

## INCOME FROM OTHER SOURCES

What are the sections which deals with income from Other Sources -  
Sec. 56 to 59 –

### Sec.56(1) : Charging Section

This is the last head of income and it is also known as residuary head. A source of income which does not fall under any one of the other four heads of income viz. Salary, House Property, Business or Profession or Capital gains shall be brought to tax under this head.

Method of accounting / Year of taxability – Accrual basis or receipt basis which the assessee is consistently following from the beginning when the income started to arise. Income once taxed on accrual basis shall not be taxed again on receipt basis.

### Section 56(2) - Nature of income which needs to be brought to tax.

#### - 1. Dividend -

Receipt of any income by way of dividend paid/distributed/ declared by a Domestic Company from its accumulated profit as referred to in Sec.115-O is exempt u/s.10(34)

Sec. 115-O specifies deemed dividend u/s.2(22)(a)/(b)/(c) & (d) as dividend. Since Sec. 10(34) exempts dividend mentioned in Sec.115-O, deemed dividend u/s. 2(22)(a)/(b)/(c) & (d) is exempt in the hands of shareholders to the extent of accumulated profits of the company. However, deemed dividend u/s.2(22)(e) is taxable in the hands of shareholders since it is not included in Sec.115-O

### DEEMED DIVIDEND U/S.2(22) :

- (a) Any distribution of accumulated profit, entailing the release of any or all the company's assets;
- (b) Any distribution of debentures, debenture-stock, deposit certificates and bonus shares to preference shareholders to the extent of accumulated profit of the company;
- (c) Distribution on liquidation of the company to the extent of accumulated profit of the company; (See Sec.46)
- (d) Distribution on reduction of capital to the extent of accumulated profit of the company;
- (e) Any payment by way of advance or loan to the extent of accumulated profit of the company to :
  - 1. Share holders who are beneficial owner of shares and has not less than 10% voting power;
  - 2. Any concern in which such shareholder is a member or a partner having beneficial entitlement of more than 20%
  - 3. Any payment on behalf or for the individual benefit of such shareholder

### EXCEPTIONS : Dividend does not include :

- 1. Advance or loan in the ordinary course of business;
- 2. Payment made on repurchase of company's own shares/ buyback of shares (See Sec.46A)

- 2. Gross Winnings from lotteries, races including horse race(except income earned from the activity of owning and maintaining race horse), card games, cross word puzzles, games of any sort including gambling, betting, game show and entertainment show in Television or electronic mode.  
Conditions : -  
No Basic exemption. Chargeable at flat rate of 30% of income  
No chapter VIA deduction  
No expenditure allowable  
No benefit of carry forward and set off loss or unabsorbed depreciation is allowable against this income.
- 3. Any sum received under a Keyman Insurance Policy including the sum allocated by way of bonus on such policy.(Meaning Sec.10(10D)
- 4. Interest on Securities [If not considered under Income from Business or Profession. some of the interest are exempt u/s.10(15)]. If securities are transferred just before due date of payment of interest with a view to avoid tax, it will be deemed to be arisen in the hands of assessee u/s.94.
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- 5. & 6. Income from plant, machinery, building or furniture let on hire, (If not considered under Income from Business or Profession). If letting of building is inseparable, then income from building will be charged under income from other sources . Otherwise, it will be taxed under income from house property-
- 7. Gift
- 8. Interest on compensation /enhanced compensation - 50% exempt.
- 9. From 1.4.15, Advance forfeited on failed negotiations for transfer of capital asset.

**Other income chargeable under this head :**

- Subletting income,
- Family pension received by family members
- Interest on bank deposit (If not business income)
- Interest received on loan given (If not business income)
- Income from royalty,
- Director's fee,
- Ground rent,
- Agricultural income from outside India
- Examination fees received by a teacher other than from employer
- Rent of a plot of land,
- Insurance commission, (If not business income)
- Mining rent and royalties,
- Interest on foreign Govt Securities
- Casual income,
- Annuity payable under a Will
- Salaries payable to a Member of Parliament.
- Income from undisclosed sources
- Interest on Kisan Vikas Patras and Indira Vikas Patras

- Investment in National Savings Certificates

**Section 57 -Deductions :**

1. Remuneration or Commission paid to earn dividend or interest on securities;
2. Repairs and depreciation on plant & machinery, furniture & building
3. Standard dedn @ 33.33% or 15000 in respect of family pension
4. 50% of interest on compensation or enhanced compensation
5. Any other expenses incurred to earn income from other sources

