

INCOME EXEMPT FROM TAX

1. B Ltd. owns a new industrial undertaking, located in industrially backward State. It has been approved 100% EOU by the Board, constituted by the Central Government. It is engaged in the export of computer software and started functioning from the previous year 2004-2005.

During the first three years it earned a profits and claimed deduction under Sec. 10B. During the fourth year it suffered a loss of Rs 10 lakh.

It furnishes the following particulars for the previous year 2008-2009.

	Rs (in lakh)
(i) Business profit	40
(ii) Export sales – FOB	100
(iii) Domestic sales	50
(iv) Receipt of convertible foreign exchange in India :	
(a) Receipt up to 30 September 2009	70
However, foreign exchange of Rs 10 lakh is on account of sale to a foreign customer in India and Rs 5 lakh is on account of reimbursement of freight, insurance, relating to export and expenses incurred in Malaya in foreign exchange in providing technical services.	
(b) Receipt in November 2009 but approved by the competent authority	10
(c) Receipt in January 2010 but competent authority has not granted its approval	10
(v) Converted foreign exchange kept in Malaya in State Bank of India in a separate account with the approval of RBI.	10

Compute its total income in the following cases :

- (a) it claims deduction under Sec. 10B;
- (b) it revises its option under Sec. 10B(8) and wants not to claim deduction under Sec. 10B. it proposes to claim deduction under Sec. 80 IB.

Solution: (i) Claiming deduction under Sec. 10B

	Rs (in lakh)
Business profits	40
Less : Deduction for export profits : $40 \cdot \frac{75}{150}$	20
	20
Less : Carried forward business loss [Sec. 72 (2)]	<u>10</u>
Total income	<u>10</u>

Working Note :

1. Export turnover :

Convertible foreign exchange received up to 30 September 2009

Less : (i) Convertible foreign exchange received from a foreign customer for sale in India	70
(ii) Reimbursement of foreign insurance relating to export and expenses incurred in foreign exchange outside India in providing technical services.	(-) 10 (-) 5

<i>Add:</i> (i) Convertible foreign exchange received after prescribed time limit but approved by the competent authority	(+) 10
(ii) Convertible foreign exchange kept outside India with the permission of Reserve Bank of India	(+) 10
	<u>75</u>
2. Total turnover :	100
(i) Export sales	<u>50</u>
(ii) Domestic Sales	<u>150</u>
(ii) Claiming deduction under Sec. 80-IB	
Business profits	40
Less : Carried forward business loss	(-) 10
Gross total income	<u>30</u>
Less : Deduction under Sec. 80-IB 100% of profits derived from undertaking and included in GTI	<u>30</u>
Total Income	<u>Nil</u>

2. H Bros., an HUF, started an undertaking in "Special Economic Zone" during the previous year 2004-2005. From the following particulars relating to the previous year 2008-2009, compute the total income for the assessment year 2009-2010.

	Rs (in lakh)
(i) Total turnover	30
(ii) Export sales	25
(iii) Business profits	15
(iv) Receipt of convertible foreign exchange in India up to 30 September 2009	
(v) Convertible foreign exchange kept outside India with the permission of RBI for importing a new machinery	16
(vi) Receipt of convertible foreign exchange in December 2009	4
(vii) Convertible foreign exchange received for reimbursement for freight, insurance attributable to export	2

Solution: Computation of total income

	Rs (in lakh)
Business profits	15
Less : Deduction for export profits : $15 \cdot \frac{20}{30}$ [Sec. 10A]	<u>10</u>
Total income	<u>5</u>

Note :

- Convertible foreign exchange received in December 2009 has not been included in Export turnover, because it is received after the prescribed time limit without approval of the competent authority.
- Convertible foreign exchange kept outside India with the permission of RBI is included in Export turnover.
- Reimbursement of freight and insurance in convertible foreign exchange is not included in Export turnover.

3. Z has set up a new undertaking at Durgapur during the year 2008-2009.

Compute taxable profits from the information given below:

Particulars	Rs (in lakh)
(i) Total turnover	50
(ii) Export sales	48
(iii) Export turnover	40
(iv) Business profit	30
(v) 20 workers were employed during the year, and 18% plant and machinery are second-hand.	
(vi) Imported raw material was not used.	

Will your answer be different in the following cases :

- Number of workers employed during the year is 19.
- Number of permanent workers are 15 and number of temporary workers are 5.
- Export sales are Rs. 44.99 lakh.
- Percentage of old plant and machinery is 20.5%
- 5% raw material was imported from Japan due to domestic shortage.
- Rs 5 lakh convertible foreign exchange was received but kept outside India to import new machinery without the approval of RBI.

Solution: Computation of total income

	Rs (in lakh)
Business profits	30
Less : Deduction for export profits [Sec. 10BA] : $30 \cdot \frac{40}{50}$	<u>24</u>
Income	<u>6</u>

Comments:

- No deduction will be available as the number of workers is below 20
- Deduction will be allowed. Number of workers should 20 whether permanent or temporary, regular or casuals.
- No deduction will be allowed. Export sales are less than 90% of total turnover.
- No deduction will be allowed. Percentage of old plant and machinery is more than 20% of the total investment in new plant and machinery.
- No deduction will be allowed as raw material has been imported.

