CHAPTER 3
INCOMES WHICH DO NOT FORM PART OF TOTAL INCOME

1. ICAI STUDY MATERIAL QUESTIONS

Concept Problem 1

Mr. A, a member of a HUF, received INR 10,000 as his share from the income of the HUF. Is such income includible in his chargeable income? Examine with reference to the provisions of the Income-tax Act, 1961.

Solution

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

Concept Problem 2

Y Ltd. furnishes you the following information for the year ended 31.3.2022:

Particulars	₹ (in lacs)
Total turnover of Unit A located in Special Economic Zone	100
Profit of the business of Unit A	30
Export turnover of Unit A	50
Total turnover of Unit B located in Domestic Tariff Area (DTA)	200
Profit of the business of Unit B	20

Compute deduction under section 10AA for the A.Y. 2022-23, assuming that Y Ltd.commenced operations in SEZ and DTA in the year 2017-18.

Solution

100% of the profit derived from export of articles or things or services is eligiblefor deduction under section 10AA, since F.Y. 2021-22 falls within the first five year period commencing from the year of manufacture or production of articles or things or provision of services by the Unit in SEZ. As per section 10AA(7), theprofit derived from export of articles or things or services shall be the amount which bears to the profits of the business of the undertaking, being the Unit, thesame proportion as the export turnover in respect of articles or things or services bears to the total turnover of the business carried on by the undertaking.

Deduction under section 10AA

$$= \text{Profits of business of unit A} \times \frac{\text{Export turnover of unit A}}{\text{Total turnover of unit A}} \times 100\%$$

$$= 30,00,000 \times \frac{50,00,000}{1,00,00,000} \times 100\% = 15,00,000$$

Note – No deduction under section 10AA is allowable in respect of profits of business of Unit B located in DTA.

~~Concept Problem 3~~

~~Examine whether the following are chargeable to tax, and if so, compute the amount liable to tax:~~

~~i) Arvind received INR 20,000 as his share from the income of the HUF.~~

~~ii) Mr. Xavier, a 'Param Vir Chakra' awardee, who was formerly in the service of the Central Government, received a pension of INR 2,20,000 during the financial year 2021-22.~~

~~iii) Agricultural income of INR 1,27,000 earned by a resident of India from a land situated in Malaysia.~~

~~iv) Rent of INR 72,000 received for letting out agricultural land for a movie shooting.~~

~~Solution~~

~~S. No.~~	~~Taxable/ Not Taxable~~	~~Amount liable to tax~~	~~Reason~~
~~(i)~~	~~Not Taxable~~	-	~~Share received by member out of the income of the HUF is exempt under section 10(2).~~
~~(ii)~~	~~Not Taxable~~	-	~~Pension received by Mr. Xavier, a former Central Government employee who is a 'Param Vir Chakra' awardee, is exempt u/s 10(18).~~
~~(iii)~~	~~Taxable~~	~~1,27,000~~	~~Agricultural income from a land in any foreign country is taxable in the case of a resident taxpayer as income under the head "Income from other sources". Exemption under section 10(1) is not available in respect of such income.~~
~~(iv)~~	~~Taxable~~	~~72,000~~	~~Agricultural income is exempt from tax as per section 10(1). Agricultural income means, inter alia, any rent or revenue derived from land which is situated in India and is used for agricultural purposes.~~ ~~In the present case, rent is being derived from letting out of agricultural land for a movie shoot, which is not an agricultural purpose.~~ ~~In effect, the land is no being put to use for agricultural purposes.~~ ~~Therefore, INR 72,000, being rent received from letting out of agricultural land for movie shooting, is not exempt under section 10(1). The same is chargeable to tax under the head "Income from other sources".~~

Concept Problem 4

State with reasons in brief whether the following statements are true or false with reference to the provisions of the Income-tax Act, 1961:

i) Exemption is available to a Sikkimese individual, only in respect of income from any source in the State of Sikkim.

ii) Pension received by a recipient of gallantry award, who was a formeremployee of Central Government, is exempt from income-tax.

iii) Mr. Roy received a sum of 20 lakh on 31.3.2021 from Life Insurance Corporation of India in respect of a policy, where the sum assured was 15 lakhs, taken on 1.10.2005 and for which a onetime premium of 10 lakh was paid. Mr. Roy claims that the amount is totally exempt under section 10(10D) of the Income-tax Act, 1961.

iv) Payment of 10 lakh from an approved superannuation fund made by XYZ Ltd. by way of transfer to the account of Mr. Satish, an employee, under Atal Pension Yojana is taxable in the hands of Mr. Satish.

v) Compensation on account of disaster received from a local authority by an individual or his/her legal heir is taxable.