**Section 58 -Deductions not allowable :**

1. Personal in nature
2. Interest Payment made outside India without deduction of tax
3. Salary paid to the employees outside India without deduction of tax
4. Wealth-tax
5. Expenditure in connection with winning from lotteries, card games, etc.
6. Expenditure incurred in excess of quantum specified in Sec. 40A.
7. Payment made to a Resident without deduction of TDS  
**(FINANCE BILL 2017)**

**GIFT : 56(2)(vii) -(Introduced on 1.9.2004) (It should be Capital Asset and not stock in trade)**

Gift received from 1/10/09

Where any Individual or HUF( **vide Finance Bill 2017, any person is substituted for Individual or HUF**) receives from any other person,

- (a) Any sum of money either in the form of cash or cheque or draft without any consideration, and aggregate value of such money from different persons during the previous year exceeds Rs. 50,000
- (b) (i) (From 1.4.2014) Any immovable property without any consideration and stamp value exceeding Rs.50,000  
(ii) Any immovable property with consideration less than Stamp value and the difference exceeds Rs.50,000
- (c) (i) Any other property without any consideration, aggregate FMV exceeds Rs.50,000  
(ii) Any other property with consideration, and difference between aggregate FMV and the consideration paid is exceeding Rs.50,000
- (d) (i) W.E.F.1.6.2010, If a Firm or a closely held company receives from any person, shares of a closely held company ( i.e. company in which public are not substantially interested) without consideration and if aggregate FMV exceeds Rs.50000, entire FMV needs to be brought to tax.  
(ii) If the gift is for lessor consideration, difference in FMV needs to be taxed. However, shares received due to Amalgamation, Demerger, etc are not covered under this provision.
- (e) If a closely held company received from a person being resident, any consideration for issue of shares that exceeds the face value of

such shares, aggregate consideration received for such shares exceeding FMV of such shares is taxable.

Nature of gift	Receiver	Giver	Amount of transaction	Taxability of transaction
Cash/cheque/draft	Individual & HUF (any person vide Finance Bill 2017)	any Person	Exceeding Rs.50000/-	Aggregate value of taxable gift
Immovable property (without consideration)	-do-	-do-	Stamp value exceeding Rs.50000/-	Each transaction of taxable gift
Immovable property (for consideration less than Stamp value)	-do-	-do-	Difference between Stamp value and consideration exceeding Rs.50000/-	Each transaction of taxable gift
Any other specified property (without consideration)	-do-	-do-	FMV exceeding Rs.50000/-	Aggregate value of taxable gift
Any other specified property (for consideration less than FMV)	-do-	-do-	Difference between FMV and consideration exceeding Rs.50000/-	Aggregate value of taxable gift
Shares of any other closely held company (without any consideration)	Any Firm or Closely held company	-do-	FMV exceeding Rs.50000/-	Aggregate value of taxable gift
Shares of any other closely held company (for consideration less than FMV)	Any Firm or Closely held company	-do-	Difference between FMV and consideration exceeding Rs.50000/-	Aggregate value of taxable gift
Consideration for issue of shares exceeding face value of such shares	Closely held company	Person being Resident	Difference between consideration received & FMV (consideration received shd be more than FMV)	Aggregate value of taxable gift

Example :

Different situations	Different situations			
	I	II	III	IV
Face value per share	10	10	10	10
Issue price per share	10	9	40	40
Fair Market Value per share	2	4	42	31

Situation 4 is alone taxable (40-31) = Rs.9

**Example for (b) above:**

If Mr. X gets a gift of a house property from his friend A before 1.10.2009, gift is not taxable in the hands of Mr. A as the transaction is before 1.10.09. Mr. A is also not liable for Capital gains u/s.45 as this is not a transfer as per Sec. 47(iii). 50C is also not applicable for Mr. A. If Mr. X transfers/sells the property subsequently, Mr. X will be liable for capital gains and cost of acquisition for Mr. X will be cost to Mr. A.

If the gift transaction took place after 1.10.2009, it is taxable u/s.56(2)(vii). However, Mr. A is also not liable for Capital gains u/s.45 as this is not a transfer as per Sec. 47(iii). 50C is also not applicable for Mr. A. If Mr. X transfers/sells the property subsequently, Mr. X will be liable for capital gains and cost of acquisition for Mr. X will be cost to Mr. A.

