

# INCOME TAX ACT 1961

## EXEMPTIONS AND DEDUCTIONS

102. Exemptions and deductions available under the Act may be broadly be grouped as under:

- a) Tax free income [secs.10, 10A,10B,10BA and 13A]
- b) Deductions from gross total income [secs.80C to 80U]
- c) Income forming a part of total income on which no income-tax is payable.

### **Tax-free incomes[Secs.10 and 13A]**

103. The incomes enumerated below are exempt from tax under sections 10 and 13A:

- Agricultural income
- Payments received from family income by a member of a Hindu undivided family.
- Share of profit from a firm.
- Interest received by a on resident from prescribed securities.
- Interest received by a person who is resident outside India on amounts credited in the “Non-resident (external)account.”
- In the case of an Indian citizen or a person of Indian origin who is a non-resident, the interest from notified Central Government securities if such securities are subscribed in foreign currency or other foreign exchange remitted from outside through official channels.
- Leave travel concession provided by an employer to his Indian citizen employee.
- Tax paid by employer of non-resident Indian technician.
- Value of concessional passage money received by a foreign national employee from his employer.
- Remuneration received by foreign diplomats of all categories.
- Salary received by a foreign citizen in India as an employee of a foreign enterprise provided his stay in India does not exceed 90 days.
- Salary received by a non-resident foreign citizen as a member of ship’s crew provided his total stay in India does not exceed 90 days.
- Remuneration received by an employee, being a foreign national, of a foreign Government deputed in India for training in a Government establishment or public sector undertaking.
- Tax paid on behalf of foreign companies.
- Tax paid by Government or an Indian concern in the case of a non-resident/foreign company.

- Income arising to notified foreign companies from services provided in or outside India in projects connected with the security of India.
- Foreign allowance granted by the Government of India to its employees posted abroad.
- Remuneration received from a foreign Government by an individual who is in India in connection with any sponsored co-operative technical assistance programme with a foreign Government and the income of the family members of such employee.
- Remuneration/fees received by non-resident consultants and their foreign employers.
- Death-cum-retirement gratuity.
- Commuted value of pension and with the assessment year

1997-98, any payment received by way of connotation of

pension by an individual out of annuity plan of LIC from a fund setup by that corporation.

- Leave salary.
- Retrenchment compensation.
- Compensation from the Central Government or a State Government or a local authority received by an individual or his legal heir on account of any disaster.
- Compensation received from a public sector company at the time of voluntary retirement.
- Tax on perquisite paid by employer.
- Any sum(including bonus) on life insurance policy.
- Any amount from statutory provident fund or public provident fund.
- Accumulated balance due and becoming payable to an employee from a recognised provident fund to the extent it is provided in rule 8 of Part A of the Fourth Schedule.
- Amount from an approved superannuation fund to legal heirs of the employee.
- House rent allowance subject to certain limits.
- Special allowance granted to an employee.
- Income received by a public financial institution as exchange risk premium in certain cases.
- Interest from certain exempted securities.
- Payment made by an Indian company, engaged in the business of operation of an aircraft, to acquire an aircraft on lease from a foreign Government or foreign enterprise.
- Scholarship granted to meet the cost of education.
- Daily allowance of a Member of Parliament or State Legislature and any other allowance subject to certain conditions.

- Rewards given by a Central or State Government for literary, scientific or artistic work or attainment or for service for alleviating the distress of the poor, the weak and the ailing, or

for proficiency in sports and games or gallantry awards approved by the Government.

- Pension and family pension of gallantry award winners.
- Ex gratia payments made by the Central Government consequent on the abolition of privy purse.
- Family pension received by family members of armed forces.
- Notional property income of any one place occupied by a former ruler.
- Income of local authorities.
- Any income of housing boards constituted in India for planning, development or improvement of cities, towns or villages.
- Any income of an approved research association.
- Income of a notified news agency.
- Any income of approved professional bodies.
- 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 dependants.
- Any income of the pension fund set up by LIC or any other insurer approved by the Controller of Insurance or Insurance Regulatory and Development Authority.
- Income of funds established for the welfare of employees.
- Any income of a trust or a society approved by Khadi and Village Industries Commission.
- Income of an authority whether known as Khadi and Village Industries Board or by any other name for the development of khadi and village industries.
- Income arising to any body or authority established, constituted or appointed under any enactment for the administration of public, religious or charitable trusts or

Endowments or societies for religious or charitable purposes.

- Income of the European Economic Community derived in India by way of interest, dividends or capital gains in certain cases under the European Community International Institutional Partners Scheme, 1993.
- Any income of SAARC Fund for Regional Projects.
- Any income of Secretariat of Asian Organization of Supreme Audit Institutions.
- Income of North-Eastern Finance Corporation.
- Income of the Central Electricity Regulatory Commission.

- Income received by any person on behalf of specified national funds, approved public charitable institutions, educational institute and hospital.
- Income of a Mutual Fund set up by a public sector bank or public financial institution.
- Income of the notified Exchange Risk Administration Fund.
- Income of investor protection fund.
- Income of Credit Guarantee Fund Trust.
- Income of Investor Protection Fund by way of contributions from commodity exchange and the members thereof.
- Income by way of dividends and long term capital gains of venture capital funds and venture capital companies.
- Income by way of dividend or long term capital gain of venture capital fund/undertaking.
- Income of venture capital fund/venture capital company.
- Dividend, interest, etc. of an infrastructure capital fund.
- Income by way of interest on securities property income and income from other sources of a registered trade union or an association of registered trade unions.
- Any income received by a person on behalf of statutory

Provident fund, recognized provident fund, approved superannuation fund, approved gratuity fund and approved coal-mines provident fund.

