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Sec.56(2)(viia) & Sec.56(2)(viii)

Section 56(2) (viia)

- Section 56(2) (viia) ***provides that***
  - The transfer of shares of a company
  - without consideration or for inadequate consideration
  - would attract the provisions of section 56(2),
  - **Only if** the recipient is a firm or a company.

- If **such SHARES** are received **WITHOUT CONSIDERATION**, then ,
  - The **Aggregate Fair Market Value** on the date of transfer would be taxed as the income of the recipient firm or company, **if it exceeds Rs. 50,000**.

- If **such SHARES** are received for **INADEQUATE CONSIDERATION**, then,
  - The **difference between the aggregate fair market value and the consideration** would be taxed as the income of the recipient firm or company, **if such difference exceeds Rs. 50,000**.

- **However, the provisions of section 56(2)(viia) would not apply**
  - In the case of **transfer of shares of** a company in which the PUBLIC are substantially interested;

  Or

  - In the case **of transfer of shares to** a company in which the PUBLIC are substantially interested.

- Certain transactions which are **exempted** from the application of the provisions of this clause have been **enumerated** specifically.

> e.g.
> Transfer of shares held in an Indian company,
> - in a scheme of amalgamation,
> - by the amalgamating foreign company to an amalgamated foreign company and so on

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Table shows taxability:

Transferee (Recipient)	Shares of	Mode of transfer	Whether taxable?	Reason for taxability and otherwise	Taxable amount
FIRM or COMPANY whether public are substantially interested or not	Company in which the public are substantially interested	Without consideration or whatever	No	Specifically excluded	NIL
Company in which the public are substantially interested	Company in which the public are **NOT** substantially interested	Without consideration or whatever	No	Specifically excluded	NIL
FIRM or Company in which the public are **NOT** substantially interested	Company in which the public are **NOT** substantially interested	Without consideration	Yes	**If** the Aggregate Fair Market Value on the date of transfer exceeds Rs. 50,000.	Aggregate Fair Market Value on the date of transfer would be taxed
FIRM or Company in which the public are **NOT** substantially interested	Company in which the public are **NOT** substantially interested	Without consideration	No	**If** the aggregate fair market value on the date of transfer is less than or equal to Rs. 50,000.	NIL
FIRM or Company in which the public are **NOT** substantially interested	Company in which the public are **NOT** substantially interested	Inadequate consideration	Yes	**If** the difference between the aggregate fair market value and the consideration exceeds Rs. 50,000.	The difference between the aggregate fair market value and the consideration would be taxed
FIRM or Company in which the public are **NOT** substantially interested	Company in which the public are **NOT** substantially interested	Inadequate consideration	No	**If** the difference between the aggregate fair market value and the consideration is **less than or equal to Rs. 50,000**.	NIL

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Sections 56(2)(viii)

- **Interest received** on Compensation/Enhanced Compensation
  - deemed to be income
  - in the year of receipt and
  - taxable under the head **"INCOME FROM OTHER SOURCES"**

- **As per section 145(1),**
  - income chargeable
  - under the head "Profits and gains of business or profession" or "Income from other sources",
  - shall be computed
  - in accordance with
  - either cash or mercantile system of accounting
  - Regularly employed by the assessee.

- **Clause (b) has been inserted in section 145A**
  - To Provide That The **Interest Received By An Assessee**
  - On Compensation Or On Enhanced Compensation
  - **Shall Be Deemed To Be His Income**
  - For The Year In Which It Is Received,
  - **Irrespective Of The Method Of Accounting Followed By The Assessee**.

- Section 56(2)(viii) provides that
  - Income By Way Of Interest Received On Compensation Or On Enhanced Compensation
  - Referred To In Clause (B) Of Section 145a
  - **Shall Be Assessed As "Income From Other Sources" In The Year In Which It Is Received.**

- ***U/s 57(iv)*** provides that **DEDUCTION OF 50% OF INCOME received** which is chargeable to tax **under section 56(2) (viii).**