

14. EXEMPTED INCOMES

ASSIGNMENT SOLUTIONS

PROBLEM NO:1

- i) **False:** As per section 10(34), only income by way of dividend referred to in section 115 -O shall be exempt in the hands of shareholders. Dividend distribution tax under section 115 -O is not leviable on deemed dividend under section 2(22)(e) and hence, such deemed dividend is not exempt under section 10(34), in the hands of Mr. Qureshi.
- ii) **False:** 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 not being put to use for agricultural purposes. Therefore, Rs. 72,000, being rent received by Mr. X 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."

PROBLEM NO: 2

100% of the profit derived from export of articles or things or services is eligible for deduction under section 10AA, assuming that F.Y.2018-19 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.3

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 25-07-2011:**

Since it is the 9th year of operation of the eligible unit, it shall be eligible for deduction up to 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 10.04.2015:**

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

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

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

Note: Students are advised to rectify 25/07/2009 as 25/07/2011

Students are advised to rectify 10/04/2013 as 10/04/2015

PROBLEM NO.4

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
= Rs. 25 lacs - Rs. 22 lacs - Rs. 1.5 lacs = Rs. 1.5 lacs.

Agricultural Income = Market value of sugarcane produce - Cost of cultivation
= [Rs. 10 lacs + Rs. 22 lacs] - [Rs. 5 lacs + Rs. 14 lacs]
= Rs. 32 lacs - Rs. 19 lacs = Rs. 13 lacs.

PROBLEM NO.5

The total income of Mr. C comprises of agricultural income and business income.

Total profits from the sale of latex= Rs. 30 lacs - Rs. 10 lacs - Rs. 8 lacs = Rs. 12 lacs.

Agricultural income = 65% of Rs. 12 lacs = Rs. 7.8 lacs

Business income = 35% of Rs. 12 lacs = Rs. 4.2 lacs

PROBLEM NO.6

Computation of total income of Mr. X for the A.Y.2019-20

a) Computation of tax liability (age 45 years)

For the purpose of partial integration of taxes, Mr. X has satisfied both the conditions i.e.

- i) Net agricultural income exceeds Rs. 5,000 p.a. and
- ii) Non-agricultural income exceeds the basic exemption limit of Rs. 2,50,000.

His tax liability is computed in the following manner:

Particulars	Amount (Rs.)	Amount (Rs.)
Income from salary		1,80,000
Income from house property		2,00,000
Net agricultural income [Rs. 2,80,000 - Rs. 1,70,000]	1,10,000	
Less: Exempt under section 10(1)	(1,10,000)	-
Gross Total Income		3,80,000
Less: Deductions under Chapter VI-A		-
Total Income		3,80,000

Step 1: Rs. 3,80,000 + Rs. 1,10,000 = Rs. 4,90,000.

Tax on Rs. 4,90,000 = Rs. 12,000

Step 2: Rs. 1,10,000 + Rs. 2,50,000 = Rs. 3,60,000.

Tax on Rs. 3,60,000 = Rs. 5,500 (i.e. 5% of Rs. 1,10,000)

Step 3: Rs. 12,000 - Rs. 5,500 = Rs. 6,500.

Step 4: Total tax payable = Rs. 6,500 + 4% of Rs. 6,500 = Rs. 6,760.

b) Computation of tax liability (age 70 years):

For the purpose of partial integration of taxes, Mr. X has satisfied both the conditions i.e.

- i) Net agricultural income exceeds Rs. 5,000 p.a., and
- ii) Non-agricultural income exceeds the basic exemption limit of Rs. 3,00,000.

His tax liability is computed in the following manner:

- Step 1:** Rs. 3,80,000 + Rs. 1,10,000 = Rs. 4,90,000.
Tax on Rs. 4,90,000 = Rs. 9,500 (i.e. 5% of Rs. 1,90,000)
- Step 2:** Rs. 1,10,000 + Rs. 3,00,000 = Rs. 4,10,000.
Tax on Rs. 4,10,000 = Rs. 5,500 (i.e. 5% of Rs. 1,10,000)
- Step 3:** Rs. 9,500 - Rs. 5,500 = Rs. 4,000.
- Step 4:** Total tax payable = Rs. 4,000 + 4% of Rs. 4,000 = Rs. 4,160.

THE END

MASTER MINDS