

INCOME UNDER THE HEAD “INCOME FROM OTHER SOURCES”

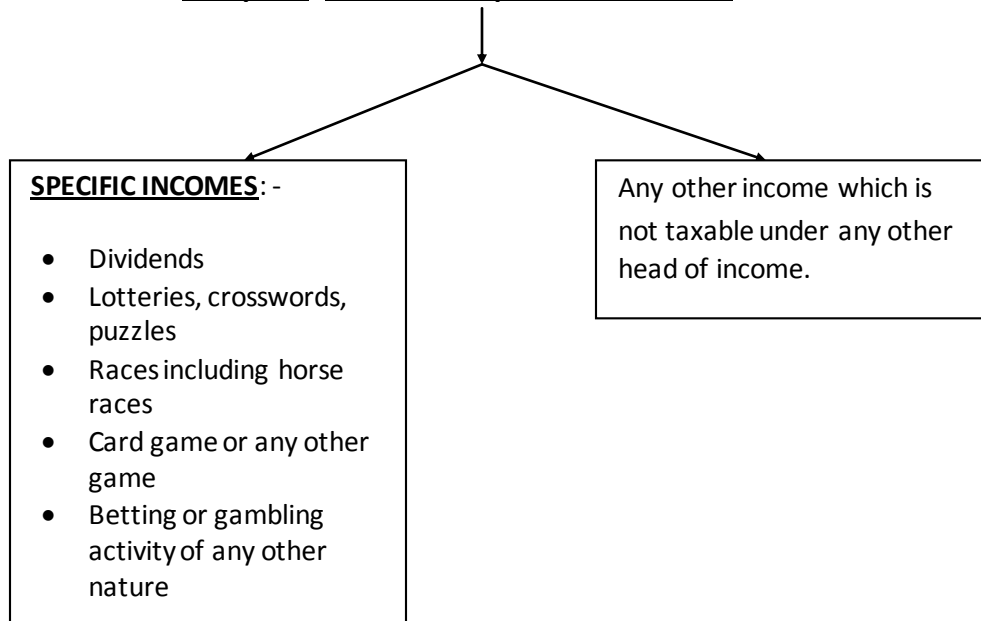
AND IT’S COMPUTATION

1. **BASIS FOR CHARGE**:- The Following conditions must be satisfied for charging income to tax under income under the head income from other sources:-

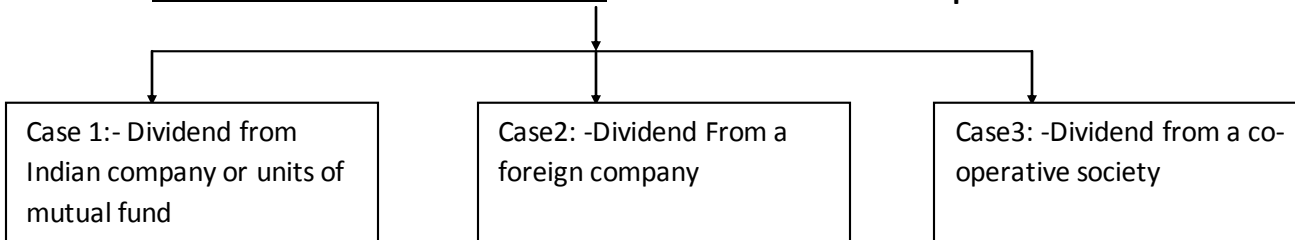
- a) There must be an income.
- b) It should not be an exempt income.
- c) Such income should not be charged to tax under any other head of income.

Therefore this head of income is also called as “**residuary head of income**”.

2. **INCOMES TAXABLE UNDER THIS HEAD**: - The various types of incomes taxable under this head can be classified into **two parts**. These are explained as follows:-



3. **TAXABILITY OF DIVIDEND INCOME**: - Taxable in hands of recipient.



Case 1: - Any Kind of dividend, paid, declared or distributed by a Indian company or units of mutual fund is liable to dividend distribution tax and hence is exempt from tax in hands of recipient under section 10(34).

