

Subject – Taxation I

Topic - Income from other sources

For B.com 4th Semester

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Income from other sources is a category under the Income Tax in which we can consider all the different sources of income which does not fall under other heads as Income from salary or House property or Capital Gains or Business / profession. As per Section 56(1) , any income which is not specifically exempted & not chargeable to tax under any other heads of income, shall be chargeable under the head Income from Other Sources.

Types of Incomes Chargeable under the head Income from other Sources [Section 56(2)]

Section 56(2) lays down an inclusive list of incomes taxable under this head. These are –

1. Dividend
2. Winning from lotteries, crossword puzzles, horse races, card games, other games of any sort of gambling, betting of any form or nature.
3. Interest on Securities
4. Income by way of letting on hire of machinery, Plant or Furniture.
5. Any sum received from employee as contribution towards staff welfare scheme.
6. Any sum received under Keyman Insurance Policy.
7. Any sum of Money or Value of Property received without consideration or for inadequate consideration to be subject to tax in the hands of the recipient [i.e. Taxability of Gift , section 56(2)(X)]
8. Interest on loan /Debenture
9. Director's sitting Fees
10. Agricultural Income outside India.
11. Remuneration received by the Members of Parliament.
12. Insurance Commission
13. Remuneration received by a teacher for acting as an examiner.
14. Compensation or Other Payment.
15. Interest on Bank deposits.
16. Interest on undisclosed sources.
17. Gratuity received by a director.
18. Family Pension.

Apart from the incomes as mentioned above, there are some incomes which may chargeable under the heads income from other sources.

DIVIDEND

The term dividend is defined in Section 2(22). Dividend is taxable u/s 56 whether it is paid in cash or in kind & whether such shares are held by the assessee as investment or stock – in – trade. Tax treatment of dividend are discussed below –

1. Domestic Company -
 - a) As per section 10(34) it is exempt from tax.
 - b) As per section 115BBDA such dividend is taxable if Gross dividend Exceeds Rs. 10 Lakhs.
 - c) Deemed Dividend declared by a domestic company is taxable in the hands of the recipient.
2. Non – Domestic Company - Taxable in the hands of the shareholder.

WINNING FROM LOTTERIES, CROSSWORD PUZZLES, HORSE RACES, CARD GAMES, OTHER GAMES OF ANY SORT OF GAMBLING, BETTING OF ANY FORM OR NATURE.

Gross Earning from these sources are chargeable to tax under the head “ Income from other sources ”without making any deduction in respect of expenses. No deduction u/s 57 is permissible as provided in section 58(4). However, there are 2 exception to this rule which are mentioned below :-

Exception – 1	A race horse owner is entitled to deduction in respect of expenditure incurred by him for maintaining the horses.
Exception – 2	Deduction is permissible for diversion by overriding title. For example, if assessee forgoes a certain % of lottery income in favour of the Government or to the concern Agency according to the terms, the amount so forgone shall be deducted.

Tax Rates - Section 115BB provides that income from the said sources shall be chargeable to tax @ 30%.

INTEREST ON SECURITIES-

Such income is chargeable to tax under the head “Income from other sources” if not chargeable to tax under the head “Profits & Gains of Business or Profession “

INCOME BY WAY OF LETTING ON HIRE OF MACHINERY, PLANT OR FURNITURE.-

Such income is chargeable to tax under the head “Income from other sources” if not chargeable to tax under the head “Profits & Gains of Business or Profession “

ANY SUM RECEIVED FROM EMPLOYEE AS CONTRIBUTION TOWARDS STAFF WELFARE SCHEME.

Any sum received by the assessee from his employees as contributions to any Provident Fund or superannuation fund or any fund set up under the provisions of the Employees State Insurance Act or any other staff Welfare fund is chargeable to tax under the head "Income from other sources" if not chargeable to tax under the head "Profits & Gains of Business or Profession"

ANY SUM RECEIVED UNDER KEYMAN INSURANCE POLICY.

Any sum received under a keyman insurance policy is chargeable to tax under the head "Income from other sources" if not chargeable to tax under the head "Profits & Gains of Business or Profession"

Any sum of Money or Value of Property received without consideration or for inadequate consideration to be subject to tax in the hands of the recipient [i.e. Taxability of Gift , section 56(2)(X)]

- i. In order to prevent the practice of receiving sum of money or the property without consideration or for inadequate consideration, sec 56(2)(x) brings to tax any sum of money or the value of any property received by any person without consideration or the value of any property received for inadequate consideration.
- ii. **Sum of Money** – If any sum of money is received without consideration & the aggregate value of which exceeds Rs. 50,000, the whole of the aggregate value of such sum is chargeable to tax.
- iii. **Immovable property [Land or building or both]**
 - I. If an immovable property is received
 - a) **Without Consideration** – The stamp Duty value of such property would be taxed as the income of the recipient if it exceeds Rs. 50,000.
 - b) **For Inadequate consideration** – If Consideration is less than the stamp duty value of the property & the difference between the stamp duty value & consideration is more than the higher of –
 - (i) Rs. 50,000
 - (ii) 5% of Consideration

The difference between the stamp duty value & the consideration shall be chargeable to tax in the hands of the assessee as "Income from other sources".

