

TEST 3 - INCOMES EXEMPT FROM TAX

Question 1

Mr. Suresh has set up an Undertaking in SEZ (Unit A) and another Undertaking in DTA (Unit B) in Financial Year 2015-2016. In the Previous Year 2020-2021, Total Turnover of the Unit A is ₹ 180 Lakhs and Total Turnover of Unit B is ₹ 120 Lakhs. Export Turnover of Unit A for the year is ₹ 150 Lakhs and the Profit for the Unit A is ₹ 60 Lakhs. Calculate the deduction available, if any, to Mr. Suresh u/s 10AA for Assessment Year 2021-2022, if the manufacturing started in Unit A in Financial Year 2015-2016.

Solution

Assessee: Mr. Suresh Previous Year: 2020—2021 Assessment Year: 2021—2022

Computation of Business Income

Particulars	Lakhs
Profits derived from the Unit in SEZ	60.00
Less: Exemption u/s 10AA = Profit of Business of the Undertaking × Export Turnover / Total Turnover = $60 \times 150 / 150 + 30 \times 50\%$	(25.00)
Business Income	35.00

Note: Since Unit A has been set up in FY 2015-2016, it falls within **second 5-year period**, for which Exemption is 50%.

Question 2

Rudra Ltd has one unit at Special Economic Zone (SEZ) and other unit at Domestic Tariff Area

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 u/s 10AA of Income-Tax Act, for the Assessment Year 2021-2022, in the following situations:

- (i) If both the units were set up and start manufacturing from 22-05-2012.
- (ii) If both the units were set up and start manufacturing from 14-05-2016.

Solution**Assessee: Rudra Ltd****Previous Year: 2020-2021 Assessment Year: 2021-2022**

Particulars	` Lakhs	` Lakhs
1. Commencement in Previous Year	2012-2013	2016-2017
Profits derived from Unit in SEZ Computation u/s 10AA	Total 80 - DTA 20 = 60	Total 80 - DTA 20 = 60
Profit of Business Export Turnover / Total Turnover = $60 \times \frac{460-160}{600-200}$	45	45
2. Exemption u/s 10AA		
100% for first 5 Years	PY 2012-2013 to 2016-2017	PY 2016-2017 to 2020-2021
50% for next 5 Years	PY 2017-2018 to 2021-2022	PY 2021-2022 to 2025-2026
3. Exemption for PY 2020-2021	50% of Profit = 50% of 45 = 22.5	100% of profit = 100% of 45 = 45

Notes:

1. No deduction is available for Unit in Domestic Tariff Area (DTA) as it is not covered u/s 10AA.
2. Figures relating to SEZ are computed as Total (for Rudra Ltd) less amount for Unit in DTA.
3. For the first 5 consecutive A.Ys commencing from relevant P.Y in which unit has begun to manufacture or produce articles or things, Deduction shall be 100% of Profits from Export. For the next 5 A. Ys, Deduction shall be 50%.

Question 3

Computation of Tax for various Assesseees having Agricultural Income For the Assessment Year 2019-2020, Net Agricultural Income of an Assessee is ` 2,58,000 and Non-Agricultural Income is ` 4,95,000. Find out the tax if the Taxpayer is - (a) an Individual, (b) an HUF, (c) a Firm, and (d) an Indian Company.

Solution

Previous Year: 2020-2021 Assessment Year: 2021-2022

Situation 1: Assessee is an **Individual** (other than a Resident Senior Citizen / Resident Very Senior Citizen) or a **HUF**:

Particulars	` Rs
Total Income plus Agricultural Income = ` 4,95,000 + ` 2,58,000 Tax on the above [` 12,500 + (` 7,53,000 - ` 5,00,000) × 20%]	7,53,000 63,100
Agricultural Income plus Basic Exemption (` 2,58,000 + ` 2,50,000) Tax on the above = Rebate for Agricultural Income	5,08,000 14,100
Net Tax Payable (` 63,100 - ` 14,100)	49,000
Add: HEC at 4%	1,960
Total Tax Payable (Rounded off)	50,960

Situation 2: Assessee is a **Firm** or **Indian Company**:

Particulars	` Rs
Tax Payable on Total Income of ` 4,95,000 at 30%	1,48,500
Add: Surcharge	NIL
Tax and Surcharge Payable	1,48,500
Add: HEC at 4%	5,940
Total Tax Payable (Rounded off)	1,54,440

Note: Agricultural Income is exempt u/s 2(1 A). The method of Aggregation is applicable only to individuals, HUF, AOP and BOI. It is not applicable to Firms and Companies.

Question 4

X Limited, grows sugarcane to manufacture sugar. The data for the Previous Year 2020-2021 is as follows - ?

1. Cost of Cultivation of Sugarcane	6,00,000
2. Market Value of Sugarcane when transferred to Factory	10,00,000
3. Other Manufacturing Cost	6,00,000
4. Sales of Sugar	25,00,000
5. Salary of Managing Director who looks after all operations of the Company	3,00,000

Solutions

Particulars	`	` Rs
1. Agricultural Income: 40% Sale Value of Paddy	15,00,000	8,00,000
Less: Cost of Cultivation	(7,00,000)	
Balance Agricultural Income [Exempt u/s 10(1)]		
Agricultural Income - 40%		6,00,000
Particulars		Rs
2. Business Income 60%:		
Sale Value of Rice		30,00,000
Less: Cost of Paddy [Market Valued Paddy is taken for computing Business Income as u/r 7]		(24,00,000)
Less: Further Processing Cost [Note: These are processing Costs, not Agri. Operations]		(2,00,000)
Business Income		4,00,000

Question 5

For the assessment year 2021 - 2022, net agricultural income of Mrs. X (age 37 years) is Rs.8,10,000 and non agricultural income is Rs.4,78,300. Mrs. X pays Rs.20,000 as life insurance premium (sum assured: Rs.3,00,000) on the life of her major son. Determine her tax liability. Ignore section 115BAC pertaining to alternative tax regime.

