

### CHAPTER 3 INCOMES EXEMPT FROM TAX

(1) Which of the following income is not exempt under section 10 - **(Dec.)**

- (a) Share in total income of firm (b) Income from agriculture in Lahore  
(c) Bonus on life insurance (d) Income from mutual funds. Ans.(b)

⇒ (2) Mr. X received compensation of Rs. 2,60,000 from the Central Government on account of disaster. He claimed Rs. 1,20,000 as a deduction on account of loss or damage caused by such disaster under this Act. What amount of compensation received shall be exempt?

- (a) Rs. 2,60,000 (b) Rs. 1,40,000  
(c) Rs. 1,20,000 (d) Nil Ans.(b)

(3) If in the above case, Mr. X claimed Rs. 2,60,000 as a deduction on account of loss or damage caused by such disaster under this Act then what amount of compensation received shall be exempt?

- (a) Rs. 2,60,000 (b) Rs. 1,40,000  
(c) Rs. 1,20,000 (d) Nil Ans.(d)

⇒ (4) A member of Parliament received Rs. 1,50,000 per month as salary and Rs. 4,50,000 as daily allowances during previous year 2019-20. The taxable amount will be - **(Dec. 2016)**

- (a) Salary Rs. 18,00,000 (b) Income from profession Rs. 22,50,000  
(c) Income from other sources Rs. 18,00,000 (d) Nil Ans.(c)

(5) The amount received including bonus under Life Insurance Policy issued on 1-4-2019 in respect of which the premium payable for the year during the term of the policy was 15% of the actual capital sum assured. What shall be the not exempt amount?

- (a) Premium payable exceeds 15% of actual capital sum assured.  
(b) Any sum received on which premium payable exceeds 10% of actual capital sum assured.  
(c) Premium payable exceeds 20% of actual capital sum assured.  
(d) No exemption Ans.(b)

Do after deductions chapter

(6) If in the above case, the Life Insurance Policy is issued on 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 then what shall be the not exempt amount ?

- (a) Any sum received on which premium payable exceeds 15% of the actual capital sum assured.  
(b) Any sum received on which premium payable exceeds 10% of actual capital sum assured.  
(c) Any sum received on which premium payable exceeds 20% of actual capital sum assured.  
(d) No exemption

Do after deductions chapter

Ans.(a)

(7) The amount received including bonus under Life Insurance Policy issued on 01-04-2011 in respect of which the premium payable for the year during the term of the policy was 15% of the actual capital sum assured. What shall be the not exempt amount?

- (a) Any sum received on which premium payable exceeds 15% of actual capital sum assured.  
(b) Any sum received on which premium payable exceeds 10% of actual capital sum assured.  
(c) Any sum received on which premium payable exceeds 20% of actual capital sum assured.  
(d) No exemption Ans.(c)

Do after deductions chapter

(8) The sum received under Life Insurance Policy including sum allocated by way on bonus on the policy which shall not be exempt includes:

(a) Any sum received u/s 80DD(3) and 80 DDA(3).

Do after deductions chapter

(b) Any sum received under Keyman Insurance Policy.

(c) Any sum received under policy issued on or after 1-4-2012 in respect of which premium payable for any year exceeds 10% of actual sum assured.

(d) All of the above.

Ans.(d)

(9) In case, the income of an individual (i.e. the parent) includes the income of his minor child in terms of Section 64(1A), such parent shall be entitled to exemption of :

(a) Rs. 1,500 in respect of each minor child or actual income of minor child, whichever is less.

(b) Rs. 1,500 in respect of each minor child or actual income of minor child, whichever is more.

(c) Rs. 3,000 in respect of each minor child or actual income of minor child, whichever is less.

(d) Rs. 3,000 in respect of each minor child or actual income of minor child, whichever is more.

Do after clubbing chapter

Ans.(a)

(10) Mr. X, a resident employee of Hinduja Company established in India, received a scholarship of Rs. 3,00,000 from his employer to meet education cost of his children. The employee spent an amount of Rs. 2,75,000 on education of his children. What amount of income shall be exempt to employee?

(a) Rs. 3,00,000

(b) Rs. 2,75,000

(c) No exemption available

(d) Rs. 25,000

Ans.(a)

(11) Education scholarship received by an employee of a company to meet education cost of his children shall be exempt if the employee is:

(a) Indian

(b) Foreigner

(c) Indian or foreigner

(d) No exemption available

Ans.(c)

(12) Mr. Sankar received Rs. 50,000 as educational scholarship from Nehru Memorial Trust (a charitable trust). The scholarship is to assist Mr. Sankar for pursuing M.A. (History) at Jawaharlal Nehru University, New Delhi. The amount of scholarship liable to tax is : **(June, 2017)**

(a) Rs. 50,000

(b) Rs. 10,000

(c) Rs. 25,000

(d) Nil

Ans.(d)

(13) Amount of Daily allowance and constituency allowance shall be exempt if received by:

(a) MLA

(b) MP

(c) Members of any parliamentary or legislative

(d) All of the above.

