

## **Unit- 3**

### **Income from Other Sources:- Sections:- 56 to 58**

The Incomes not taxable under any other heads is taxable under this head. Following incomes are taxable under this head as per Sections 56(1) and 56(2).

1. Dividends from Domestic Companies, mutual funds of domestic companies exceeding Rs.10,00,000, Foreign companies and from Co-operative societies.
2. Interest on deposits with commercial banks, financial institutions and public sector companies.
3. Royalty from Mining or publication of literary works.(Reasonable expenses are allowed as deduction)
4. Director's fees or commission received from a company.
5. Income from agriculture from the land situated outside India.
6. Rent from letting plant and machinery, furniture etc., (all reasonable expenses are allowed as deduction.)
7. Salary or Pension received by MLA or MLC & M.P.
8. Family pension in excess of  $\frac{1}{3}^{\text{rd}}$  of such pension or a maximum of Rs.15,000/-.
9. Casual income: The incomes which are not regular in nature are called casual incomes. The examples are winnings from lottery, cross word puzzles, horse race, card games, game shows, gambling and betting etc.,
10. Ground rent / Rent of vacant land.
11. All interest including interest on foreign securities.
12. Remuneration or fees received by a professor, lecturer etc, for examination work.
13. Income from undisclosed sources.
14. Rent on sub-letting of house property.
15. Advance money forfeited due to cancellation of negotiation of sale of any capital asset during the financial year 2014-15 and subsequent years is chargeable to tax under this head.
16. Gratuity paid to a director who is not an employee of the company.
17. Income from racing establishments.
18. Interest on compensation received for delay in payment on compulsory acquisition or if there is any enhancement in compensation and any interest paid for such compensation is taxable under this head.
19. Commission earned by the insurance agents.
20. A gift (Cash or Cheque or Draft, Movable or Immovable property) from relatives of any amount is exempted. The term relative means (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 and (g) Spouse of the person referred to in (b) to (f).

21. Gift (Cash or Cheque or Draft) in aggregate received from one or more persons other than relatives is exempted up to Rs.50,000. If it is more than Rs.50,000 the entire amount of gift received is fully taxable.

**NOTE:** While calculating the above monetary limit of Rs.50,000, any sum of money or property received from the following shall not be considered –

- a. Money or property received from a relative.
- b. Money or property received on the occasion of the marriage of the individual.
- c. Money or property received by way of will or inheritance.
- d. Money or property received in contemplation of death of the payer.
- e. Money or property received from a local authority.
- f. Money or property received from any fund, foundation, university, other educational institution, hospital, medical institution, any trust or institution referred to in section 10 (23C).
- g. Money or property received from a charitable institute registered under section 12 AA.

**Taxable value of immovable property acquired during previous year for inadequate consideration:**

If the difference between the actual consideration and stamp duty value on the date of agreement for each property –

- Does not exceed higher of **Rs.50,000 or 5% of consideration** – Taxable is Nil
- Exceeds higher of **Rs.50,000 or 5% of consideration** – The difference is taxable.

**For the purpose of ascertaining taxable amount of gifts, the value of property must be ascertained as follows –**

1. Immovable property – stamp duty value on the date of agreement .
2. Jewellery, archaeological collection, drawings, paintings, sculptures or any work or art – Fair market value
3. Listed shares and securities received through a recognized stock exchange – The transaction value.
4. Listed shares and securities received through a transaction outside stock exchange – Lowest price of the shares or securities on a recognized stock exchange on the date of transaction.
5. Unlisted equity shares – Book value of the shares.
6. Other unlisted shares and securities – Fair market value.

**Deductions Allowable:- Section 57**

**1. In case of dividends and interest on securities:-**

The following are allowable expenses-

- a) Any reasonable amount paid by way of commission or remuneration to a banker or any other person for the purpose of realizing such dividends and interest.
- b) Interest on loans taken for the purpose of purchasing the shares and securities.

