Incomes not included in computing the total income:

1. Agricultural Income [Section 10(1)]

2. Subject to the provisions of sub-section (2) of section 64, any sum received by an individual as a member of a Hindu undivided family, where such sum has been paid out of the income of the family, or, in the case of any impartible estate, where such sum has been paid out of the income of the estate belonging to the family. [Section 10(2)]

3. In the case of a partner of a firm, who is separately assessed as such, his share in the total income of the firm shall not be included.[Section 10(2A)]

4. Any income by way of interest on moneys in a Non-Resident (External) Account in any bank in India in accordance with the Foreign Exchange Regulation Act, 1973 (46 of 1973), and the rules made thereunder, provided such individual accruing to a person resident outside India as defined in clause (q) of section 282 of the said Act or is a person who has been permitted by the Reserve Bank of India to maintain the aforesaid Account. [Section 10(4)(ii)]

5. The sum received (including the bonus) under a life insurance policy (other than any sum received under sub-section (3) of section 80DDA or under a Keyman insurance policy).[Section (10)(10)(D)]

6. **Leave Travel Concession [Section 10(5)]::**
   The value of any travel concession or assistance received by, or due to a person, from his employer for himself and his family, in connection with his proceeding on leave to any place in India or from his employer or former employer for himself and his family, in connection with his proceeding to any place in India after retirement from service or after the termination of his service, subject to such conditions as may be prescribed (including conditions as to number of journeys and the amount which shall be exempt per head) having regard to the travel concession or assistance granted to the employees of the Central Government.
   The amount exempt under this clause shall in no case exceed the amount of expenses actually incurred for the purpose of such travel.

7. Any allowances or perquisites paid or allowed as such outside India by the Government to a citizen of India for rendering service outside India. [Section 10(7)]

8. **Gratuity [Section 10(10)]:**

1. Any death cum retirement gratuity received by Central and State Govt. employees, Defense employees and employees in Local authority shall be exempt.
2. Any gratuity received by persons covered under the Payment of Gratuity Act, 1972 shall be exempt subject to following limits:-
   - For every completed year of service or part thereof, gratuity shall be paid at the rate of 15 days' salary based on the salary **last drawn** by the concerned employee.
     (Salary for this purpose will include basic salary and dearness allowance only.)
     15 days salary is to be computed by the formula
     15 days' salary = Salary last drawn x 15/26.
   - The amount of gratuity as calculated above shall not exceed Rs. 10,00,000/-.

3. In case of any other employee, gratuity received shall be exempt, subject to the following exemptions

- Exemption shall be limited to 15day salary (based on last 10 months average salary*) for each completed year of service or Rs. 10,00,000/- whichever is less.
  - While computing year of service, any fraction of year is to be ignored.
  - Salary for this purpose will include basic salary, dearness allowance, if the terms of service so provide and commission based on fixed percentage of turnover achieved by the employee.

    * Average monthly salary is to be computed on the basis of average of salary for 10 months immediately preceding the month (not the day) of retirement.
- Where the gratuity was received in any one or more earlier previous years also and any exemption was allowed for the same, then the exemption to be allowed during the year gets reduced to the extent of exemption already allowed, the overall limit being Rs.10,00,000/-.

The exemption in respect of gratuity is permissible even in cases of termination of employment due to resignation.
The taxable portion of gratuity will qualify for relief u/s 89(1).
Gratuity payment to a widow or other legal heirs of any employee who dies in active service shall be exempt from income tax.

9. **Commutation of Pension [Section 10(10A)]:**

1. In case of employees of Central & State Govt., Local Authority, Defense Services and corporations established under Central or State Acts, the entire commuted value of pension is exempt.
2. In case of any other employee
   - If the employee receives gratuity, one third of full value of commuted pension will be exempt from tax under section 10(10A)(ii)(a).
   - If the employee does not receive gratuity, one half of full value of commuted pension will be exempt from tax under section 10(10A)(ii)(b).

10.**Retrenchment Compensation [(Section 10(10B)]:**

Retrenchment compensation received by a workman under the Industrial Dispute Act 1947 or any other Act or Rules is exempt subject to following limits:

1. Compensation calculated @ fifteen days average pay for every completed year of continuous service or part thereof in excess of 6 months.
2. It is further subject to a limit of Rs. 5,00,000/- for retrenchment on or after 1.1.1997.