Case 2: -Taxable dividend in case of a foreign company is calculated as follows:-

Gross dividend	xxx
Less: -collection charges	xxx
Less: -Interest on money borrowed	xxx
Less: - Any other expenditure	xxx
Equals: - TAXABLE DIVIDEND	xxx

Case 3: - Taxable dividend in case of a co-operative society is calculated as follows:-

Gross dividend	xxx
Less: -collection charges	xxx
Less: -Interest on money borrowed	xxx
Less: - Any other expenditure	xxx
Equals: - TAXABLE DIVIDEND	xxx

NOTE: - INTEREST ON MONEY CAN BE CLAIMED AS A DEUCTION EVEN IF NO INCOME IS EARNED BY WAY OF DIVIDEND

4. WINNINGS FROM LOTTERIES , CROSSWORD PUZZLES, HORSE RACES, CROSSWORD PUZZLES, GAMBLING: -

Any kind of income in the nature of lotteries, Crossword puzzles, Horse races, card games, gambling is taxable at a flat rate of 30%(plus 2% education cess and 1% Secondary and higher education cess)

NOTE: - a) No deduction is allowed from such income

b) Only deduction on account of expenses relating to owning and maintaining horses is allowed.

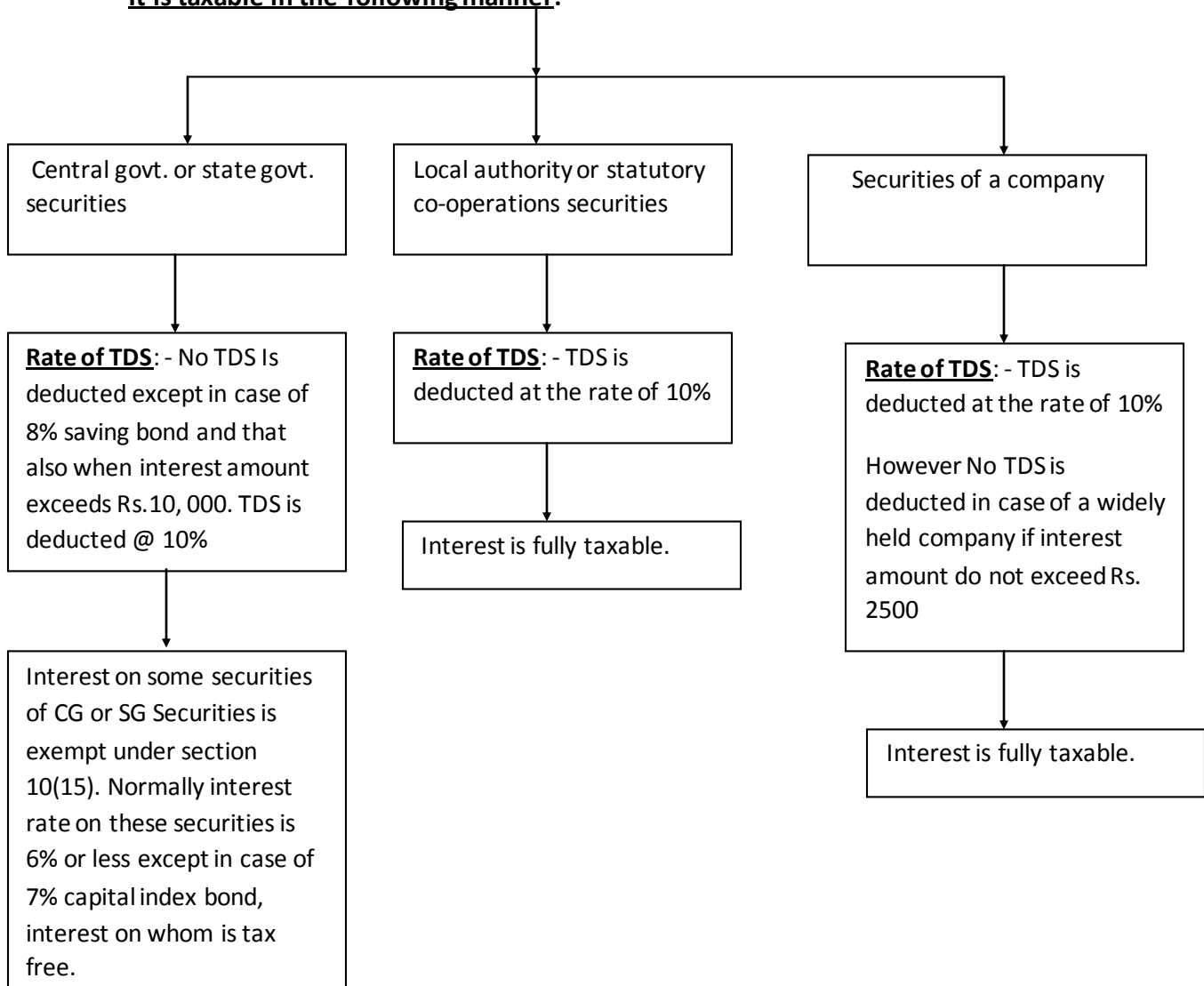
c) **GROSSING UP:** - As TDS is deducted from such income @ of 30%, Such TDS is included in Dividend income actually received by way of reverse engineering. Such Reverse engineering is also required to be done in case the organizing company pays tax on behalf on winner. It is to be noted that such calculation is required only in the case where dividend income actually received is given and not when dividend income is given. Reverse engineering is done in following manner: -