**2. In case of income from letting machinery, plant or furniture with or without building:-** The following expenses are allowable-

- a) Current repairs to the premises.
- b) Insurance premium paid against the risk of damage or destruction of the premise.
- c) Repairs and insurance of machinery, plant or furniture.
- d) Depreciation in respect of buildings, machinery or furniture owned by the assessee.
- e) Any other expenditure (not being in the nature of capital expenditure) incurred by the assessee wholly and exclusively for earning such income.

**3. Interest on compensation or enhanced compensation received** – a deduction is allowed at 50% of interest received.

**4. In case of income in the nature of family pension:-**

A deduction of 33 1/3<sup>rd</sup> % i.e., 1/3 of such family pension is allowed subject to the maximum of Rs.15,000/-.

**Amount Not Deductible:- Section-58:-**

1. Any personal expenses of an assessee.
2. Any interest chargeable to tax which is payable outside India on which tax has not paid or deducted at source.
3. Any salaries payable outside India unless the tax has been paid or deducted at source from such salary.
4. Any amount paid as wealth tax is not deductible.
5. No expenditure or allowance while computing casual income except in the case of the income of the owner of race horse from the activity of owning and maintaining such horses.

**Taxation of Casual Incomes like winnings from lotteries, cross-word puzzles, horse race, card games and game shows etc.,**

1. They are taxable as income from other sources.
2. Where the winnings from lotteries or cross-word puzzles exceed Rs.10,000/- they are subject to deduction of tax at source on the gross amount of such winnings. Similarly where the winnings from horse race exceeds Rs.5,000/- they are also subject to deduction of tax at source.

In both the cases the rate of deduction of tax at source is at 30%.

### **Interest on Securities:-**

The word securities mean a guaranty in respect of payment of principal amount and interest. Interest on securities means-

- a) Interest on security of State or Central Government. (No TDS)
- b) Interest on debentures or other securities for money issued by or on behalf of a local authority or a company or a corporation established by a State or Central Act.

The authorities mentioned above only can issue such securities.

### **Types of Securities:-**

#### **A. Exempted from tax:-**

Income tax Act 1961 provides for exemption of certain interest from tax under section 10(15). Interest on all such securities, certificates, bonds etc., is all together not included in the Gross total income of the assessee and no tax is payable there upon.

There are some securities whose interest is exempted from tax but they are no longer in existence. They are-

1. National plan certificates.
2. National defence bonds.
3. Treasury saving deposit certificates.
4. Special bearer bonds 1991.

Interest on the following bonds issued by the public sector companies or undertakings has been notified to be exempted.

1. 10% secured, redeemable NTPC bonds, 1986 I series.
2. 10% secured, redeemable non-convertible bonds issued by Mahanagar Telephone Nigam Ltd.
3. 9% secured, redeemable non-convertible bonds 1987 B series issued by National Hydro Electric Power Corporation Ltd.
4. 10% and 9% secured, redeemable non-convertible bonds issued by Indian Railways Finance Corporation Ltd.
5. 9% tax-free secured redeemable bonds issued by Power Finance Corporation Ltd.
6. 10% tax-free secured redeemable non-convertible bonds issued by Indian Telephone Industries Ltd.
7. 10 years, 9% tax-free, secured redeemable non-convertible NTPC bonds IV issue.
8. 10 years, 9% tax-free secured redeemable non-convertible PFC bonds, II series issued by Power Finance Corporation.
9. 10 years, 9% tax-free secured redeemable non-convertible REC bonds issued by Rural Electrification Corporation Ltd.
10. 10 years, 9% tax-free secured redeemable non-convertible bonds, C series issued by Naively Lignite Corporation Ltd.
11. 7% Capital investment bonds.
12. 9% or 10% National relief bonds.

## **B. Tax-Free Securities:-**

### **a) Tax-free Commercial (Non-Government) Securities:-**

These securities are those which are issued by a local authority, statutory corporation or a company in the form of debentures or bonds. Actually these are not tax free. Tax is paid by the issuing authority to the government on behalf of such security holders. The person who is holder of such security is liable to tax not only for the interest he is to receive but also the amount of tax which has been deposited on his behalf.