- II. **Value to be considered where the date of agreement is different from the date of registration –**

Taking into consideration the possible time gap between the date of agreement & the date of registration, the stamp duty value may be taken as on the date of agreement instead of the date of registration.
- III. **If the stamp duty value of immovable property is disputed by the assessee.**

The Assessing officer may refer the valuation of such property to a valuation officer, If such valuation is less than the stamp duty value.

iv. Movable Property

If an movable property is received

- a) **Without Consideration** – The aggregate Fair Market value of such property on the date of receipt would be taxed as the income of the recipient, if it exceeds Rs. 50,000.
- b) **For Inadequate consideration** – If the difference between the aggregate Fair Market value & such consideration exceeds Rs. 50,000, such difference would be taxed as the income of the recipient.

v. Non – applicability of Section 56(2)(X)-

Any sum of money or value of property received , in the following circumstances would be outside the ambit of sec. 56(2)(x)

- From any relative
- On the occasion of the marriage of the individual
- Under a will or by way of inheritance, or
- In contemplation of death of the payer or donor as the case may be, or
- From any local authority
- From such class of persons & subject to such conditions as may be prescribed.

Admissible deduction [sec 57]:

For computation of Taxable income under this head , the following deduction are to be made-

- 1. In case of Dividend (other than u/s 115 – O) or interest on securities**
 - Any reasonable sum paid by way of commission or remuneration to a banker or any other person.
- 2. Income consists of recovery from employees as contribution to any PF. Superannuation fund etc.**
 - Amount of contribution remitted before the due date under the respective Acts, in accordance with the provision of section 36(1)(va)
- 3. Income from letting on hire of machinery , Plant & furniture**
 - Current Repairs to the machinery , Plant & furniture
 - Insurance Premium
 - Depreciation / Unabsorbed Depreciation.
- 4. Family Pension-**
 - 1/3 rd of such income or Rs. 15,000 whichever is less.
- 5. Interest on Compensation / enhanced Compensation received –**
 - 50% of such interest
- 6. Any other expenditure not in the nature of capital expenditure incurred wholly & exclusively for earning such income.**

Notes –

1. Meaning of relative –

For the purpose of section 56(2)(x) , relative means-

(i) In case of an individual ---

- (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 individual.

(ii) In case of HUF, any member thereof.

Sums on Income from Other Sources:-

1. X receives the following gifts from Mr. A, One of his friends, during the previous year 2019-20.

Discuss the tax treatment of such gift.

(a) Cash gift of Rs. 44,500 on April 2, 2019

(b) Cash gift of Rs. 59,200 on June 12, 2019

(c) Cash gift of Rs. 43,700 on July 5, 2019

(d) Cash gift of Rs. 25,000 on the occasion of his daughter's marriage on August 5, 2019

(e) Gift of Motor Cycle (Fair Market Value Rs. 57,200) without consideration on August 2, 2019.

SOLUTION:

For computation of taxable amount of gift the following table is prepared.

Nature of Gift	Taxable amount (Rs.)	Reason
Cash gift from friend	44,500	Taxable – Not being a relative
Cash gift from friend	59,200	Taxable – Not being a relative
Cash gift from friend	43,700	Taxable – Not being a relative
Cash gift from friend on the occasion of his daughter's marriage	25,000	Taxable – It is not a gift on the occasion of marriage of Mr. X.
Gift of Movable Property	57,200	Fair Market value is taxable.
Total	2,29,600	

2. State the heads of income under which the following incomes are to be assessed.
 - (a) Family Pension received by the widow of an ex – Government employee.
 - (b) Fees received by a director of a company for attending its board meeting.
 - (c) Salary received by a partner from a Partnership Firm.
 - (d) Income from sub – letting.

SOLUTION :-

Particulars	Heads of Income
(a) Family Pension received by the widow of an ex – Government employee.	Income from other sources.
(b) Fees received by a director of a company for attending its board meeting.	Income from other sources.
(c) Salary received by a partner from a Partnership Firm.	Profits & Gains of Business or Profession
(d) Income from sub – letting.	Income from other sources.

3. Y submits the following particulars of his income & outgoing for the year 2019-20.
 - (a) Dividend received from X co. Ltd. an Indian Company Rs. 4,160
 - (b) Interest on American Government Bond Rs. 15,700
 - (c) Winning from horse races Rs. 13,200, expenses incurred for the same Rs. 2,000
 - (d) Income by the way of owning & maintaining race horses Rs. 8,900, Expenses incurred for maintaining such horses Rs. 1,200
 - (e) Winning from Lottery (net after deduction of tax @ 30%) Rs. 8,400
 Compute his income from other sources.

SOLUTION –

Computation of income from other sources of Mr. Y , a resident Individual For A.Y 2020-21

Particulars	Amount(Rs.)	Amount(Rs.)
Dividend from Indian Co. [Exempted u/s 10(34)]		NIL
Interest on American Government Bond		15,700
Winning from horse races [assuming it is gross up already]		13,200
Income by the way of owning & maintaining race horses	8,900	
Less :- Deduction u/s 57[Expenses Incurred]	1,200	7,700
Winning from Lottery [8400/70*100]		12,000
Total Income from other sources		48,600

Note – No deduction is allowed from winning from horse races [section 58(4)]