



# INCOME FROM OTHER SOURCES

B. Com. S.Y. Sem-IV

By

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## **BASIS OF CHARGE [Sec 56(1)]**

An income shall be chargeable to income tax under the head INCOME FROM OTHER SOURCES if:

- Such income is not exempt under the provisions of income tax act, 1961
- Such income is not chargeable to tax under any first four head viz., Income from Salaries, Income from House Property, Profit and Gain of Business and Profession and Capital Gains.

INCOME FROM OTHER SOURCES is therefore, a residuary head of income.

# **INCOME GENERALLY TAXABLE UNDER SECTION 56(1)**

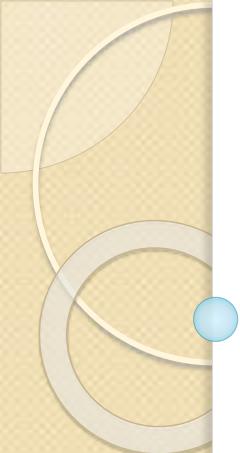
1. Income from sub-letting of house property by a tenant.
2. Interest on bank deposits
3. Interest on loans
4. Rent from a vacant piece of plot of land
5. Agricultural income from land situated outside India.
6. Insurance commission
7. Income from undisclosed sources
8. Interest received on delayed refund of income tax.
9. Remuneration received by a person from a person other than his employer e.g examination fee received by a teacher.
10. Income from royalty, if not PGBP.
11. Director's sitting fee for attending board meetings.

## **SPECIFIC INCOMES CHARGEABLE UNDER THE HEAD INCOME FROM OTHER SOURCES [SEC. 56(2)]**

As per section 56(2) the following income are always chargeable under the head income from other sources. These are :

1. Dividend except dividend received from domestic companies(even if shares are held a stock in trade).
2. Winning from lotteries, crossword puzzles, races including horse races, card games and other games of any sort or gambling or betting of any form or nature whatsoever(even if derived as a regular business activity).
3. Any sum received by the assessee from his employees as contribution to any P.F superannuation fund, or any other fund for the welfare of the employees( provided it is not taxable under the head of Profit and Gain of Business and Profession).

4. Income from interest on securities ( provided it is not taxable under the head Profit and Gain of Business and Profession).
5. Income from letting out of machinery, plant or furniture (provided it is not taxable under the head Profit and Gain of Business and Profession).
6. Income from letting out of machinery, plant or furniture alongwith building and letting of building is inseparable from letting of machinery, plant or furniture (provided it is not taxable under the head Profit and Gain of Business and Profession).
7. Any sum received under a keyman insurance policy including the sum allocated by way of bonus on such policy(provided it is not taxable under the head Profit and Gain of Business and Profession or Salaries).
8. Receipt of any sum of money( without consideration), receipt of any immovable property (without consideration), receipt of any movable property.
9. Receipt of shares of a company ( without consideration or for an inadequate consideration) if the recipient is a firm or a company.



## **METHODS OF ACCOUNTING FOR INCOME FROM OTHER SOURCES**

### **[SEC.145]**

According to section 145 income chargeable under the head INCOME FROM OTHER SOURCES shall be computed in accordance with the method of accounting regularly employed by the assessee:

- if Mercantile System is regularly employed by the assessee, the income is taxable on “accrual” basis.
- if Cash System is regularly employed by the assessee, income is taxable on “receipt” basis.
- if Assessing Officer is not satisfied about the correctness or completeness of the accounts of the assessee or where the method of accounting have not been regularly followed by the assessee, the A.O may make Best Judgment Assessment after giving an opportunity of being heard to the assessee.

## WINNINGS FROM LOTTERIES, CROSSWORD PUZZLES, RACES INCLUDING HORSE RACES, CARD GAMES, GAMBLING OR BETTING [SEC. 56(2)(iv)]

- Winning from lotteries.
- Winning cross word puzzles.
- Winning from races including horse races
- Winning from card games.
- Winning from gambling and betting.

No expenditure is allowed to be deducted out of these incomes.