Ans.(d)

committee.

(14) Mr. Gupta, MLA received a constituency allowance of Rs. 40,000. What amount of income shall be exempt to him?

(a) Rs. 4,000

(b) Rs. 40,000

(c) Rs. 10,000

(d) No exemption available

Ans.(b)

(15) Notified awards and rewards instituted by the Central/State Government for the specified purposes is exempt if received for:

- |                     |                      |         |
|---------------------|----------------------|---------|
| (a) Literary work   | (b) Artistic work    |         |
| (c) Scientific work | (d) All of the above | Ans.(d) |

⇒ (16) Raghu traced a missing girl by spending Rs. 20,000. For this, he was awarded with a sum of Rs. 1,20,000. In this case the award is taxable to the extent of - **(June 2016)**

- |                  |                  |         |
|------------------|------------------|---------|
| (a) Rs. 1,00,000 | (b) Rs. 1,20,000 |         |
| (c) Rs. 1,15,000 | (d) Nil.         | Ans.(a) |

(17) Mr. G received an award from the Central Government for the work done by him which was an approved work of the Government. Such award shall be:

- |                                   |                       |         |
|-----------------------------------|-----------------------|---------|
| (a) Exempt                        | (b) Not exempt        |         |
| (c) Partly exempt, partly taxable | (d) None of the above | Ans.(a) |

(18) Family pension received on death of member of armed forces where the death occurred in course of operational duties and in prescribed conditions shall be exempt if received by:

- |                                    |                             |         |
|------------------------------------|-----------------------------|---------|
| (a) Widow of the member.           | (b) Children of the member. |         |
| (c) Nominated heirs of the member. | (d) All of the above.       | Ans.(d) |

(19) Mrs. Gita received a Family pension of Rs. 36,000 on the death of her husband being major in army who died during the course of operational duties and in prescribed conditions. Calculate the amount taxable.

- |                |                |         |
|----------------|----------------|---------|
| (a) Rs. 36,000 | (b) Rs. 21,000 |         |
| (c) 124,000    | (d) Nil amount | Ans.(d) |

(20) Exempt income earned from dividend includes:

- |   |  |         |
|---|--|---------|
| (a) Dividend earned as under section 115-0  | (b) Dividends received from SEZ units. |         |
| (c) Dividend received from foreign company. | (d) (a) and (b) but not (c)            | Ans.(d) |

(21) Dividend income that is taxable:

- |   |  |         |
|---|--|---------|
| (a) Dividend received from foreign company. | (b) Dividend received as under section 2(22)(e). |         |
| (c) Both (a) and (b).                       | (d) Nil  | Ans.(c) |

Solve after IOS Chapter

(22) Amit received income of Rs. 32,500 from units of mutual fund specified in section 10(23D). Taxable income will be:

- |                |                      |         |
|----------------|----------------------|---------|
| (a) Rs. 32,500 | (b) Rs. 3,250        |         |
| (c) Rs. 30,000 | (d) Income is Exempt | Ans.(d) |

(23) Incomes exempt include:

- ⇒ (a) Income received by any person on behalf of New Pension System Trust
- (b) Exemption of specified allowances and perquisites paid to Chairman or retired Chairman or any other member or retired member of the UPSC.
- (c) Income of notified infrastructure debt fund and concessional tax rate on interest received by non-residents from such fund.
- (d) All of the above.

Ans.(d)

(24) Income received by certain foreign companies in India in Indian currency from sale of crude oil or any other goods or rendering of services, as may be notified by the Central Government in this behalf, to any person is exempt. Condition to be fulfilled to claim such exemption:

- (a) The money has been received under an agreement or arrangement entered into, or approved by, the Central Government.
- (b) The foreign company, as well as the arrangement or agreement, are notified by the Central Government having regard to the national interest.
- (c) The foreign company is not engaged in any other activity in India, except receipt of income in India under such arrangement or agreement.
- (d) All of the above.

Ans.(d)

(25) ABC institution was existing solely for educational purposes and not for purposes of profit. The institution was wholly or substantially financed by the Government. The annual receipts of the institution was Rs. 85,00,000. It earned income of Rs. 2,25,000 during the previous year 2019-20. Calculate the amount of income taxable.

- (a) Rs. 2,25,000
  - (b) Rs. 25,000
  - (c) Rs. 2,00,000
  - (d) Nil
- Ans.(d)

(26) RSR hospital was existing solely for philanthropic purposes and not for purposes of profit. The hospital was wholly or substantially financed by the Government. The annual receipts of the institution was Rs. 90,00,000. It earned income of Rs. 3,00,000 during the previous year 2019-20. Calculate the amount of income taxable.