**When it will not be treated as Gift :**

1. From relatives
2. Received at the time of marriage of the individual
3. Under a Will or by way of inheritance
4. In contemplation of death of the payer or donor
5. From local authority
6. From entities such as fund, foundation, university, educational institution, hospital, medical institution or any trust claiming exemption u/s.10(23C)
7. From any charitable institution registered u/s.12AA.
8. W.e.f 1.4.2017, by way of transaction not regarded as transfer u/s.47(vicb), 47(vid) & 47(vii) i.e.in business reorganisation / Demerger / Amalgamation.

**Meaning of Property in Sec.56(2)(vii)**

1. Immovable property (Land or Building or both)
2. Shares and Securities
3. Jewellery
4. Archaeological collections
5. Drawings
6. Paintings
7. Sculptures
8. Any work of Art
9. Bullion.

**How to find out Value of properties :**

1. Immovable property (Land or Building or both) - Stamp value
2. Jewellery ()
3. Archaeological collections () Invoice value from registered dealer if
4. Drawings () purchased by the transferor. Otherwise,

- 5. Paintings ( ) Fair Market value
- 6. Sculptures ( )
- 7. Any work of Art ( )
- 8. Bullion ( )
- 9. Shares and Securities -

**Quoted shares & securities**

Through Recognised Stock Exchange - Transaction value

Not through Recognised Stock Exchange –

1. If similar shares are traded in recognised stock exchange by others, lowest price of such shares and securities quoted on any recognised stock exchange as on valuation date
2. If similar shares are not traded in recognised stock exchange, lowest price of such shares and securities quoted on any recognised stock exchange on the date immediately preceding the valuation date.

**Unquoted shares and securities** : Fair Market value .

**Relatives** : **For Individuals –**

- a) Spouse of the individual
- b) Brother or sister of the individual
- c) Brother or sister of the spouse of the individual
- d) Brother or sister of either of the parents of the individual
- e) Any lineal ascendant or descendant of the individual
- f) Any lineal ascendant or descendant of the spouse of the indl.
- g) Spouse of the person in (b) to (f) above.

**For HUF** - Members of HUF

**Sec.59 : Deemed income:**

This provision is similar to sec.41(1) of the I.T. Act. Loss already allowed in computing of income from other sources and subsequently recovered shall be treated as income of the previous year in which it is recovered.

**Sec.68 : Unexplained Cash Credits :**

Any amount credited in the books of accounts for which no proper explanation is offered by the assessee (or) if explanation offered by the assessee is not satisfactory to the A.O., such credit is treated as income of the p.y in which such credit is made in the books of accounts

**Sec.69 / 69A / 69B / 69C / 69D :** Unexplained investment, Unexplained money, bullion or jewellery, Investment not disclosed, unexplained expenditure, amount borrowed or repaid on Hundi, other than by way of Account Payee Cheque :

Entry will be treated as income in the p.y. in which such investment is made or such money, bullion or jewellery etc . are found.

**Rate of tax : 30% flat rate**

No deduction is allowable on the above items which are treated as unexplained income of the assessee.

**Exempted income u/s.10(15) :**

Some of the exempted **interest income** are –

1. 12 years National Savings Annuity Certificate
2. National Defence Gold Bonds, 1980

3. Special Bearer Bonds, 1991
4. Treasury Savings Deposit Certificates
5. Post Office Cash Certificates (5 years)
6. National Plan Certificates (10 years)
7. Public Account of Post Office Savings Account Rules (interest upto Rs.5000)
8. Post Office savings rules
9. Post Office CTD
10. Fixed Deposit (Government Savings Certificates (Fixed Deposit) Rules, 1968
11. Post office (Fixed Deposit) Rules, 1968
12. Special Deposit Scheme, 1981
13. Non-Resident (Non-Repatriable) Rupee Deposit Scheme.
14. Interest to an Individual and HUF on 7% Capital Investment Bonds
15. Interest on notified bonds arising to non-resident Indians
16. Interest on securities held by the Issue Department of the Central Bank of Ceylon
17. Interest on 9% Relief Bonds 1987 in the case of an Individual and HUF
18. Interest on notified debentures of public sector companies
19. Interest on deposits made in a notified scheme by a retired Government employee and an employee of a public sector company with effect from 1.4.1991 out of the money due to him on account of retirement. No tax liability under the Income-tax Act will arise on the amount payable to the nominee on the death of the depositor. Interest income of a spouse nominee after employee's death is exempt if the nominee opts to continue the account. If the nominee is not the spouse of the depositor, the amount lying to the credit of the depositor will devolve upon the nominee as a capital receipt on which no income-tax shall be payable at the time of devolution.