- Income of Employees State Insurance Fund.
- Income of a member of a scheduled tribe, residing in Nagaland, Manipur, Tripura, Arunachal Pradesh, Mizoram and Ladakh which accrues/arises to him from any source in the said area or any income by way of dividend and interest on securities.
- Any income accruing or arising to any resident of Ladakh from any source therein or out of India up to the assessment year 1988-89, provided that such person was resident in Ladakh in the previous year relevant to the assessment year 1962-63.
- Any income of an individual, being a Sikkimese, which accrues or arises from any source in the State of Sikkim or by way of

Dividend or interest on securities.

- Any income of an agricultural produce marketing committee/board constituted under any law for the purpose of the marketing of agricultural produce.
- Any income of a statutory corporation or of a body/institution, financed by the Government formed for promoting the interest of SC and ST.
- Income of National Minorities Development and Finance Corporation.
- Income of ex-serviceman corporations.

- Income of a co-operative society formed for promoting interest of members of SC and ST.
- Income of the marketing authority from letting of godowns and warehouses.
- Income of certain Commodity Boards/Authorities.
- Subsidy from the Tea Board for replanting or replacement of tea bushes or for rejuvenation or consolidation of areas used for cultivation of tea in India.
- Subsidy received by planters.
- Income of a minor child up to Rs.1,500 in respect of each minor child whose income is includible under section 64(1A).
- Capital gains on transfer of US64.
- Dividend on or after April, 2003 from domestic companies.
- Interest on units of a Mutual Fund on or after April 1, 2003.
- Capital gains on transfer of listed equity shares.
- Capital gains on compensation received on compulsory acquisition of urban agriculture land.
- Long term capital gain in some cases.
- Income from any international sporting event.
- Grant received by subsidiary company from holding company
- In the case of revival of an existing business of power generation.
- Capital gain in the above case.
- Income of a body under an agreement.
- Any income received by an individual as a loan, either in lump sum or in installment in a transaction of reverse mortgage.
- Any income received by any person for, or on behalf of, the New Pension System Trust.
- **Notified allowances/perquisites given to the Chairman, a retired Chairman or any other member or retired member of the Union Public Service Commission.**
- **Any income specified arising to a notified body/authority/board/trust/commission with the object of regulating/administering any activity for the benefit of general public.**
- **Any income of an infrastructure debt fund set up in accordance with notified guidelines.**
- Any income of a political party by way of interest on securities, property income, income from other sources or income by way of political contributions.
- Voluntary contribution received by an electoral trust if a few conditions are satisfied.

**Special provisions in respect of newly established undertakings in free trade zone, etc.[Sec.10A]**

104. The provisions given below are applicable from the assessment year 2001-02.

104.1 **Conditions to be satisfied-** In order to get deduction, an undertaking must satisfy the following conditions:

**Free trade zones-** Free Trade Zones are: Kandla Free Trade Zone, Santacruz Electronics Export Processing Zone, Falta Export Processing Zone, Madras Export Processing Zone, Cochin Export Processing Zone and Noida Export Processing Zone.

**Electronic/software/hardware technology park-** “Electronic hardware technology park” means any park set up in accordance with the Electronic Hardware Technology Park(EHTP) Scheme notified by the Government of India in the Ministry of Commerce and Industry.

**Software technology park-** “Software technology park” means any park set up in accordance with the Software Technology Park(STP) Scheme notified by the Government of India in the Ministry of Commerce and Industry.

For the purpose of section 10A or 10B, as long as the unit in the EPZ/EOU/STP itself produces computer programmes and exports them, it should not matter whether the programme

is actually written within the premises of the unit. Where a unit in the EPZ/EOU/STP develops software sur place, that is, at the client’s site board, such unit should not be denied the tax holiday under section 10A or 10B on the ground that it was prepared on site, as long as the software is a product of the unit.

**Computer software-** Any computer programme recorded on any disc, tape, perforated media or other information storage device.

The Central Board of Direct Taxes has specified the following IT enabled products or services, for this purpose namely;

- Back office operations
- Call centers
- Content development or animation
- Data processing
- Engineering and design
- Geographical information system services
- Payroll
- Remote maintenance
- Revenue accounting
- Support centers
- Website services
- Human resource services
- Insurance claim processing

- Legal databases
- Medical transcription

## **DEDUCTIONS UNDER 80C TO 80U**

### **INCOME FORMING A PART OF TOTAL INCOME ON WHICH NO TAX IS PAYABLE**

- Deductions from tax liability-
- Rebate under section 86 in respect of share of profit from an association of persons.
- The share of a member in income of is treated in three different ways depending upon whether AOP is chargeable to tax at maximum marginal rate or at the normal rate or not chargeable to tax.

a) Where the AOP is chargeable to tax at maximum marginal rate or at a rate higher than maximum marginal rate the share of member therein shall not be included in his total income.

b) Where AOP is chargeable to tax normal rate applicable to individuals the share of member shall be included in his total income.

c) Where no tax is chargeable on total income of AOP the share of the member shall be fully chargeable to tax and no rebate shall be given.

- Rebate under section 87A in case of resident individual whose income does not exceed Rs.5 lakhs from the assessment year 2014-15 and the amount of rebate is income tax on total income or 2000 which ever is less.
- Rebate under 88E for the assessment year 2005-06 to 2008-09
- Relief u/s 89 in respect of salary paid in advance or arrears.
- Relief for doubly taxed income u/s 90, 90A or 91.