**Tax is deducted at source at prescribed rates out of following incomes:**

|  |                                |
|--|--------------------------------|
| • Winning from lotteries                   | if prize exceeds rupees 10,000 |
| • Winning cross word puzzles               | if prize exceeds rupees 10,000 |
| • Winning from races including horse races | if prize exceeds rupees 5,000  |
| • Winning from card games                  | if prize exceeds rupees 10,000 |

**Prescribed rates of TDS = 30% (plus SC, if applicable plus EC @2% & SHEC @1% if applicable).**

In case amount of prize is NET, RECEIVED OR AFTER DEDUCTION OF TAX. It has to be grossed up:

$$\text{NET} \times 100/100 - (30)$$

**INCOME TO INCLUDE TRANSFER OF  
MONEY AND OR PROPERTY [SEC.  
56(2)(vii)]**

If an individual or a HUF receives, on or after 1<sup>st</sup> day of October 2009, in any previous year from any person or persons, a sum money or property which falls under any of the 4 categories mentioned below, it is chargeable to income-tax under the head “INCOME FROM OTHER SOURCES”:

| Nature of gift  | Condition for taxability              | Whether single or all receipt are considered for limit of Rs. 50,000 | Value chargeable to tax                           |
|---|---------------------------------------|--|---|
| Any sum of money  | If aggregate value exceeds Rs.50,000  | All receipts   | Whole of such aggregate value                     |
| Any immovable property without consideration                  | If stamp duty value exceeds Rs.50,000 | Single receipt   | Stamp duty value                                  |
| Any movable property without consideration                    | If FMV exceeds Rs.50,000              | All receipts   | Whole of such aggregate FMV                       |
| Any movable property for consideration which is less than FMV | If FMV exceeds Rs.50,000              | All receipts   | Whole of such aggregate FMV<br>Less consideration |

# **MEANING OF PROPERTY AND RELATIVES**

◦ **Property** means the following capital asset of the assessee namely:

1. Immovable property being land or building or both
2. Shares and securities
3. Jewellery
4. Drawings
5. Paintings
6. Sculptures
7. Any work of art
8. Bullion (including w.e.f. 1<sup>st</sup> June, 2010)

**Relative** means:

- a) Spouse of the individual
- b) Brother or sister of the individual
- c) Brother or sister of spouse of the individual
- d) Brother or sister of either of parents of the individual
- e) Any lineal ascendant or descendant of the individual
- f) Any lineal ascendant or descendant of spouse of the individual
- g) Spouse of the person referred to in clauses (ii) to (vi)

## **NON APPLICABILITY OF SECTION - 56(2)(vii) i.e.**

*Cases in which gift of money or of property  
(immovable or other specified property) shall not be  
taxable*

Any sum of money or property received

1. From any relative
2. On the occasion of marriage of the individual
3. Under a will or by way of inheritance
4. In contemplation of death of the pair
5. From any local authority
6. From any trust or institution registered under section 12AA

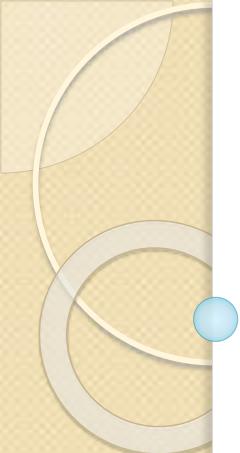
## **DEDUCTION OF EXPENCES FROM DIVIDEND INCOME & INTEREST ON SECURITIES [SEC. 57]**

The following expences can be claimed as deductions from dividend received from domestic companies & interest on securities:

- Any reasonable sum paid by way of commission or remuneration to a banker or any other person for the purpose of realising the dividend/interest.
- Interest on moneys borrowed for purchasing the shares/securities.
- Any other expenditure, not being expenditure of a capital nature, expended wholly and exclusively for the purpose of earning dividend/interest.

### **GROSSING UP OF INTEREST ON SECURITIES:**

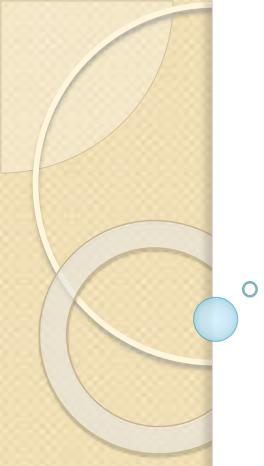
Gross interest= Net interest x 100/100- rate of TDS



# **DEDUCTION OF EXPENSES FROM INCOME FROM LETTING OUT OF MACHINERY, PLANT OR FURNITURE** **(SECTION -57)**

The following deductions are available

- (a) Repairs of the building
- (b) Insurance premium of the building
- (c) Repairs of machinery, plant or furniture
- (d) Insurance of machinery, plant or furniture
- (e) Depreciation based upon block of assets in the same manner as allowed under section - 32 in the case of PGBP
- (f) Any other expenditure not being expenditure of capital nature expended wholly or exclusively for the purpose of earning such income.



