

Exempted income under the Income Tax Act

Exempted income under the Income Tax Act refers to certain types of income that are not subject to taxation. These incomes are either partially or fully exempted, meaning they are not included in the calculation of the taxable income of an individual or entity. Below are some common examples of exempted income:

1. Agricultural Income

- **Exemption:** Income derived from agricultural activities, including rent or revenue from agricultural land, is fully exempt from tax.
- **Example:** A farmer earns ₹2,00,000 from selling crops grown on his land. This income is exempt from tax.

2. Income from a Hindu Undivided Family (HUF)

- **Exemption:** Income received by a member of an HUF from the income of the family is exempt.
- **Example:** If an HUF earns ₹5,00,000 from family-owned property, and the amount is distributed among its members, it is not taxable in the hands of the members.

3. Certain Allowances for Salaried Employees

- **Exemption:** Some allowances provided to employees are exempt up to a certain limit. These include:
 - **House Rent Allowance (HRA):** Exempt up to certain limits based on rent paid and salary.
 - **Leave Travel Allowance (LTA):** Exempt for travel expenses within India, subject to conditions.
 - **Example:** An employee receives ₹10,000 per month as HRA and pays rent of ₹12,000 per month. A portion of the HRA may be exempt from tax.

4. Dividends from Domestic Companies

- **Exemption:** Dividend income from domestic companies was earlier fully exempt, but from April 1, 2020, it is taxable in the hands of the shareholders. However, dividends from certain sources may still be exempt up to specific limits.
- **Example:** If a person receives ₹5,000 as a dividend from mutual funds, it is exempt if the mutual fund invests in equity schemes.



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5. Income from Long-Term Capital Gains on Equity Shares/Mutual Funds

- **Exemption:** Long-term capital gains on equity shares or equity-oriented mutual funds are exempt up to ₹1,00,000 per year. Gains beyond this limit are taxed at 10%.
- **Example:** If you earn ₹90,000 from selling equity shares held for over a year, this gain is exempt from tax.

6. Interest on Certain Securities

- **Exemption:** Interest earned from certain specified securities, like tax-free bonds, is exempt.
- **Example:** If you hold a tax-free bond issued by a government authority and earn ₹20,000 in interest, this amount is exempt from tax.

7. Income from Provident Fund

- **Exemption:** The interest earned on the balance in a recognized Provident Fund is exempt from tax.
- **Example:** Interest of ₹30,000 accrued in your Employee Provident Fund (EPF) account during the year is exempt from tax.

8. Scholarships

- **Exemption:** Scholarships granted to meet the cost of education are fully exempt from tax.
- **Example:** A student receives a scholarship of ₹1,00,000 to pursue higher studies, which is exempt from tax.

9. Income from Gratuity

- **Exemption:** Gratuity received by an employee on retirement or termination is exempt up to certain limits.
- **Example:** If an employee receives ₹10,00,000 as gratuity on retirement, part of this amount may be exempt based on the rules.

10. Income from Life Insurance

- **Exemption:** Any sum received under a life insurance policy, including bonus, is exempt from tax if the premium paid does not exceed 10% of the sum assured.
- **Example:** A person receives ₹2,00,000 as a maturity benefit from a life insurance policy. If the conditions are met, this amount is exempt from tax.



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These are just a few examples of exempted income under the Indian Income Tax Act. It's important to consult the specific provisions of the law or a tax professional to understand the exemptions applicable to your situation.

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