Contents

1. Introduction

This head is the residuary head of income and brings within its scope all the taxable income, profits or gains of an assessee which fall outside the scope of any other head.

2. Income chargeable under this head [Section 56]:

The following income shall be chargeable only under this head –

- Dividend income
- Casual income in the nature of winning from lotteries, crossword puzzles, horse races, card game and other game of any sort, gambling, betting etc. such winning income shall be chargeable to tax at a flat rate of **30%** under section 115BB.
- The table below summaries the scheme of taxability of gifts –

	Nature of asset	Particular	Taxable value
1	Money	Without consideration	The whole amount if the same exceed ₹50,000
2	Movable property	Without consideration	The aggregate fair market value of the property, if it exceeds ₹50,000.
3	Movable property	Inadequate consideration	The difference between the aggregate fair market value and the consideration, if such difference exceeds ₹50,000.
4	Immovable property	Without consideration	The stamp value of the property, if it exceeds ₹50,000.
5	Immovable property	Inadequate consideration	The difference between the aggregate fair market value and the consideration, if such difference exceeds ₹50,000.

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- However, the any sum of money or value of property received **would be <u>outside the ambit of section 56(2) (vii).</u>**
  - From any relative; or
  - On the occasion of the marriage of the individual; or
  - Under a will or by way of inheritance; or
  - In contemplation of death of the payer or donor, as the case may be; or
  - From the any local authority; or
  - From any fund or foundation or university or other educational institution or hospital or other medical institution or any trust or institution referred to in section 10(23C); or
  - From any trust or institution registered under section 12AA.

- The term **"relative"** for the purpose of section 56(2) (vii) would mean –
  - In case of an **individual** –
    i. Spouse of individual;
    ii. Brother or sister of the individual;
    iii. Brother or sister of 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 any person referred to above.

  - In case of **HUF**, any member thereof.

3. Transfer of shares without consideration or for inadequate consideration in case of recipient firm and companies [Section 56(2) (viia)]:

- If such share are received without consideration, the aggregate fair market value on the date of transfer would be taxed as the income of the recipient firm or company, if it exceed ₹50,000.

- If such shares are received without consideration, the difference between the aggregate fair market value and the consideration would be taxed as income of the recipient form or income, if such difference exceeds ₹50,000.
- However, the provisions of section 56(2) (viia) would not be apply in case of transfer of shares –
  - Of a company in which the public are substantially interested; or
  - To a company in which the public are substantially interested.

4. Interest received on compensation/ enhanced compensation [Section 56(2) (viii)]:

Section 56(2) (viii) provides that income by way of interest received on compensation or on enhanced compensation shall be assessed as "Income from other sources" in the year in which it is received.

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5. Advance forfeited due to failure of negotiation of transfer of capital asset [Section 56(2) (ix)]:

Any advance received or forfeited on or after 1- