

16. EXEMPTED INCOMES**PROBLEM NO.1**

100% of the profit derived from export of articles or things or services is eligible for deduction under section 10AA, assuming that F.Y.2017-18 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), the profit 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, the same 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:

$$= \text{Profit of the business of Unit A} \times \frac{\text{Export turnover of unit A}}{\text{Total turnover of Unit A}}$$

$$= 30 \text{ lakhs} \times \frac{50 \text{ lakhs}}{100 \text{ lakhs}} = 15 \text{ lakhs}$$

PROBLEM NO.2

As per section 10AA, in computing the total income of MNO Ltd. from its unit located in a Special Economic Zone (SEZ), which begins to manufacture or produce any article or thing on or after 1.04.2005 but not later than FY 2019-20, there shall be allowed a deduction of 100% of the profit derived from export of such article or thing for the first five year period commencing from the year of manufacture or production of articles or things by the Unit in SEZ and 50% of such profits for further five years subject to fulfillment of other conditions specified in section 10AA.

(i) If Unit in SEZ were set up and began manufacturing from 25-07-2009:

Since it is the 9th year of operation of the eligible unit, it shall be eligible for deduction upto 50% of the profit of such unit assuming all the other conditions specified in section 10AA are fulfilled.

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

$$= 40 \text{ lakhs} \times \frac{150 \text{ lakhs}}{200 \text{ lakhs}} \times 50\% = 15 \text{ lakhs}$$

(ii) If Unit in SEZ were set up and began manufacturing from 10.04.2013:

Since it is 5th year of operation of the eligible unit, it shall be eligible for deduction upto 100% of profit of such unit.

$$= \text{Profits of Unit in SEZ} \times \frac{\text{Export turnover of unit in SEZ}}{\text{Total turnover of Unit in SEZ}} \times 100\%$$

$$= 40 \text{ lakhs} \times \frac{150 \text{ lakhs}}{200 \text{ lakhs}} \times 100\% = 30 \text{ lakhs}$$

PROBLEM NO.3

Income from sale of sugarcane gives rise to agricultural income and from sale of sugar gives rise to business income.

Business income = Sales (–) Market value of 70% of sugarcane produce
(–) Manufacturing expenses

$$= \text{Rs. 25 lacs} - \text{Rs. 22 lacs} - \text{Rs. 1.5 lacs} = \text{Rs. 1.5 lacs.}$$

Agricultural income = Market value of sugarcane produce – Cost of cultivation

$$= [\text{Rs. 10 lacs} + \text{Rs. 22 lacs}] - [\text{Rs. 5 lacs} + \text{Rs. 14 lacs}] = \text{Rs. 32 lacs} - \text{Rs. 19 lacs}$$

$$= \text{Rs. 13 lacs.}$$

THE END