11.**Compensation on Voluntary Retirement or 'Golden Handshake' [Section 10(10C)]:**

1. Payment received by an employee of an undertaking specified in section 10(10C) at the time of voluntary retirement, or termination of service is exempt to the extent of Rs. 5 Lakh:
2. The voluntary retirement Scheme under which the payment is being made must be framed in accordance with the guidelines prescribed in Rule 2BA of Income Tax Rules.
3. Where exemption has been allowed under above section for any assessment year, no exemption shall be allowed in relation to any other assessment year.

12. Provident Fund[Section 10(11)& 10(12)]:
Taxability of Contribution by Employer, Employee, Interest credited to various types of Provident Funds and payment received therefrom:

	Statutory Provident Fund	**Recognised Provident Fund**	**Un-recognised Provident Fund**	**Public Provident Fund**
Employer's contribution	Exempt	Exempt upto 12% of salary (Note 1)	Taxable (Note 3)	Not Applicable
Benefit of deduction u/s 80C for Employee's contribution	Yes	Yes	No	Yes
Interest credited	Exempt	Exempt if rate of interest is upto 9.5%. Interest in excess of 9.5% is charged to tax.	Exempt	Exempt
Amount received on termination of service	Exempt	If certain conditions are satisfied, then lump sum amount is exempt from tax (Note 2)	Taxable (Note 3)	Exempt from tax

(Note 1) Salary for this purpose will include the following:

- Basic salary,
- Dearness allowance, if the terms of service so provide,
- Commission based on fixed percentage of turnover achieved by the employee.

(Note 2) Accumulated balance from a recognised provident fund will be exempt from tax if following conditions are satisfied:

a. If the employee has rendered a continuous service of 5 years or more.
If accumulated balance includes amount transferred from other recognised provident fund, then the period for which the employee rendered service to such previous employer shall also be included in computing the aforesaid period of 5 years.
b. If the service of employee is terminated before the period of 5 years due to his ill health or discontinuation of business of the employer or other reasons beyond his control.
c. If on termination, the employee takes employment with any other employer and the balance becoming payable to him is transferred to his account in any recognised fund maintained by such other employer, then the amount so transferred will not be charged to tax.

(Note 3) Treatment of payment received from un-recognised provident fund :
Payment on termination will include four components, viz, employee's contribution and interest thereon and employer's contribution and interest thereon. The tax treatment of such payments is as follows :

- Employee's contribution is not charged to tax; interest thereon is taxed under the head 'Income from other sources'.
- Employer's contribution as well as interest thereon will be taxable as salary income. However, relief under Section 89 will be available.

13. Payment from Superannuation Fund [Section 10(13)]:

Approved superannuation fund means superannuation fund which is approved by the Commissioner of Income-tax. With effect from assessment year 2010-11, employer's contribution to an approved superannuation fund in excess of Rs. 1,00,000 is charged to tax as perquisite.

Employee's contribution will qualify for deduction under section 80C and interest on accumulated balance is not liable to tax. Payments in following cases will be exempt from tax under section 10(13):

- Payment on death of beneficiary; or
- Payment to an employee in lieu of, or in commutation of an annuity on his retirement at or after the specified age or on his becoming incapable prior to such retirement; or
- Refund of contribution to an employee on leaving the service (otherwise than above mentioned reason) to the extent to which such payment does not exceed the contribution made prior to April 1, 1962.
- By way of refund of contributions on the death of a beneficiary.

Payments from New Pension Scheme

- As per section 80CCD, an individual who is employed by the Central Government/any other employer on or after January 1st, 2004 or a self-employedassessee can claim deduction under section 80CCD in respect of contribution to NPS.
- Amount paid/deposited (during the previous year) in assessee's account, under NPS will qualify for deduction under section 80CCD.
- Amount of deduction will be as follows :

a. Employee's contribution during the year to notified pension scheme, subject to condition that maximum of 10% of salary is deducted in the year in which contribution is made.
b. Employer's contribution during the year to notified pension scheme is first included in the income of the assessee, and then such contribution, subject to maximum of 10% of salary, is deducted in the year in which contribution is made.

- On closure of aforesaid account or in case the employee opts out of the said scheme or on receipt of pension from the annuity plan, credit balance in such pension account for which deduction is claimed and accretion to such account is taxed in the hands of receiver in the year of receipt. If amount received on closure is used for purchasing an annuity plan in the same previous year, then such amount will be exempt from tax.
- If deduction in respect of above amount is claimed under section 80CCD, then deduction of the same amount cannot be claimed under section 80C.
- Aggregate deduction under sections 80C, 80CCC and 80CCD(1), (i.e., employee's contribution) cannot exceed Rs. 1,50,000.