Here are nine incomes you need not pay tax on

It is generally believed that one can't have the best of both the worlds, especially when it comes to income and taxation. The more one earns, the more would be the tax liability. But, not many people are aware that this is not completely true and there exist certain types of income for which your income tax liability is zero.

"Such incomes are not added to your total taxable income for that assessment year and thereby remain tax-free. Section 10 of the Indian Income Tax Act of 1961 lists the various incomes that come under this category," says Adhil Shetty, founder & CEO of BankBazaar.com.

We give you nine such types of incomes that don't attract any income tax:

Agricultural income: India is primarily an agrarian economy. To boost the agricultural sector as a whole, the Indian Income Tax Act of 1961 exempts any income one generates through agriculture from tax liability. However, agriculture income is included, for the limited purpose of determining the tax rate, in computing the income tax liability if the net agricultural income exceeds Rs 5,000 for, say, FY15 and total income, excluding net agricultural income, exceeds applicable basic income exemption of Rs 2,50,000. (Note that the basic income exemption for an individual of age between 60 and 80 years is Rs 3 lakh for FY15 and the basic exemption for an individual above 80 years of age is Rs 5 lakh).

Receipts from Hindu Undivided Family: If you receive ortinherit money as a member of a Hindu Undivided Family (HUF), it is exempted from any income tax obligation. This exemption comes under Section 10(2) of the Income Tax Act.

Interest income on savings bank: The interest that you receive from your savings bank accounts is exempt up to Rs 10,000 a year. "The cap of Rs 10000 is for the interest you receive from all your accounts across banks and not with one bank. For example, if you are getting Rs 5,000 as interest from your SB account at bank X and Rs 10000 from bank Y, your taxable income from savings bank interest is Rs 5000," says Shetty.

Shares from a partnership firm: If you are a partner of any partnership firm, any share you may have in the total income of the firm is exempt from income tax obligation. As per section 10(2), any partner or partners are not liable to pay tax on income which is exempt in the hands of any partnership firm. Any other funds received by the partner of a partnership firm or LLP other than the share of profits, such as any remuneration or interests, remain taxable. But the interest on capital or remuneration received by the partner is not exempt.

Long-term capital gains: The good news for equity investors is that any long-term capital gains received on stocks and equity mutual funds are exempt from tax. "In other words, any income you may generate on account of sale of these instruments are exempt from income tax obligation as per Section 10(36) of the Income Tax Act. But, for this, the equity instrument should be held for more than a year. This is not applicable to debt mutual funds," informs Shetty.

Allowance for foreign services: Any Indian resident rendering service outside the country and receiving any allowances or perquisites outside the country remain tax free under Section 10(7) of the Income Tax Act. This section makes it possible for government servants to accumulate tax-free perquisites and allowances they might receive when working outside India.

Income from gratuity: Gratuity is paid by the employer as part for gratitude for acknowledging the employee's long-standing meritorious service. Gratuity received by any government employee is fully exempted from income tax. For non-government employees covered by the payment of Gratuity Act of 1972, the least of the three is exempted from income tax.

· 15 days salary based on the last drawn salary for each year of service.

· Rs. 10,00,000 (Rs 3,50,000 up to 23rd May,2010)

· Total gratuity received.

The gratuity received by an employee is not taxable if it is received on his retirement, his becoming incapacitated prior to such retirement, termination of employment or if such gratuity is received by his widow, children or dependants on his death.

"In case any such gratuities are received by an employee from more than one employer in the same financial year, the aggregate amount so exempt should not exceed the overall exemption limit. Similarly, if gratuities were received in one or more financial years, the exempt amount claimed earlier has to be taken into account while computing the exemption at present," say tax experts.

Amount received under voluntary retirement: Any amount received by an employee of a company or local authority where the scheme of voluntary retirement is framed as per Rule 2BA of the Income Tax Rules gets a tax exemption of up to Rs 5 lakh from the amount received as voluntary retirement.

Scholarships and awards: Any kind of scholarship or award granted to any deserving student to meet the cost of education is exempted from tax under Section 10(16) of the Income Tax Act of 1961. There is no cap on the maximum limit and the entire sum of money received as a scholarship gets the tax exemption treatment.

Paying income tax is a moral and legal obligation of every proud citizen of the country. "The taxation system is designed to make sure there are no unnecessary taxes that may become a financial burden on the tax payer. The above nine incomes are example of the flexibility of the Indian income tax system allowing tax exemption on various earnings," says Shetty.

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