Amount of deduction will be worked out as below:

	Rs (in lakh)
Business profits	30
Less : Deduction for export profits [Sec. 10BA] : $30 \cdot \frac{35}{50}$	<u>21</u>
Total income	9

4. The books of account maintained by a National Political Party registered under the Representation of the People Act, 1951 for the year ended on 31-3-2009 disclose the following receipts:

(a) Rent of property let out to a departmental store at Chennai.	10,00,000
(b) Interest on deposits other than banks.	2,00,000
(c) Contribution from 100 persons (who have secreted their names) of Rs 33,000 each	33,00,000
(d) Contribution @ Rs 22 each from 1,00,000 members in cash	22,00,000
(e) Net profit of cafeteria run in the premises at Delhi	3,00,000

Compute the total income of the political party for the assessment year 2009-2010, with reason for inclusion or otherwise.

Solution: Computation of income of National Political Party: AY 2009-2010

Particulars	Rs
(a) Rent from property: Exempt under Sec. 13A	—
(b) Income from business—Profits of cafeteria	3,00,000
(c) Income other sources:	—
(i) Interest on deposit other than banks: Exempt under Sec. 13A	—
(ii) Contributions from 100 persons exceeding Rs 22,000 each—See Note below,	33,00,000
(iii) Contributions from 1,00,000 members: Exempt Sec. 13A.	—
Total income	36,00,000

Note : Any income of a political party received by way of voluntary contributions is exempt, provided:

- it keeps and maintains such books of account and other documents as would enable the Assessing Officer to properly deduce its income therefrom;
- it keeps and maintains a record, name and address of the person who has contributed in excess of Rs 20,000; and
- its accounts are audited by an accountant defined in Explanation below Sec. 288(2).

Thus, in order to claim exemption in respect of voluntary contributions exceeding Rs 20,000, a political party is required to keep and maintain a record, and names, address of persons who have made such contributions. The legislative intention is to ensure that there is transparency in the process of collection of funds [Common Cause v. Vol. 222 ITR 260 (SC)]. Hence, no exemption can be allowed in respect of contributions exceeding Rs 20,000 from persons who have secreted their names.

5. A company is engaged in the development and sale of computer software applications. It has started a new undertaking for which approval as a 100% export-oriented undertaking has been obtained from the CBDT. It furnishes the following data and requests you to compute the deduction allowable to it under Sec. 10B is respect of assessment year 2009-2010.

Particulars	Rs (in lakh)
Total profit of the company for the previous year	50
Total turnover, i.e. Export sales and Domestic sales for the previous year	500
Consideration received in respect of export of software received in convertible foreign exchange within 6 months of the end of the previous year	250
Sale proceeds credited to a separate account in a bank outside India with the approval of RBI	50
Telecom and insurance charges attributable to export of software	10
Staff costs and travel expenses incurred in foreign exchange to provide technical assistance outside India to a client	40

Solution: Computation of income of a 100% export-oriented undertaking: AY 2009-2010

Particulars	Rs (in lakh)
Total profit	50
Less: Deduction under Sec. 10B: $\frac{\text{Export turnover} \cdot \text{Total profits}}{\text{Total turnover}} = 50$	25
Taxable profits	25

Note:

Export turnover	(Rs in lakh)
(i) Sale proceeds of software received in convertible foreign exchange within the prescribed period	250
(ii) Sale proceed in convertible foreign exchange kept outside India with the approval of RBI	<u>50</u> 300
Less : (i) Telecom and insurance attributable to export turnover	(-) 10
(ii) Expenses incurred in foreign exchange outside India to provide technical assistance to a client there	(-) 40
Export turnover	250

6. XY & Co., a partnership concern had established an undertaking for manufacturing computer software in Free Trade Zone. It furnishes the following particulars of its second year operations, ending on 31-03-2009:

Particulars	Rs (in lakh)
Total sales of business	100.00
Export sales	80.00
Profit of the business	10.00

Out of the total sales, realisation of sale of Rs 5 lakh is difficult because of the deficiency of the buyer. Realisation of rest of the sales is received in time.

The plant and machinery used in the business had been depreciated @ 15% on SLM basis of depreciation and depreciation of Rs 3 lakh was charged to the Profit and Loss Account.

Compute the taxable income of XY & Co; for the assessment year 2009-2010.

Solution:

Particulars	Rs (in lakh)
Profit of business	10,00,000
Add : Depreciation charged on SLM basis	<u>30,000</u> 1,30,000
Less : Depreciation on WDV basis @ 15% of 17,00,000 – [Sec Note below]	<u>2,55,000</u> 10,45,000
Less : Deduction under Sec. 10A : $10,45,000 \times 75 \div 100$	<u>7,83,750</u> 2,61,250
Taxable income	

Note:

	Rs
1. Computation of Depreciation :	
Total purchase price of machine : $3,00,000 \times 15 \div 100$	20,00,000
Less : Depreciation in the first year @ 15%	<u>3,00,000</u>
WDV at the end of first year	17,00,000
Less: Depreciation for second year @ 15%	<u>2,55,000</u>
WDV at the end of second year	<u>14,45,000</u>
2. Export Turnover:	
Export Sales	80,00,000
Less: Remittance not received due to insolvency of buyer	<u>5,00,000</u>
	<u>75,00,000</u>