LESSON - 9
INCOME FORM OTHER SOURCES

Mr. Surender Munjal

STRUCTURE

9.0 INTRODUCTION

There are some incomes, which are exempt, while others are taxable. The taxability of Income is either under the head salary, house property, business income or capital gain. All of these heads of income are mentioned under section 16 of the income tax act. You have read about these income heads in the previous lessons.

The incomes, which are neither covered under the above heads of salary, house property, business income, or capital gain, are covered in the head of income from other sources. This head of income is a residual head because it tries to cover all other incomes which are uncovered and which are not exempt from tax.

9.1 OBJECTIVE

After going through this lesson you will be able to understand the various incomes, which are included in the income from other sources. Also you will be able to understand how income from dividend, income by way of interest is taxed and the concepts of grossing and net.

9.2 INCOMES SPECIFIED IN SECTION 56

Income of every kind which are to be taxed, and which are not included in the income heads of Salary, House Property, Capital Gains, Profession and Business shall be charged under the head Income from Other Sources.

Income chargeable under this head shall be computed as per the method of accounting followed by assesses. There are two methods of accounting namely cash basis and mercantile basis. In the cash basis of accounting the income is recognized only on its actual receipt and expenses are recognized only on its actual payment. However, in mercantile basis of accounting the income is recognized even before its actual receipt and expense is recognized even before its actual payment.

Illustration 9.1 ABC Ltd. has sold goods worth Rs. 5 lakh in cash and Rs. 12 lakh on credit and purchased goods worth Rs. 2 lakh in cash and Rs. 6 lakh on credit. Determine the profit on cash basis and mercantile basis of accounting.

Solution: Profit on cash basis:
Sales will be Rs. 5 lakh and purchase will be Rs. 2 lakh. Thus, profit will be sales minus purchase i.e., Rs. 3 lakh.

Profit on Mercantile basis:
Sales will be Rs. 17 lakh (both cash and credit) and purchase will be Rs. 8 lakh (both cash and credit). Thus, profit will be sales minus purchase i.e., Rs. 9 lakh.

Following incomes are specifically mentioned in the I .T. Act U/s 56, which are included in the income from other sources:

1. Dividend
2. Interest on securities if not chargeable under the head business or profession.
3. Wining from lotteries, crossword puzzles, races including horse races, card games and any other sort of games or gambling or betting of any form.
4. Income from machine, plant or furniture let on hire.
5. Income from machinery, plant, or furniture along with building and letting thereof is inseparable.
6. Any sum received under a key-man insurance policy including bonus if not taxable as salary or business income.

Dividend is the share of profit, which is distributed by the company to its shareholders; this is an income for shareholders. Interest on securities means interest on debentures, bonds etc. which is an income of the person receiving this interest. Letting machine, plant, furniture generates the rental income. We will study the taxation of the first three incomes i.e., dividend, interest and winning briefly in the paragraphs given below.

9.3 INCOMES NOT SPECIFIED IN SECTION 56

Following incomes are not mentioned in the Income Tax Act but are to be charged to tax. Therefore, these incomes are also included in the head of income from other sources.

1. Income from subletting
2. Interest on bank deposits and loans and securities.
3. Agricultural income from a place outside India.
4. Rent of plot of land
5. Mining rent and royalty.
6. Casual income under a will, contract, trust deed.
7. Salary payable to a member of parliament.
8. Income from undisclosed sources.
9. Gratuity paid to a director who is not an employee of a company.
10. Any casual income exceeding Rs. 5,000.

CHECK YOUR PROGRESS

Activity A: Name any ten incomes, which are included in the head of income from other sources.

1.
2.
3.
4.
5.
6.
7.
8.
9.
10.

Activity B: State whether these are income from other sources or not.

1. Salary of director
2. Salary of M.P`s.
3. Rent of a house.
4. Rent of a plot of land.
5. Rent of a machine let on hire along with building and letting is separable.
6. Dividend from domestic company.
7. Winning from TV game show like Kaun Banega Carorpati.

9.4 TAXABILITY OF SELECT INCOMES

Now, we will discuss in brief the taxability of dividend, winning from lotteries, interest on securities and family pension.