**Interest on securities** in the hands of following persons are exempted :

- |           |  |
|-----------|--|
| 10(20)    | Local Authority  |
| 10(21)    | Approved Scientific Research Association   |
| 10(23AA)  | Any Regimental Fund or Non-Public Fund   |
| 10(23B)   | Institution for the development of Khadi and Village Industries  |
| 10(23BB)  | Khadi & Village Industries Board   |
| 10(23BBA) | A Body or authority for administering religious or charitable trust or endowments  |
| 10(23C)   | Certain funds, educational institutions, hospitals, etc.   |
| 10(24)    | Registered Trade Union   |
| 10(25)    | Statutory Provident Fund, Recognised Provident Fund, Approved Superannuation Fund and Approved Gratuity fund             |
| 10(26)    | Members of a Scheduled Tribe   |
| 10(26B)   | Statutory corpn or an Institution or Association financed by the Govt for promoting the interests of members of SC or ST |
| 11        | Charitable Trust   |
| 13A       | Political Party  |

### **OTHER SECTIONS INVOLVED :**

- Sec.32 - Depreciation
- Sec.40A(2) – Related party transactions
- Sec.40A(3) – Cash transaction exceeding Rs.20,000
- Sec.41(1) - Remission or Cession of liability

### **1. Sec.94(1) - Treatment of interest income**

Where the owner of securities sells the same and buys back the securities after the interest income being received by the transferee, such interest should be treated as income of the transferor.

### **2. Sec.94(7) – Loss on sale of shares, securities or units :**

Condition – If any person buys/acquires any securities/shares/units within a period of 3 months before the record date and sells the same within a period of 3 months (9 months in the case of units) after the record date, dividend received/receivable from such transaction is exempt tax. However, loss arising out of purchase and sale of Shares/securities/units, upto the extent of dividend should be ignored for the purpose of computing the income chargeable to tax. (Record date – Date of dividend declaration). This loss cannot be set off or carried forward.

Example :

Dt. of purchase of 50 share & cost of purchase	Dt.of declaration of dividend (Record date) & dividend amount	Dt. of sale of 50 share & sale price	Amt. of capital loss that cannot be set off/carried forward	Amt of capital loss that can be set off / carried forward
17.5.14 – Rs.10,000	15.8.14 – Rs.2000	21.10.14 – Rs.5,000	Rs.2000 (Capital loss = 5000)	Rs.3,000

### **3. Sec.94(8) – Loss arising in the case of bonus stripping :**

Condition - If any assessee buys/acquires any units within a period of 3 months prior to the record date, and additional units are allotted to such assessee without any payment on the basis of holding of such units on the record date, if such person sells/transfers all of the original units within 9 months from the record date holding bonus units, loss arising from sale of original shares shall be ignored for the purpose of computing income chargeable to tax and such loss shall be taken as cost of bonus shares allotted.

Example :

Dt. of purchase of 50 units & cost of purchase	Dt.of allotment of bonus units (Record date) & No. of units	Dt. of sale of 50 units & sale price	Amt. of capital loss that cannot be set off/carried forward	Cost of bonus units
17.5.14 – Rs.10,000	15.8.14 – 20 units	21.10.14 – Rs.5,000	Rs. 5,000	Rs.5,000

### **SETOFF & CARRYFORWARD OF LOSS UNDER THE HEAD OTHER SOURCES:**

#### **Two kinds of losses :**

1. Loss from the activity of owning & maintaining race horses
2. Loss other than loss from the activity of owning & maintaining race horses

#### **Loss from the activity of owning & maintaining race horses :**

- a. This loss can be set off only against income from similar activity and cannot be set off against income under other head in the current year;
- b. Can be carried forward for 4 years to be set off under income from similar activity;
- c. Return should be filed within due date



d. Activity should be in existence in the year of adjustment

**Loss from the activity other than owning & maintaining race horses :**

- a. This loss can be adjusted with income under other head in the current year;
- b. It cannot be carried forward

**Casual income** cannot be adjusted against income under any head. Expenditure is also not allowable against casual income.