### **b) Tax-free Government Securities:-**

These are securities on which no tax is deducted at source.

## **C. Less Tax Securities:-**

These are the most common form of securities. Out of the amount of interest due to securities holder tax at the prescribed rates has to be deducted by the issuing authority before payment of interest. The assessee is to pay tax not only on the net amount of interest received but he shall be liable to pay tax on gross interest i.e., amount due before TDS.

### **Deduction of tax at source:- Section-193**

Before making payment of interest on securities it is the duty of securities issuing authority to deduct tax at source at the rate in force during the previous year. TDS will be deposited in the government treasury on behalf of security holder. While paying the tax on the total income the amount of TDS will be adjusted by the securities holders.

### **Rules for Grossing Up:-**

#### **1. Interest received on tax free government securities:**

In this case no tax is to be deducted at source. Therefore the interest calculated according to given rate of interest on these securities or the interest received is as good as gross interest. Hence such interest should not be grossed up.

#### **2. Interest on tax free commercial securities and listed or unlisted debentures issued by the local authorities or statutory bodies:**

- i. When the amount of interest is given- it should be grossed up by adding the tax paid by the company and the amount of interest received.
- ii. When the rate of interest is given- it should also be grossed up because tax is paid by the company.

#### **3. Interest on less tax commercial securities and listed or unlisted debentures issued by the local authorities or statutory bodies:**

- i. When the net interest is given- it should be grossed up by adding net interest and TDS.
- ii. When the rate of interest on securities is given- the question of grossing up does not arise. Therefore the amount calculated will be the gross interest.

4. **Interest on Bank deposits:** exceeding Rs.10,000. The rate of TDS is 10%.

In the above cases the formula for grossing up- **Net interest / 90 x 100**

5. **Winnings from lotteries, cross word puzzles, horse race etc:**

In this case the amount received is the net income i.e., after TDS at 30% of the amount. The formula for grossing up- **Net amount / 70 x100**

**NOTE:** No TDS in case of winning from gambling's and betting's.

### **Sub-letting:**

When main tenant let out full or part of hire building to another person is called sub-letting. Income from sub-letting, if any is taxable under the head Income from other sources and not under the head house property. Out of actual rent received the expenses relating to sub-let portion are allowed to be deducted.

### **Bond Washing Transactions:-**

The due dates of interest on securities are important because the interest will be the income of a person who is the owner of securities on such due dates. If these securities are sold just before the due date, the interest of the period will be the income of the purchaser. The seller may purchase the same or similar securities soon after the due date.

In this way it is possible to avoid the tax by transferring the same securities to his relative or such other persons who are having no taxable income or a small amount of taxable income.

These types of transactions are called bond washing transactions and interest on such securities will be deemed to be the income of the transferor and taxed accordingly.

### **Various Accounting Systems/ Methods:-**

**Cash System:-** Under this system only such transactions are recorded in which actual receipts and actual payments of the business occur. Entries in the books are made only when money is actually received or paid. No account is maintained for outstanding, prepaid, accrued or unearned incomes. This system is best suitable for professional persons like Doctors, Chartered Accountants etc.,

**Mercantile System:-** Under this system proper record of cash as well as credit transactions is made. Under this system any income which related to the current year, whether actually paid or not is taken into consideration for computing profits or losses of the business. The profit and loss account prepared under this system gives the correct profit or loss and the Balance sheet gives correct financial position of the business.

**Hybrid System:-** Under this system of accounting the assessee adopts both the previous methods in a mixed form. Some transactions are recorded in cash system and some are under mercantile system depending upon the choice of book keeper. The income tax authorities accept all the three methods of accounting for the purpose of assessment of profits and gains.

### **Problems on Income from other sources:-**

**Problem-1.** Mr. Ram had taken a shop on monthly rent of Rs.2,000. He has sub-let 25% area to Mr. Kumar at Rs.1,000 p.m. He incurred Rs.4,000 on repairs of the shop. Calculate his income from sub-letting.