9.4.1 TAXABILITY OF DIVIDEND

Taxability of Dividends [Sec 56(2)(i)]
Dividends is taxable, irrespective of the fact, whether it is paid in cash or in kind or it is paid out of taxable income or tax free income whether it is paid out of revenue profits or capital gains. Dividend includes deemed dividend mentioned u/s 2(22).

Normally, dividend is taxable on the basis of its declaration while deemed dividend and interim dividend is taxable on the basis of payment.

A company at the end of the year after calculating its profit recommends the distribution of some part of its profit to its shareholders. The profit distributed among shareholders is called dividend.

Generally, dividend is given at the end of financial year. But some high profit company also gives the dividend in between of the year without calculating its year-end profits. This dividend is called interim dividend.

Dividends from Indian Company are exempt from tax since 1.6.97. But dividend from any other company is taxable. Similarly any deemed dividends U/S 2(22) are also taxable.

Deduction of expenses on collection and interest on loan, taken for investment in shares, is available against dividend income.

If the dividend is more than the specified limit under section 194 (which is at present Rs. 2,500 in a year) then the dividend actually received will be after deducting a specified percentage of tax of TDS (Tax Deducted at Source). In these cases, some tax is deducted and the balance amount of Dividend is paid to the shareholder. The balance amount paid to shareholder is called net dividend or dividend received and the total dividend is called the gross dividend. Thus,

Gross Dividend = Dividend received + TDS

TDS = Gross Dividend * TDS Rate

Gross Dividend = Dividend received* 100 / (100- TDS)

TDS rate u/s 194 is 20% plus surcharge plus 2% Education cess. The surcharge vary from case to case.

Illustration 9.2 Mr. X received a dividend of Rs. 7000 from a non-domestic company during the previous year. He spends Rs. 100 towards collection charges. Calculated the Gross Dividend and income form other sources.

Solution: In this case let us assume for the sake of simplicity that the surcharge is nil. Thus, TDS will be 20% plus 2% education cess, which comes to 20.4%.

Gross Dividend = Dividend received *100/ (100-TDS rate)
Gross Dividend = 7000 *100/ (100-20.4)
Gross Dividend = Rs. 8,794

Dividend chargeable as income from other source = Gross dividend minus Collection charges = Rs. 8,794 – Rs. 100 = Rs. 8,694.

9.4.1 TAXABILITY OF WINNING

Taxability of Wining from Lotteries, cross word puzzles, horse races and card games etc. is similar to the taxability of dividend with some changes like the rate of TDS is 30 % plus surcharge plus 2% Education cess, and the exemption amount is Rs. 5,000 (however it is 2,500 in case of horse races) and no deduction on account of any expense in relation to the winning is allowed. That is the entire winning amount is taxable.

$$\text{Gross amount} = \text{Rs. } 5{,}000 + \frac{(\text{net income received on wining} - 5{,}000)*100}{(100\text{-TDS})}$$

Rs. 5,000 will be Rs. 2,500 in the case of wining from horse races.

Rs. 5,000 is an exemption, which is available because it is a casual receipt. Winning on lotteries races, crossword puzzles are all casual income.

Illustration 9.3 Mr. X receives Rs. 7000 from a lottery prize won by him during the previous year. He spends Rs. 100 towards collection charges and the purchase of ticket. Calculated the Gross winning and income form other sources.

Solution: In this case let us assume for the sake of simplicity that the surcharge is nil. Thus, TDS will be 30% plus 2% education cess, which comes to 30.6%.

$$\text{Gross winning} = \text{Rs. } 5{,}000 + \frac{(\text{net income received on wining} - 5{,}000)*100}{(100\text{-TDS rate})}$$

$$\text{Gross winning} = \text{Rs. } 5{,}000 + \frac{(7{,}000 - 5{,}000)*100}{(100 - 30.6)}$$

Gross winning = Rs. 7,881

Winning chargeable as income from other source or Gross Winning =Rs. 7,881.

Note: The collection charges are not deductible in case of winning.