$$\frac{\text{Dividend income recieved}}{(100 - 30)} * 100$$

5. **INTEREST ON SECURITIES:** - Interest is taxable on “due” or “receipt” basis, if no method is adopted by assessee, it is always taxable on “due” basis. It is taxable in hands of the person who holds the securities on record date (date on which interest becomes due) and whole amount of interest would be taxable in hands of assessee who holds it on record date whether he holds securities for whole period or not.

It is to be noted that due care has to be adopted while calculating amount of taxable interest as in some cases there might be written that assessee purchased the securities from company directly and in this case interest only for the period for which securities are held by the assessee would be paid to assessee and only that much interest would be taxable.

It is taxable in the following manner:-



Note: - It is to be noted that reverse Engineering is also required in case TDS is deducted on Interest income received. It is also called as grossing up of interest income received. It is done in following manner:-

$$\frac{\text{Interest income received}}{(100 - \text{Rate Of TDS})} * 100$$

Deductions from interest income:-

- a) Collection charges
- b) Interest on loan for money borrowed for purchase of securities
- c) Any other expenditure, not being of capital nature, expended wholly for the purpose of earning interest income.

TAXABLE INTEREST INCOME: - Interest income Less Deductions allowed.

6. SOME SPECIAL TRANSACTIONS:-

a) Bond Washing Transactions:-

- ✓ One person sells securities to another person
- ✓ Sale is just before Record Date(Date on which interest becomes due)
- ✓ Such person reacquires title after interest is received
- ✓ Then, Such Income is Taxable in hands of transferor
- ✓ However This provision is not applicable if it is proved:-
 - There was no avoidance of tax
 - Avoidance was exceptional and not systematic

b) Dividend Stripping Transactions:-

- ✓ One person acquires securities or units, 3 months before record date
- ✓ Such person sells them:-
 - Securities within 3 months after record date
 - Units within 9 months after record date
- ✓ And the dividend on such securities or units is exempt from tax
- ✓ Then, any capital loss on sale of such securities, to the extent of such dividend, Shall be ignored for the purpose of computing his taxable income, meaning that such capital loss would not be allowed to be set off.

c) Bonus stripping: -

- ✓ This provision is applicable in case of units only
- ✓ Where one person acquires units 3 months prior to record date,
- ✓ such person is entitled to bonus units
- ✓ and he sells all or any of such units within 9 months after record date, retaining any part or all of additional units
- ✓ then any loss arising on sale of such units shall be ignored

- ✓ Further the amount of loss, so ignored, would be deemed to be cost of the additional units held by the assessee.

7. INCOME FROM LETTING OUT OF PLANT, MACHINERY, FURNITURE: -

If such Income is not taxable under income under the head “profits and gains from business and profession”, it is taxable under this head.

However Deduction on account of repairs, Depreciation, Insurance premium is allowed as a deduction.

8. INCOME FROM COMPOSITE LETTING OF PLANT, MACHINERY OR FURNITURE AND

BUILDING: - Such Composite rent would be taxable in income under the head “income from other sources” only when such income is not taxable under income under the head “profits and gains from business and profession”.

However, deduction on account of:-

- ✓ Current repairs to building
- ✓ Repairs to plant, Furniture
- ✓ Depreciation
- ✓ Insurance premium or
- ✓ Any other expenditure

Is allowed under section 57.

It is to be noted that Deduction on account of only current repairs is allowed, in case of capital repairs, depreciation on such capital repairs is allowed.

9. GIFTS (section 56(2)(vi)): - The amount of gifts is taxable as follows: -

PARTICULARS	AMOUNT TAXABLE
CASH GIFT EXCEEDING Rs. 50000	WHOLE AMOUNT IS TAXABLE
IMMOVABLE PROPERTY WITHOUT CONSIDERATION WITH STAMP DUTY VALUE EXCEEDING Rs. 50000	WHOLE AMOUNT IS TAXABLE
MOVABLE PROPERTY WITHOUT CONSIDERATION WITH FARE MARKET VALUE EXCEEDING Rs. 50000	WHOLE AMOUNT IS TAXABLE
MOVABLE PROPERTY WITHOUT ADEQUATE CONSIDERATION AND DIFFERENCE BETWEEN FARE MARKET VALUE AND CONSIDERATION EXCEEDS Rs.50000	THE WHOLE OF DIFFERENCE BETWEEN FARE MARKET VALUE AND CONSIDERATION IS TAXABLE

- ✚ In case of immovable property if there is inadequate consideration, Tax would be charged on the transferor in nature of capital gains on the basis of stamp duty value but there would be no tax on the transferee.

CASES WHERE GIFTS ARE NOT TAXABLE: -

GIFT RECEIVED FROM A REALTIVE
GIFT RECEIVED ON MARRIAGE OF INDIVIDUAL
RECEIVED UNDER WILL OF INDIVIDUAL
RECEIVED IN CONTEMPLATION OF DEATH OF PAYER OR DONOR
GIFT RECEIVED FROM ANY LOCAL AUTHORITY
GIFT RECEIVED FROM ANY INSTITUTION OR FUND DEFINED u/s 10(23C)
GIFT RECEIVED FROM ANY TRUST OR INSTITUTION REGISTERED u/s 12AA

HERE REALTIVE MEANS:-

- + Spouse of the individual
- + Brother and sister of the individual
- + Brother and sister of spouse of the individual
- + brother and sister of either of parents of individual
- + Any lineal ascendant or descendant of the individual
- + Any lineal ascendant or descendant of spouse of the individual
- + Spouse of persons referred to in (ii) and (iv) above

10. TAXABILITY OF SHARES RECEIVED BY FIRM OR COMPANY FOR INADEQUATE OR WITHOUT CONSIDERATION (section 56(2)(viiia)):-

- ✓ Where a firm or company, not being a company in which public is substantially interested
- ✓ Receives from a person or group of persons on or after 1-6-2010
- ✓ Any property, being shares of a company, not being a company in which public is substantially interested:-
 - + **Without consideration:** - The aggregate Fair market value of which exceeds Rs. 50000, such amount of FMV is to be taxed in hands of recipient.
 - + **For inadequate consideration:** - Where Difference between Fair market Value and Consideration exceeds Rs.50000, such difference is to be taxed in hands of recipient.
- ✓ It is to be noted that, this section would not include transactions undertaken for the purpose of re-organization, amalgamation and demerger.

The act has amended section 142A (1) to allow A.O. To make reference to valuation officer for estimation of value of property for the provisions u/s 56(2)

11. INTEREST ON COMPENSATION OR ENHANCED COMPENSATION: - It is taxable in the year in which it is received.

It is taxable under income under the head "income from other sources".

DEDUCTION ADMISSIBLE: - From such interest a sum equal to 50% of the interest would be allowed as a deduction and no other deduction would be admissible.

12. FAMILY PENSION: - After death of employee if any family pension is received by his legal heirs, such income would be taxable in hands of legal heir under income under the head "income from other sources".

DEDUCTION ADMISSIBLE: - A sum equal to 1/3 of such pension or Rs. 15000 Whichever is less would be allowed as a standard deduction from such pension.

13. AMOUNTS NOT DEDUCTIBLE (section 58): -

The following expenses are not deductible while computing income under the head "income from other sources":-

- + Personal expenses
- + Interest paid out of India without deducting TDS
- + Salary paid out of India without deducting TDS
- + Income tax, wealth tax
- + Expenditure of amount more than Rs. 20000(Rs. 35000 in case of goods carrier)on which A/c Payee Cheque is not paid
- + Expenditure in connection with winning of lotteries, Card games, etc.

14. DEEMED INCOME (section 59): - Where any allowance or deduction is made in any assessment year for any loss under income under the head "income from other sources", and in subsequent year assessee recovers the same, the amount so received would be taxable under Income under the head "income from other sources".