Solution

i) False

Exemption under section 10(26AAA) is available to a Sikkimese individual not only in respect of the said income, but also in respect of income by way of dividend or interest on securities from anywhere in world.

ii) **True:** Section 10(18) exempts any income by way of pension received byindividual who has been in service of Central Government and has been awarded "Peramivir Chakra" or "Mahavir Chakra" or "Vir Chakra" or such other gallantry award as the Central Government, may, by notification in the Official Gazette, specify in this behalf.

iii) False

As per section 10(10D), any sum received under an insurance policy issued before 01.04.2012, in respect of which the premium payable for any year during the term of the policy exceeds 20% of actual capital sum assured, shall not be exempt from tax. Hence, the contention of Mr. Roy is not correct since the one-time premium of 10 lakh paid by him is in excess of 20% of the sum assured [i.e. it exceeds 3 lakhs, being 20% of 15 lakh].

Further, tax is deductible @ 5% on net income of 10,00,000 [Maturity proceeds – Total Insurance premium paid) under section 194DA on such sum paid to Roy, since the same is not exempt under section 10(10D) and payment amount is INR 1,00,000 or more.

iv) False

Any payment from an approved superannuation fund made by way of transfer to the account of an employee under a notified pension scheme referred to in section 80CCD is exempt under section 10(13).

Since, Atal Pension Yojana is a notified pension scheme under section 80CCD, the payment of INR 10 lakhs made by XYZ Ltd. by way of transfer from an approved superannuation fund to Mr. Satish's account under such scheme is exempt under section 10(13).

v) False

As per section 10(10BC), any amount received or receivable as compensation by an individual or his/her legal heir on account of any disaster from the Central Government, State Government or a local authority is exempt from tax.

However, the exemption is not available to the extent such individual or legal heir has already been allowed a deduction under this Act on account of such loss or damage caused by such disaster.

Concept Problem 5

Rudra Ltd. has one unit at Special Economic Zone (SEZ) and another unit at Domestic Tariff Area (DTA). The company provides the following details for the previous year 2021-22.

Particulars	Rudra Ltd.	Unit in DTA
Total Sales	6,00,00,000	2,00,00,000
Export Sales	4,60,00,000	1,60,00,000
Net Profit	80,00,000	20,00,000

Calculate the eligible deduction under section 10AA of the Income-tax Act, 1961, for the Assessment Year 2022-23, in the following situations:

(i) If both the units were set up and start manufacturing from 22-05-2014.

(ii) If both the units were set up and start manufacturing from 14-05-2018.

Solution

Computation of deduction under section 10AA of the Income-tax Act, 1961

As per section 10AA, in computing the total income of Rudra Ltd. from its unit located in a Special Economic Zone (SEZ), there shall be allowed

- a deduction of 100% of the profit and gains derived from export of such goods for a period of five consecutive assessment years from the assessment year relevant to the previous year in which the Unit begins to manufacture or produce such goods; and
- and 50% of such profits for further five assessment years subject to fulfillment of other conditions specified in section 10AA.

Computation of eligible deduction under section 10AA [See Working Note below]:

i. If Unit in SEZ was set up and began manufacturing from 22-05-2014:

Since A.Y. 2022-23 is the 8th assessment year from A.Y. 2015-16, relevant to the previous year 2014-15, in which the SEZ unit began manufacturing of goods, it shall be eligible for deduction of 50% of the profits derived from export of such goods, assuming all the other conditions specified in section 10AA are fulfilled

= Profits of Unit in SEZ x Export turnover of Unit in SEZ / Total turnover of Unit in SEZ x 50%

= 60 lakhs x 300 lakhs / 400 lakhs x 50% = 22.50 lakhs

ii. If Unit in SEZ was set up and began manufacturing from 14-05-2018:

Since A.Y. 2022-23 is the 4th assessment year from A.Y. 2019-20, relevant to the previous year 2018-19, in which the SEZ unit began manufacturing of goods, it shall be eligible for deduction of 100% of the profits derived from export of such goods, assuming all the other conditions specified in section 10AA are fulfilled.

