

Incidental income by way of interest on bank deposit was entitled to exemption under section 10A/10B

Summary – The High Court of Karnataka in a recent case of Hewlett Packard Global Soft Ltd., (the Assessee) held that All profits and gains of 100 percent EOU including incidental income by way of interest on bank deposits or staff loans would be entitled to 100% exemption or deduction under sections 10-A or 10-B

Facts

- The assessee, as a 100 per cent Export Oriented Unit had four units set up in the Software Technology Park of India (STPI) Scheme and it had no other units from which it carried on any other activity other than the 100 per cent export of software projects. The assessee earned interest income on the Short Term Deposits made by it out of its surplus funds temporarily parked in the current account held in Bank, and also earned interest from the advances of loans to its staff members. The deduction in respect of both the said interest income was claimed as a 100 per cent deduction under section 10-A as income from 'Profits and Gains' of export business.
- The Assessing Authority held that such interest income was not entitled to 100 per cent deduction under section 10-A, but such interest income was taxable under section 56, as 'Income from Other Sources'.
- Further, the first division bench of High Court held that the assessee which invested its surplus funds in banks and received interest thereon and also interest on the staff loans, such interest earned by the undertaking/assessee had no direct nexus with the business of the undertaking. Thus, the matter was required to be referred to the Full Bench for its opinion.
- On reference to the Full Bench :

Held

- Exemption under sections 10-A and 10-B encompasses the entire income derived from the business of export of such eligible undertakings including interest income derived from the temporary parking of funds by such undertakings in Banks or even Staff loans. The dedicated nature of business or their special geographical locations in STPI or SEZs. etc. makes them a special category of assessee entitled to the incentive in the form of 100 per cent deduction under sections 10-A or 10-B. The computation of income entitled to exemption under section 10-A or 10-B is done at the prior stage of computation of Income from profits and gains of business as per sections 28 to 44 under Part-D of Chapter IV before 'Gross Total Income' as defined under section 80-B(5) is computed and after which the consideration of various deductions under Chapter VI-A in section 80HH etc. comes into picture. Therefore, all profits and gains of the 100 percent EOU including the incidental income by way of interest on bank deposits or staff loans would be entitled to 100 per cent exemption or deduction under section 10-A and 10-B. Such interest income arises in the ordinary course of export

business of the Undertaking even though not as a direct result of export but from the bank deposits etc., and is therefore eligible for 100 per cent deduction.

- The respondent assessee was entitled to 100 per cent exemption or deduction under section 10-A in respect of the interest income earned by it on the deposits made by it with the Banks in the ordinary course of its business and also interest earned by it from the staff loans and such interest income would not be taxable as 'Income from other Sources' under section 56. The incidental activity of parking of surplus Funds with the Banks or advancing of staff loans by such special category of assessee covered under section 10 A or 10 B was integral part of their export business activity and a business decision taken in view of the commercial expediency and the interest income earned incidentally could not be de-linked from its profits and gains derived by the undertaking engaged in the export of articles as envisaged under section 10-B and could not be taxed separately under section 56.