 consecutive assessment years beginning from the assessment year relevant to the previous year in which such institution is set up.

***Exemption to DFI [Section 10(48E)]***

Section 10(48E) provides exemption to any income accruing or arising to a DFI licensed by the Reserve Bank of India. The exemption shall be available for 5 consecutive assessment years beginning from the assessment year relevant to the previous year in which the DFI is set up.

However, the Central Government may extend the period of exemption of 5 years for a further period, not exceeding 5 more consecutive assessment years, subject to fulfilment of such conditions as may be specified.

***Tax exemption to National Financial Holdings Company Limited [Section 10(49)]***

As per section 10(49), any income of the National Financial Holdings Company Limited, being a company set-up by the Central Government, of any year relevant to any assessment year commencing on or before the 1st day of April, 2014 is exempt from tax.

***Income subject to equalisation levy [Section 10(50)]***

Any income arising from specified services or arising from an e-commerce supply or services made or provided or facilitated on or after 01-04-2020, which is chargeable to equalisation levy is exempt from tax.

***Other important exemptions***

Apart from above discussed exemption of section 10 following is the list of other important exemptions:

- Section 10A provides for exemption in respect of income of newly established undertakings in free trade zone or electronic hardware technology park or electronic software technology park.
- Section 10AA provides for exemption in respect of income of newly established units in Special Economic Zones.
- Section 11 and 12 provide exemption in respect of income of a public charitable or religious trust.
- Section 13A provides exemption in respect of income of a political party.
- Section 13B provides exemption in respect of income of an electoral trust.





**MCQ on TAX-FREE INCOMES**

**Q1.** Section \_\_\_\_\_ grants exemption to gratuity received by Government employee (*i.e.*, Central Government or State Government or local authority).

- (a) 10(5) (b) 10(10)(i)  
(c) 10(10)(ii) (d) 10(10A)

**Correct answer : (b)**

**Justification of correct answer :**

Section 10(10)(i) grants exemption to gratuity received by Government employee (*i.e.*, Central Government or State Government or local authority).

Thus, option (b) is the correct option.

**Q2.** Exemption under section 10(10D) is not available in respect of policy taken in the name of a person suffering from diseases/disability specified under section 80DDB/80U.

- (a) True (b) False

**Correct answer : (b)**

**Justification of correct answer :**

Exemption under section 10(10D) is unconditionally available in respect of sum received for a policy which is issued on or before March 31, 2003. However, in respect of policies issued on or after April 1<sup>st</sup>, 2003, the exemption is available only if the amount of premium paid on such policy in any financial year does not exceed 20% (10% in respect of policy taken on or after 1<sup>st</sup> April, 2012) of the actual capital sum assured. With effect from 1-4-2013, in respect of policy taken in the name of a person suffering from diseases specified under section 80DDB or in the name of a person suffering from disability specified under section 80U, the limit will be increased to **15%** of capital sum assured.

Thus, the statement given in the question is false and hence, option (b) is the correct option.

**Q3.** While computing the exemption in respect of House Rent Allowance under section 10(13A) read with rule 2A, salary will include only basic salary and dearness allowance forming part of salary while computing all retirement benefits.

- (a) True (b) False

**Correct answer : (b)**

**Justification of correct answer :**

While computing the exemption in respect of House Rent Allowance As per section 10(13A), read with rule 2A, salary will include basic salary, dearness allowance forming part of salary while computing all retirement benefits and commission based on fixed percentage of turnover achieved by the employee. Apart from this, salary for this purpose does not include any other allowances/perquisites.

Thus, the statement given in the question is false and hence, option (b) is the correct option.





**Q4.** As per section \_\_\_\_\_ any income of the Prasar Bharati (Broadcasting Corporation of India) is exempt from tax.

- (a) 10(20) (b) 10(21)  
(c) 10(23BBE) (d) 10(23BBH)

**Correct answer : (d)**

**Justification of correct answer :**

As per 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 from tax.