**Problem-2.** Mr. Sudhakar hired a house of 5 rooms at Rs.5,000 p.m. He paid Rs.6,000 as Municipal taxes and spent Rs.5,000 on the repairs of the house. He has sub-let 2 rooms at the rate of Rs.3,000 p.m to his friend Mr. Prabhakar. Compute his income from sub-letting.

**Problem-3.** Mr. Ajay invested Rs.90,000 in 10% Tax-free debentures of a company. What will be his taxable interest for the previous year ending 31-03-2019, if the rate of deduction of tax at source is 10 %.

**Problem-4.** Mr. Raja held the following investments.

- a.) Rs.90,000- 10% Tax-free debentures of a listed co..
- b.) Rs.1,00,000- 12% Tax-free Punjab Govt. loan.

Calculate the income from other sources.

**Problem-5.** Mr. Prabhu has the following incomes during the year ending 31-3-19.

Dividend declared by Madhuri Co. on 31-03-18 Rs.6,000. Dividend declared by Rani Mukarji Co, on 31-03-19 Rs.9,000. Interim dividend received on 01-05-2018 Rs.3,000. He won gold worth Rs.10,00,000 from Punjab State lottery. During March 2019, he earned Rs.1,00,000 as prize money on horse races. These horses are owned by him and expenditure incurred on maintenance of these horses amounted to Rs.1,60,000. Compute his income from other sources.

**NOTE:** Loss from activity of maintenance of race-horses can be set off only from income of same activity and not from any other income. It cannot be set off even from income by way of betting at race course. In case such loss remains unadjusted it can be carried forward for 4 succeeding previous years to be set-off only from income of same activity.

**Problem-6.** Compute the Income from other sources from the particulars given below-

- a) Interest on deposits with a Co. Rs.10,000.
- b) University remuneration for working as examiner Rs.6,000
- c) Royalty for writing books Rs.60,000. (He claims to have spent Rs.20,000 on writing these books.)
- d) Dividend declared by Raveena Co. on 01-03-18 but paid on 01-05-18 Rs.6,000.
- e) Interim dividend paid on 01-05- 18 Rs.3,000.

- f) Stake money on race horses Rs.1,50,000. Horses are maintained by him and expenses on maintenance of these horses Rs.2,40,000.
- g) Family pension received Rs.36,000.

**Note: Stake Money:-** Amount received as prize money by race horse for being placed at First or Second or any other position in such race.

**Problem-7.** Compute income from other sources of Miss. Kanya Kumari who held the following investments during the previous year 2018-19.

- a) Rs.11,000 – 10% Central Govt. securities.
- b) Rs.32,400 – 10% tax-free commercial securities.
- c) Rs.6,300 received as interest on tax-free public ltd. co. securities- listed
- d) Rs.7,200 received as interest on Karnataka Govt. securities.
- e) Rs.3,600 received as interest on Deepak Fertilizers - listed
- f) Rs.30,000 – 13.5% securities of paper mill co. ltd. – listed.
- g) Rs.35,000 – 11% securities of a paper mill co. ltd. – listed.
- h) Rs.10,000 – 15% Jaipur Municipal corporation bonds
- i) Dividends from Carona ltd. Rs.4,000.
- j) During the year she also got a prize in Karnataka state lottery. The net amount received by her was Rs.35,000.

Interest on all securities is payable on 1<sup>st</sup> July and 1<sup>st</sup> January every year. Bank charged Rs.200 as collection charges.

**Problem-8.** Mr. Lal has the following investments and incomes in the previous year ended 31-03-2019. Calculate his income from other sources-

- 1) Dividends from a Co. Rs.7,800.
- 2) Examiners remuneration Rs.2,000.
- 3) Royalty by publication of books Rs.48,000.
- 4) Winnings from lottery Net Rs.70,000.
- 5) Rs.40,000, 10% debentures of a co. listed
- 6) Rs.40,000, 12% tax-free Punjab Govt. securities.
- 7) Rs.50,000, 13% less tax commercial securities.
- 8) Rs.4,500 as interest on tax-free debentures- listed.
- 9) Rs.45,000, 10% tax-free debentures of a co.