Solution:

Gross total income	4,78,300
Less: Deduction under section 80C	20,000
Net income	4,58,300

Income tax will be computed as under:

a. Income tax on Rs.12,68,300 (i.e. agricultural income Rs.8,10,000 + non agricultural income Rs.4,58,300)	1,92,900
b. Income tax on Rs.10,60,000 (i.e. agricultural income Rs.8,10,000 + exempted slab of income Rs.2,50,000)	1,30,500
c. Income tax computed at (a) minus income tax computed at (b)	62,490
d. Less: Rebate under section 87A	12,500
e. Balance	49,990
f. Surcharge	Nil
g. Tax and surcharge	49,990
h. Health and education cess (4% of (g))	2,000
i. Tax liability ((g)+(h)) (rounded off)	51,990

Question 6

For the assessment year 2021 - 2022, X an individual (Age 62 years), submits the following information:

	Rs.
House property income	6,25,000
Income from the business of growing and manufacturing coffee in India (gross)	5,00,000
Expenditure on earning coffee income	2,000

Determine the tax liability of X for the assessment year 2021 - 22 on the assumption that he contributes Rs.60,000 towards public provident fund. Ignore section 115BAC pertaining to alternative tax regime.

Solution

Computation of income	Agricultural income Rs.	Non agricultural income Rs.
House property income		6,25,000
Income from growing and manufacturing coffee (i.e. Rs.5,00,000 - Rs.2,000) (60% i.e. Rs.4,98,000 is agricultural income and balance is treated as non agricultural income - see para 187)	2,98,800	1,99,200
Total	2,98,800	8,24,200
Gross total income		8,24,200
Less: Deduction under section 80C		60,000
Net income		7,64,200
Computation of tax liability on non agricultural income		
1. Income tax on Rs.10,63,000 (Rs.2,98,800 + Rs.7,64,200)		1,28,900
2. Income tax on Rs.5,98,800 (i.e. agricultural income Rs.2,98,800 + exempted slab of income Rs.3,00,000)		29,760
3. Balance (i.e. (1 - 2))		99,140
4. Add: Surcharge (not applicable)		Nil
5. Health and education cess (4% of (5))		3,966
6. Tax liability (i.e. (5) + (6)) (rounded off)		1,03,110

Question 7

XYZ is a wholly charitable trust. During the previous year 2020 - 2021, it reports the following income and expenditure:

	Income Rs.	How much is applied for charitable purposes Rs.
Income from property held for charitable purposes	15,00,000	6,00,000
Voluntary contribution for corpus of the trust (names and addresses of donors available)	80,00,000	Nil
Voluntary contribution without any direction (names and addresses of donors available)	40,00,000	12,75,000
Voluntary contribution without any direction	30,00,000	26,00,000

(names and address of donors not available)

In this case, Rs.80,00,000 (being voluntary contribution for corpus of the trust) is not chargeable to tax. Anonymous donation is Rs.30,00,000 (names and addresses of donors are not available). In respect of anonymous donation, exemption under section 11 is not available. Taxable income and tax liability will be calculated as follows:

	Rs.
Income from property held for charitable purposes	15,00,000
Voluntary contribution for corpus of the trust (not taxable)	
Voluntary contribution without any direction	40,00,000
Anonymous donation	30,00,000
Total	85,00,000
Less: Anonymous donation taxable under section 115BBC @ 30% (as calculated below)	26,50,000
Income subject to exemption under section 11	58,50,000
Less: Exemption under section 11 (15% of Rs.58,50,000 + Rs.6,00,000 + Rs.12,75,000)	27,52,500
Balance	30,97,500
Add: Anonymous donation (taxable @ 30% under section 115BBC)	26,50,000
Taxable income	37,47,500
Computation of tax	
Tax on anonymous donation (total donation is Rs.4,00,000 + Rs.30,00,000, i.e. Rs.70,00,000. 5% of total donation is Rs.3,50,000. 5% of total donation or Rs.1,00,000, whichever is higher, is Rs.3,50,000.	
Anonymous donation in excess of Rs.3,50,000 is Rs.26,50,000 which will be taxable @ 30%	7,95,000
Tax on income other than anonymous donation (i.e. normal tax on rs.30,97,500)	7,41,750
Total	15,36,750
Add: Surcharge @ 10%	1,53,675
Tax and surcharge	16,90,425
Add: Health and education cess	67,617

Tax liability	15,58,040
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Note: The above calculation are applicable only if the trust is wholly charitable entity (or it is partly religious and partly charitable and anonymous donations are received for educational / medical institution run by such entity). In other cases, section 115BBC is not applicable and taxable income and tax liability will be calculated as under:

	Rs.
Income from property held for charitable purposes	15,00,000
Voluntary contribution for corpus of the trust (not taxable)	
Voluntary contribution without any direction	40,00,000
Voluntary contribution without any direction (names and addresses of donors not available)	30,00,000
Total	85,00,000
Less: Exemption under section 11 (15% of Rs.85,00,000) + Rs.6,00,000 + Rs.12,75,000 + Rs.26,00,000)	57,50,000
Taxable income	27,50,000