Thus, option (d) is the correct option.

**Q5.** The amount of exemption available under section 10(32) is lower of Rs. \_\_\_\_\_ per

minor child or amount of income of each minor child (which is clubbed). (a)

- Rs. 500 (b) Rs. 1,000  
(c) Rs. 1,500 (d) Rs. 2,000

**Correct answer : (c)**

**Justification of correct answer :**

Under section 64(1A) income of a minor child is clubbed along with the income of his/her parent, subject to certain condition. If the income of an individual includes any income of his/her minor child, then such individual can claim exemption (in respect of each minor child) of lower of following amount:

- (a) Rs. 1,500 per minor child; or  
(b) Amount of income of each minor child (which is clubbed).

Thus, option (c) is the correct option.

**Q6.** Any income arising to an assessee, being a shareholder, on account of buy back of shares by the company as referred to in section 115QA is exempt from tax under section \_\_\_\_\_ .

- (a) 10(34) (b) 10(34A)  
(c) 10(35) (d) 10(35A)

**Correct answer: (b)**

**Justification of correct answer :**

Any income arising to an assessee, being a shareholder, on account of buy back of shares by the company as referred to in section 115QA is exempt from tax under section 10(34A). This exemption is available only in those cases where additional income-tax is payable on distributed income under section 115QA by the company opting for buy back of such shares. Thus, option

(c) is the correct option.

**Q7.** Under section 10(37), a partnership firm can claim exemption in respect of capital gain arising on transfer of agricultural land situated in an urban area by way of compulsory acquisition.

- (a) True (b) False





**Correct answer : (b)**

**Justification of correct answer :**

As per section 10(37), an individual or Hindu Undivided Family (HUF) can claim exemption in respect of capital gain arising on transfer by way of compulsory acquisition of agricultural land situated in an urban area provided compensation is received on or after April 1, 2004. This exemption is available if the land was used by the taxpayer (or by his parents in the case of an individual) for agricultural purpose for a period of 2 years immediately preceding the date of its transfer.

Thus, the statement given in the question is false and hence, option (b) is the correct option.

**Q8.** As per section 10(48), any income received in India in Indian currency by a foreign company on account of sale of crude oil, any other notified goods or rendering of notified services, to any person in India is exempt from tax.

(a) True (b) False

**Correct answer : (a)**

**Justification of correct answer :**

As per section 10(48), any income received in India in Indian currency by a foreign company on account of sale of crude oil, any other notified goods or rendering of notified services to any person in India is exempt from tax provided-

- (i) receipt of such income in India by the foreign company is pursuant to an agreement or an arrangement entered into by the Central Government or approved by the Central Government;
- (ii) having regard to the national interest, the foreign company and the agreement or arrangement are notified by the Central Government in this behalf; and
- (iii) the foreign company is not engaged in any activity, other than receipt of such income, in India. Thus, the statement given in the question is true and hence, option (a) is the correct option.

**Q9.** Section \_\_\_\_\_ grants exemption to interest and withdrawals from an account opened in accordance with the Sukanya Samridhi Account Rules, 2014 made under the Government Savings Bank Act, 1873.

(a) 10(5) (b) 10(10)(i)  
(c) 10(10)(ii) (d) 10(11A)

**Correct answer : (d)**

**Justification of correct answer :**

As per section 10(11A), any payment from an account opened in accordance with the Sukanya Samridhi Account Rules, 2014 made under the Government Savings Bank Act, 1873 is exempt from tax. In other words, interest and withdrawals from such account will be exempt from tax under section 10(11A).

Thus, option (d) is the correct option.

**Q10.** Section 13A provides exemption in respect of income of \_\_\_\_\_ .

(a) A political party (b) An electoral trust





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(c) A public charitable or religious trust      (d) Units established in SEZ

**Correct answer : (a)**

**Justification of correct answer :**

Section 13A provides exemption in respect of income of a political party.  
Thus, option (a) is the correct option.