= Profits of Unit in SEZ x Export turnover of Unit in SEZ / Total turnover of Unit in SEZ x 100%

= 60 lakhs x 300 lakhs / 400 lakhs x 100% = 45 lakhs

The unit set up in Domestic Tariff Area is not eligible for the benefit of deduction under section 10AA in respect of its export profits, in both the situations.

Working Note:

Computation of total sales, export sales and net profit of unit in SEZ

Particulars	Rudra Ltd	Unit in DTA	Unit in SEZ
Total sales	6,00,000	2,00,000	**4,00,000**
Export sales	4,60,000	1,60,000	**3,00,000**
Net profit	80,000	20,00,000	**60,00,00**

2. ICAI RTPs, MTPs and Past Year Questions

Concept Problem 6

Nathan Aviation Ltd. is running two industrial undertakings one in a SEZ (Unit S) and another in a normal area (Unit N). The brief summarized details for the year ended 31.3.2022 are as follows:

Particulars	Amount (Lakhs)	
	S	N
Domestic turnover	10	100
Export turnover	120	Nil
Gross profit Less: Expenses and depreciation Profits derived from the unit	20 7 13	10 6 4

The brought forward business loss pertaining to Unit N is INR 2 lakhs. Briefly compute the business income of the Assessee. Assume F.Y. 2021-22 falls within the first 5-year period commencing from the year of manufacture or production of articles or things or provisions of services by the Unit S.

Solution

Computation of business income of Nathan Aviation Ltd.

Particulars	Amount (in lakhs)
Total profit derived from Units S & N (13 lacs + 4 lacs)	17
Less: Exemption under section 10AA [See Working Note below]	12
	5
Less: Brought forward business loss	2
Income from Business	**3**

Working Note

Computation of exemption under section 10AA in respect of Unit S located in a SEZ

Particulars	Amount in Lakhs
Domestic turnover of Unit S	10
Export turnover of Unit S	120
Total turnover of Unit S	**130**
Profit derived from Unit S	13
Exemption under section 10AA	
Profit of Unit S X Total turnover of Unit $ /Export turnover of unit S (13 x 120 /130)	**12**

Concept Problem 7

Mr. Ramesh furnishes the following particulars for the previous year 2021-22 in respect of an industrial undertaking established in "Special Economic Zone" in March 2016. It began manufacturing in April 2016.

Particulars	Amount
Total sales	85,00,000
Export sales [proceeds received in India]	45,00,000
Domestic sales	40,00,000
Profit from the above undertaking	20,00,000

Export Sales of F.Y. of 2021-22 include freight and insurance of INR 5 lacs for delivery of goods outside India. Compute the amount of deduction available to Mr. Ramesh under section 10AA for A.Y. 2022-23.

Solution

Computation of deduction under section 10AA for A.Y. 2022-23

Since A.Y. 2022-23 is the 6th assessment year from A.Y. 2017-18, relevant to the previous year 2015-16, in which the SEZ unit began manufacturing of articles or things, it shall be eligible for deduction of 50% of the profits derived from export of such articles or things, assuming all other conditions specified in section 10AA are fulfilled.

$$= \text{Profits of unit in SEZ} \times \frac{\text{Export turnover of unit in SEZ}}{\text{Total turnover of unit in SEZ}} \times 50\%$$

$$= 20,00,000 \times \frac{40,00,000}{80,000,000} \times 50\ \% = 5,00,000$$

Working note:

Particulars	Amount

Particulars	Amount
Export Turnover	
Sale proceeds received in India	45,00,000
Less: Freight and insurance for delivery of goods outside India to be excluded from export turnover	5,00,000
	40,00,000
Total turnover	**85,00,000**
Less: Freight and insurance not includible [Since freight and insurance has been excluded from export turnover, it has to be excluded from total turnover also]	5,00,000
	80,00,000