

Income Tax Laws and Practices

BBA 405

21. Tax on Non-monetary Perquisites paid by Employer [Section 10(10CC)]

The income-tax actually paid by the employer himself on a non-monetary perquisite provided to the employee shall be exempt in the hands of the employee.

22. Any sum received under a Life Insurance Policy [Section 10(10D)]

Any sum received under a life insurance policy, including the sum allocated by way of bonus on such policy, is wholly exempt from tax. However, the following sum received is not exempt under this section:

1. any sum received from a policy under section 80DD(3) or section 80DDA(3); or
2. any sum received under a Keyman Insurance Policy; or
3. any sum received, under an insurance policy issued on or after 1.4.2003 but on or before 31.3.2012 in respect of which the premium payable for any of the years during the terms of the policy exceeds 20% of the actual capital sum assured. However, such sum received on the death of a person shall be exempt; or
4. any sum received under an insurance policy issued on or after 1.4.2012 in respect of which the premium payable for any of the years during the terms of the policy exceeds 10% of actual capital sum assumed; or
5. any sum received under an insurance policy issued on or after 1.4.2013 for insurance on the life of any person, who is

- a person with disability or a person with severe disability as referred to in section 80U; or
- suffering from disease or ailment as specified in the rules made under section 80DDB in respect of which the premium payable for any of the years during the terms of policy exceeds 15% of the actual capital sum assumed.

Keyman insurance policy means a life insurance policy taken by a person on the life of another person who is or was the employee of the first mentioned person or is or was connected in any manner whatsoever with the business of the first mentioned person and includes such policy which has been assigned to a person, at any time during the term of the policy, with or without any consideration.

23. Payment from Statutory Provident Fund [Section 10(11)]

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.
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.

24. Payment from Recognised Provident Fund [Section 10(12)]

The accumulated balance due and becoming payable to an employee participating in a recognised provident fund, is exempt to the extent provided in rule 8 of part A of the Fourth Schedule.

Recognised Provident Fund	
Employer's Contribution	Employer's contribution to such fund, up to 12% of salary is not treated as income of the employee (see 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.
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. (see 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.
Amount received at the time of termination	(See 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.

25. Payment from Superannuation Fund [Section 10(13)]

Like Provident Fund, Superannuation fund is also a scheme of retirement benefits for the employee. These are funds, usually established under trusts by an undertaking, for the purpose of providing annuities, etc., to the employees of the undertaking on their retirement at or after a specified age, or on their becoming incapacitated prior to such retirement, or for the widows, children or dependents of the employees in case of the any employee's earlier death. The trust invests the money contributed to the fund in the form and mode prescribed. Income earned on these investments shall be exempt, if any such fund is an Approved Superannuation Fund.

Tax treatment: The tax treatment as regards the contribution to and payment from the fund is as under:

Employee's contribution: Deduction is available under section 80C from gross total income.

Employer's contribution: Contribution by the employer to the approved superannuation fund is exempt upto ₹1,50,000 per year per employee. If the contribution exceeds ₹1,50,000 the balance shall be taxable in the hands of the employee.

Interest on accumulated balance: It is exempt from tax.

Payment from the fund: Any payment from an approved superannuation fund shall be exempt if it is made:

1. on the death of a beneficiary; or
2. to any employee in lieu of or in commutation of an annuity on his retirement at or after a specified age or on his becoming incapacitated prior to such retirement; or
3. by way of refund of contributions on the death of a beneficiary; or
4. by way of refund of contributions to an employee on his 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, to the extent to which such payment does not exceed the contributions made prior to the commencement of this Act and any interest thereon; or

5. by way of transfer to the account of the employee under a pension scheme referred to in section 80CCD and notified by the Central Government.

26. House Rent Allowance-HRA [Section 10(13A) Read with Rule 2A]

Quantum of Exemption: Minimum of following **Three** limits:

	Mumbai/Kolkata/Delhi/Chennai	Other Cities
(i)	Allowance actually received	Allowance actually received
(ii)	Rent paid in excess of 10% of Salary	Rent paid in excess of 10% of Salary
(iii)	50% of Salary	40% of Salary

The exemption in respect of HRA is based upon the following factors:

1. Salary
2. Place of residence
3. Rent paid
4. HRA received.

Since there is a possibility of change in any of the above factors during the previous year, exemption for HRA should not always be calculated on annual basis. As long as there is no change in any of the above factors it can be calculated together for that period. Whenever there is a change in any of the above factors, it should be separately calculated till the next change.

27. Any Allowance given for meeting Business Expenditure [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:

Allowances	Exemption Limit
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 meet expenditure on commuting between place of residence and place of duty	Up to Rs. 1,600 per month (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	Exempt to the extent of expenditure incurred for official purposes

of absence from his normal place of duty	
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 Difficult Area Allowance (Subject to certain conditions and locations)	Amount exempt from tax varies from Rs. 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) Orissa	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	Up to Rs. 1,000 per month

area allowance(Subject to certain conditions and locations)	
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

28. Interest Incomes [Section 10(15)]

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

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 assesses
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	All assesseees who have lent money, etc., from

	before 1-6-2001 or debts owed by it before 1-6-2001, from sources outside India	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
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	All assesseees who have

	Indian industrial undertaking on moneys lent in foreign currency from sources outside India under loan agreement approved before 1-6-2001	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	Welfare Commissioner, Bhopal Gas Victims,

	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	Bhopal
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 assesses
10(15)(vii)	10(15)(vii) Interest on notified bonds issued by a local authority/State Pooled Finance Entity	All assesses
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

29. Scholarship [Section 10(16)]

The full amount of scholarship granted to meet the cost of education is exempted.

‘Cost of education’ includes not only the tuition fees but all other expenses which are incidental to acquiring education. Scholarship may have been given by Govt., University, Board, Trust, etc. The exemption is irrespective of actual expenditure incurred by the recipient to meet the cost of education.

30. Allowance of M.P./M.L.A. or M.L.C. [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 Constituency allowance received by a Member of State Legislature

31. Awards Instituted by Government [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.

32. Pension received by certain winners of gallantry awards [Section 10(18)]

1. Any amount received by an individual as pension shall be exempt if:
 - >> such individual has been in the service of the Central or State Government, and
 - >> he/she has been awarded 'Param Vir Chakra' or 'Mahavir Chakra' or 'Vir Chakra' or such other notified gallantry awards.
2. Also, any amount received as family pension by any member of the family of an individual referred above shall be fully exempted.

33. Family pension received by family members of armed forces including paramilitary forces [Section 10(19)]

With effect from the 1st day of April, 2005 family pension received by the widow or children or nominated heirs, as the case may be, of a member of the armed forces (including paramilitary forces) of the Union, where the death of such member has occurred in the course of operational duties, in such circumstances and subject to such conditions, as may be prescribed shall be fully exempted

34. Income of a Local Authority [Section 10(20)]

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

1. Income which is chargeable under the head “Income from house property”, “Capital gains” or “Income from other sources” or
2. 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
3. Income from business of supply of water or electricity within or outside its own jurisdictional area

35. Income of Scientific 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:-

- 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;
- Debentures of a company acquired by the research association before the 1st day of March, 1983;
- 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;
- 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 subsection (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.