- (a) Rs. 3,00,000
  - (b) Rs. 1,00,000
  - (c) Rs. 2,00,000
  - (d) Nil
- Ans.(d)

(27) RSR hospital was existing solely for philanthropic purposes and not for purposes of profit. The hospital was wholly or substantially financed by the Government. The annual receipts of the institution was Rs. 1,10,00,000. It earned income of Rs. 3,00,000 during the previous year 2019-20. Calculate the amount of income taxable.

- (a) Rs. 3,00,000
  - (b) Rs. 1,00,000
  - (c) Rs. 2,00,000
  - (d) Nil
- Ans.(a)

(28) A registered trade union earned Rs. 1,00,000 by way of interest on bank deposits and Rs. 1,80,000 by way of rent from let-out of its premises. Total income of the trade union chargeable to tax would be - **(Dec. 2016)**

- (a) Rs. 2,24,000
  - (b) Rs. 2,80,000
  - (c) Rs. 1,80,000
  - (d) Nil
- Ans.(d)

### **EXEMPTION IN RESPECT OF UNDER-TAKINGS LOCATED IN SEZ**

(29) In case of a unit established by an entrepreneur in SEZ, which begins to manufacture or produce articles or things or provide any services on or after 1-4-2006, deduction for First 5 years will be allowed as follows -

- (a) 100% of profits and gains from export business
  - (b) 75% of profits and gains from export business
  - (c) 100% for first two years and 80% for remaining
  - (d) No deduction three years
- Ans.(a)

(30) In case of a unit established by an entrepreneur in SEZ, which begins to manufacture or produce articles or things or provide any services on or after 1-4-2006, deduction for next 5 years will be allowed as follows -

(a) 50% of profits and gains from export business      (b) 75% of profits and gains from export business

(c) 100% for first two years and 80% for remaining      (d) No deduction three years      Ans.(a)

(31) In case of a unit established by an entrepreneur in SEZ, which begins to manufacture or produce articles or things or provide any services on or after 1-4-2006, deduction for another next 5 years (11-15 years) will be allowed as follows -

(a) 50% of Profits from export business.      (b) Amount transferred from P&L A/c to "Special

Economic Zone Reinvestment Reserve A/c"

(c) Lower of (a) or (b)      (d) Higher of (a) or (b)      Ans.(c)

(32) Where a deduction under section 10AA is claimed and allowed in respect of profits of any of the specified business, referred to in section 35AD, for any assessment year, then \_\_\_\_\_ shall be allowed under the provisions of section 35AD

in relation to such specified business for the same or any other assessment year.

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(a) No deduction      (b) Full deduction      Ans.(a)

(c) 75% deduction      (d) 50% deduction

(33) While computing the export turnover, the expenses to be deducted are :

(a) Sales tax      (b) Excise duty

(c) Expenditure incurred in foreign exchange (like : freight, etc.)      (d) All of the above.

Ans.(d)

⇒ (34) Hans Ltd. is a unit located in SEZ. It has Export turnover of Rs. 500 lakhs; Total turnover of Rs. 900 lakhs; Business profits of Rs. 80 lakhs. The said export turnover includes sales tax amounting to Rs. 20 lakhs and excise duty amounting to Rs. 30 lakhs. Further, the assessee incurred freight amounting to Rs. 50 lakhs outside India. Compute the deduction available under section 10AA.

(a) Rs. 40 lakhs      (b) Rs. 32 lakhs      Ans. (a)

(c) Rs. 44.44 lakhs      (d) Nil

⇒ (35) Export profits of Rs. 250 lakhs pertaining to previous year 2019-20. Unabsorbed depreciation of Rs. 100 lakhs pertaining to assessment year 2016-17. Compute the deduction available under section 10AA.

(a) Rs. 250 lakhs      (b) Rs. 100 lakhs      Ans.(c)

(c) Rs. 150 lakhs      (d) Nil

⇒ (36) X Ltd. is located in SEZ. From the following information furnished by it, compute its total income : Total turnover for the year = Rs. 500 lakhs, Export turnover = Rs. 400 lakhs, Business profits = Rs. 50 lakhs. Here, export turnover represents export of computers @ Rs. 80,000 per computer ?

(a) Rs. 50 lakhs      (b) Rs. 10 lakhs      Ans.(b)

(c) Rs.100 lakhs      (d) Nil

(37) Tax holiday under section 10AA in respect of newly established units in SEZ is allowed for a total period of - **(Dec. 2016)**

(a) 5 Years

(b) 10 Years

(c) 15 Years

(d) 20 Years

Ans.(c)

**TRUE/FALSE**

(1) Literary awards instituted by the Central Government are exempted from income-tax. (June, 2010)

Ans: True : Under Section 10(17A) of the Act, any payments made in cash or kind in pursuance of any award instituted in the public interest by the Government or instituted by any other body and approved by the Central Government is exempt from tax.

(2) There is no difference between 'exemption' and 'deduction'. (Dec. 2012)

Ans: False : If an income is exempt from tax, it is not included in the computation of income. Exemption can never exceed the amount of income. Deduction is generally given from income chargeable to tax. Deduction can be less than or equal to or more than the amount of income.