INCOME FROM OTHER SOURCES [SEC 56 TO 59]

Charging Section – [Sec 56(1)]

Income which is *not exempt* and which *cannot be taxed under any other head of income* is taxable under the head 'Income from Other Sources'

Specific incomes included under this head – [Sec 56(2)]

- *Dividends,*
- Winning from *lotteries, crossword puzzles, races, card games, gambling or bettin*g of any form,
- *Interest* on securities, compensation or on enhanced compensation
- Income from *letting* of machinery, plant or furniture
- Sum received under a *keyman insurance policy* including bonus.
- *Gift* Received by an individual or an HUF. (Described later in this chapter)
- Where a firm or a *private company receives shares of closely held company*, without consideration or for inadequate consideration, FMV of which exceeds Rs. 50000 or FMV of which exceeds inadequate inconsideration by Rs. 50000, the aggregate of such sum shall form part of income.

Other incomes which are normally included under this head

- Income from *sub-letting* of a house property by a tenant
- *Casual income*
- Insurance *commission*
- *Family pension*
- *Interests* on bank deposits

Deemed Dividend [Sec 2(22)]

Dividend includes disbursements by the company to the shareholders, to the extent of accumulated profits, whether capitalized or not:

a) Any distribution by a company if such distribution *reduces company' assets*
b) Distribution of debenture/ deposit certificates to shareholder and *bonus shares to preference shareholders*
c) Distribution of accumulated profits at the time of *liquidation* except to preference shareholders
d) Distribution of accumulated profits on *reduction of share capital* to preference shareholders
e) Any *advance/loan* by a *closely held company* to
    a. an equity shareholder, or to any person on behalf of such equity shareholder, who *holds not less than 10% voting power.*
    b. *Any concern* in which such shareholder is *having not less than 20% voting power or 20% profit sharing*
    - Such advance/loan shall be considered to be dividend in the hands of shareholder but *only to the extent of accumulated profits excluding capitalized profits.*
    - If any such advance/loan has been *repaid* by the shareholder, even in that case, *it will be considered to be dividend*
    - However, if any such company has business of lending money i.e. it is a *banking company, then provisions of Sec 2(22)(e) shall not apply.*

Dividends covered under section 2(22)(a), (b), (c), (d) are exempt u/s 10(34) in the hands of shareholder but *dividends under section 2(22)(e) shall be taxable* in the hands of employees under the head 'Income from other sources'

Method of Accounting [Sec 145]

Income chargeable under this head shall be computed on the basis of books of accounts maintained by the assessee and the *assessee has the option* to maintain the books of accounts either on the basis of *mercantile system of accounting or on cash basis.*

Deductions for expenses- [Sec 57]

Income	**Deduction Allowed**
Interest/ Dividend	Commission or remuneration of realization of such income or interest on money borrowed for such investment.
Family pension	33% of Family pension, max up to Rs. 15000
Income from Letting	Deduction of repair, insurance and depreciation
Any other expenditure incurred wholly and exclusively for earning such income	

Expenses not allowed [Sec 58]

- *Personal* Expenses
- Interest/ Salary paid *outside India* on which *tax has not been deducted at source*
- Expenditure referred to in *Section 40A*
- *Income Tax/ Wealth Tax paid*
- Any expenditure or allowance in connection with *winning of lottery, crossword puzzles, etc.*
  However, expenditure incurred by the assessee for the *activity of owning and maintaining race horses* shall be allowed as deduction.

Deemed Income [Sec 59]

If any expense was *claimed* by the assessee in any year and subsequently it was *recovered* by him, it shall be *included in his income.*

Gift received by an individual/HUF [Sec 56(2)(vii)

Gifts received by an individual/HUF from unrelated person or persons shall be taxable u/s 56(2)(vii)

Gift Received	Consideration	Taxable Amount
Any sum of Money	Without Consideration	Whole of such sum if it exceeds Rs. 50000
Immovable property	Without Consideration	If Stamp duty value of such property exceeds Rs. 50000, then income shall be stamp duty value
Movable Property	Without Consideration	If FMV of such property exceeds Rs. 50000, then income shall be FMV of property
	Inadequate Consideration	If difference between the consideration and FMV is more than Rs 50000, then income shall be difference between consideration paid and FMV.

Gift received by Individual/ HUF not taxable in certain cases:

When the sum of money or any property is received:

- From any *relative*
- On the occasion of the *marriage* of the individual
- Under a *will or by way of inheritance*
- In *contemplation of death* of the payer or donor
- From any *local authority, trust or university etc.*

For the purpose of this clause 'relative' means:

i. Spouse of the individual
ii. Brother or sister of the individual
iii. Brother or sister of the spouse of the individual
iv. Brother or sister of either of the parents of the individual
v. Any lineal ascendant or descendant of the individual
vi. Any lineal ascendant or descendant of spouse of the individual
vii. Spouse of persons referred to in items (i) to (vi) above.

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Bond Washing Transactions [Sec 94(1)]

If owner of *any security* sell it *just before due date* and *again acquires* them after due date, he will be able to avoid payment of tax on interest.
In such case, *interest would be deemed to be income of the transferor and not transferee*.
Exceptions:

- If there is no avoidance of tax
- Avoidance of tax is exceptional or is unsystematic.

Dividend Stripping in case of Shares/Units [Sec 94(7)]

If any person has *purchased shares/units within 3 months* prior to record date and after receiving the dividends, the *shares were sold within 3 months or the units were sold within 9 months* after the record date, in such cases, *any loss incurred* to the extent dividend were received *shall not be taken into consideration*.

Bonus Stripping in case of Units [Sec 94(8]

If any person has *purchased units within 3 months* prior to record date and after receiving the *additional units*, the original units were *sold within 9 months* after the record date, in such cases, any *loss incurred shall not be taken into consideration.*