# **DEDUCTION FROM FAMILY PENSION RECEIVED BY THE LEGAL HEIRS OF THE DECEASED EMPLOYEE (SECTION - 57)**

Family pension means a regular monthly amount payable by the employer to the legal heir of deceased employee. After the death of the employee if there is any family pension received by the legal heir of the deceased it will be deemed to be the income of the legal heir and will be taxable under the head ITC. On such pension a standard deduction shall be allowed to the legal heir at 1/3<sup>rd</sup> of such pension or Rs. 15000, whichever is less.



## **BASIC CONDITIONS FOR ALLOWABILITY OF ANY OTHER EXPENDITURE**

### **(SECTION - 57)**

- (A) The expenditure should be incurred wholly and exclusively for the purpose of earning such income
- (B) It should not be of the nature of capital expenditure
- (C) It should not be of the nature of personal expenditure
- (D) It should be incurred in the relevant previous year and not in any prior or subsequent previous year(s).

## AMOUNT NOT DEDUCTABLE IN COMPUTING THE INCOME UNDER THE HEAD IOS (SECTION - 58)

The following payments shall not be deductible in computing the income chargeable under the head IOS:

- (a) Personal expenses of the assessee
- (b) Interests paid outside india on which tax had not been deducted at source
- (c) Salaries paid outside India on which tax had not been deducted at source
- (d) Any expenditure referred to in section - 48 [ like excesssive payments to relatives section - 40A(2) and cash payment exceeding Rs. 20000- Section - 40A(3) ]
- (e) Income tax/wealth tax paid
- (f) Any expenditure or allowance in connection with winning from lotteries, crossword puzzles, races including horse races, card games, gambling. However, expenses relating to the activity of owning and maintaining race horses are allowable.

## **Bond Washing Transactions (Section - 94)**

• A bond washing transaction is defined as a transaction which consists of selling securities (to a friend or relative) some time before the due date of interest and acquiring back the same securities after the due date is over. The practice is generally adopted by the high income group assessee to evade tax by transferring securities to low income group assessee on the occasion of due date of payment of interest. Section - 94(1) provides that where a security owner transfers the securities on the occasion of the due date of the interest and reacquires them and the interest is received by the transferee the income from such securities will be deemed as income of the transferor and accordingly it will be included in the total income of the transferor.

# QUESTION :

Following are the particulars of the income of R. Compute her income under the head Income from Other Sources for the assessment year 2011-2012:

1. Dividend received from an Indian company Rs. 11,000
2. Winnings from lottery Rs. 70,000
3. Winning from card games (gross) Rs. 25,000
4. Interest received on Govt. Securities held as investments Rs. 14,000
5. Family pension received Rs. 42,600

R incurred the following expenses:

1. Interest paid on amount borrowed for purchasing shares Rs. 7,000
2. Collection charges in respect of interest on govt. Securities @ 2 1/2% on amount received.
3. Purchased lottery tickets of Rs. 500.

## **COMPUTATION OF INCOME UNDER THE HEAD “OTHER SOURCES”**

|   | Rs.    | Rs.      |
|---|--------|----------|
| 1. Dividend   |        | exempt   |
| 2. Interest on Govt. Securities   | 14,000 |          |
| less: collection charges  | 350    | 13,650   |
| 3. Winning from lottery( $70,000 \times 100/70$ )<br>cost of tickets not deductible |        | 1,00,000 |
| 4. Winnings from card games   |        | 25,000   |
| 5. Family pension   | 24,600 |          |
| less: standard deduction 1/3 of 24,600<br>or Rs. 15000 whichever is less            | 8,200  | 16,400   |
| -----   |        |          |
| Income from other sources   |        | 1,55,050 |
| -----   |        |          |