CHECK YOUR PROGRESS

Activity C: Mr. X, receives Rs. 15000 from a horse race won by him during the previous year. He spends Rs. 500 towards the cost of ticket purchased and collection charges and the purchase of ticket. Calculated the Gross winning and income form other sources.

9.4.1 TAXABILITY OF INTEREST ON SECURITIES

Taxability of interest on securities is also similar to the taxability of dividend with some changes like the rate of TDS is 10 % plus surcharge plus 2% Education cess (20% plus surcharge plus 2% education cess in case of unlisted securities) and the exemption amount is Rs. 5,000 and Deductions on interest income are collection charges interest on loan and any other revenue expense incurred fully for the purpose of interest is allowed.

Gross interest = Net received * 100 / (100 – TDS rate)

In case of tax-free govt. Securities, grossing up is not required as there is no deduction or TDS. However, grossing up is required in case of following securities.

1. Tax-free non govt. Securities
2. Less tax non govt. Securities

3. Less tax govt. Securities

Rate of TDS
Govt. Securities - 10% plus education cess; Listed securities – 10% plus education cess; Unlisted non-govt. Securities - 20% plus education cess.

Illustration 9.4 Mr. X received a dividend of Rs. 7000 from a listed security during the previous year. He spends Rs. 100 towards collection charges. Calculated the Gross Dividend and income form other sources.

Solution: In this case let us assume for the sake of simplicity that the surcharge is nil. Thus, TDS will be 10% plus 2% education cess, which comes to 10.2%.

Gross Interest = Interest received *100/ (100-TDS rate)
Gross Interest = 7000 *100/ (100-10.2)
Gross Interest = Rs. 7795

Interest chargeable as income from other source = Gross Interest minus Collection charges = Rs. 7,795 – Rs. 100 = Rs. 7,695.

9.4.4 TAXABILITY OF FAMILY PENSION

Taxable as income from other sources, a standard deduction of 1/3rd of pension or Rs. 15,000 whichever is less is allowed.

Activity D: Find the gross amount under following cases:

1. Dividend Received Rs. 12,000
2. Interest on listed securities received Rs. 2300
3. Wining received from TV game show Rs. 1, 00,000.

9.5 LET US SUM UP

All those incomes which are not exempt and are to be taxed and are at the same time not covered in any of the four heads of income namely salary, house property, capital gains and business and profession is included in the head of income from other sources. The income included here is taxable on cash or mercantile basis whichever method assessee follows. There are certain incomes, which are specifically mentioned in section 56 of the income tax act to be included in the head of income from other sources, but there are various other incomes, which are not specified in section 56 of the income tax act but are still included in the income from other sources. If the tax is deducted at source then it is clubbed back in the income and then the whole of the income is included in the income from other source, in other words, if tax is deducted at source ad the balance income is received then the tax so deducted is added back in the income so received and then the whole of income is included in the income from other sources.

9.6 GLOSSARY

Accounting: accounting is a process recording the financial transaction to find out the profit from such transactions.

TDS: TDS stands for tax deducted at source, i.e., tax is deducted from the money to be received by the assessee. This scheme of TDS is aimed at collection of tax right at the point where income is earned.

Gambling and Speculation: gambling means to make a bet and speculation means to guess in order to earn something, money or any other valuable item.

9.7 SELF ASSESSMENT EXCERCISE

1. Enumerate any five items of income, which are included under the head income from other sources.
2. Define Dividend. Discuss the taxability of dividend.
3. What are the incomes, which are included under the subhead of winning? What is the rate of tax on such incomes?

9.8 FURTHER AND SUGGESTED READINGS

1. Dinkar Pagare; *Law and Practice of Income Tax*; Sultan Chand & Sons; latest edition
2. Girish Ahuja and Ravi Gupta; *An Elementary Approach to Income Tax & Sales Tax*; Bharat Publications; latest edition.
3. H.C. Mehrotra; *Income-tax Law and Accounts*; Sahitya Bhawan; latest edition.

4. Mahesh Chandra & D.C. Shukla; *Income-tax Law and Practice*; Pragati Publications; latest edition.
5. Singhania Dr. Vinod K and Monica Singhania; *Students' Guide to Income Tax;* Taxmann Publications Pvt. Ltd.; latest edition.