On July 2018, he sold the above Rs.45,000- 10% tax-free debentures of a co. for Rs.48,000.

In August 2018, he inherited Rs.60,000- 15% Preference shares of XY co. ltd from his father. Dividends were paid in October 2018.

Interest on above securities falls due on 30<sup>th</sup> June and 31<sup>st</sup> December every year.



He claims the following deductions.

- a) Collection charges for interest and dividends at 2% of net amount realized.
- b) Purchase of lottery tickets Rs.2,000.

**Problem-9.** Mr. Mukunda furnishes the following particulars of the incomes for the previous year 2018-19. Compute his total income from other sources.

- a) Dividend on equity shares (Gross) Rs.600
- b) Dividend on Preference shares (Net) Rs.3,200
- c) Income from letting on hire of Building and Machinery composite lease Rs.17,000.
- d) Interest on Bank deposits Rs.2,500
- e) Directors sitting fees Rs.1,200
- f) Ground rent Rs.600
- g) Income from undisclosed sources Rs.10,000
- h) Income from lotteries (Gross) Rs.10,000.

The following deductions are claimed by him-

- i) Collection charges of dividends Rs.20
- ii) Allowable depreciation on Building and Machinery Rs.4,000 and Fire insurance on Building and Machinery Rs.100.

**Problem-10.** Mr. Govinda gives you the following particulars of his investments for the financial year ended 31-03-2019.

1. Rs.27,000, 10% tax-free debentures of DCM Ltd – listed.
2. Rs.45,000, 12% tax-free debentures of Raja Mills Ltd - listed.
3. Rs.6,100, Interest received on Karnataka State Loan bonds.
4. Rs.5,400, Interest received on debentures of Rose co. Ltd – unlisted.
5. Rs.7,200, Interest received on debentures of Bombay co. Ltd – listed.
6. He also received Rs.3,500 for articles published in Magazines.

He claimed deduction of Rs.100 for preparing Manuscript and Rs.200 towards stationery. He incurred Rs.150 towards collection of interest and paid Rs.1,350 as interest on loan to purchase debentures of Raja Mills Ltd. He has not won any prize in lottery, but incurred Rs.6,500 towards purchase of lottery tickets.

Compute his income from other sources.

### **Unit-3. Income from other sources:**

**Examination questions (theory) from Semester scheme. (2 & 5 marks).**

**May/June- 2007.**

1. How do you gross up the value in the following cases.
  - i. Net interest received on bank deposits.
  - ii. Net amount received on winning from lottery.
2. What is a 'Bond Washing Transaction'? **June-2009, June-2010, May-2015**

**June-2008.**

3. Mention any two losses, which cannot be set-off against income under other heads.
4. What is a Less Tax Security? **May-2015, May-2017, May-2018**
5. What is an Ex-interest transaction?

**June-2009.**

6. If the net winning from a race is Rs.2,10,000, find the gross amount. (**May-2019) (Rs.1,50,000) May-2017**
7. Explain the treatment of family pension received by an assessee.

**June -2010.**

8. What is / Give the meaning of casual income? **May-2014, May-2015, May-2017**
9. What are tax-free commercial debentures? **May-2011, 2012**

**May -2011.**

10. Write a note on tax liability of dividend income.

**May-2012**

11. What is dividend under IT Act?
12. List out any ten incomes chargeable under the head other sources (5)

**May-2013.**

13. What is cash system of accounting? **May -2016**
14. What are tax-free Govt. securities?
15. How do you treat daily allowance given to a Member of Parliament?

**May/June-2014.**

16. State any four incomes which are taxable under the head "income from other sources". **May-2015**

**April/May-2015.**

17. Expand (1) TDS (2) DTC

**May – 2016.**

18. What is grossing up and why it should be done?
19. What are listed and unlisted securities?
20. How do you treat family pension received by the family members of a deceased person?

**May – 2016.**

21. What is Government security?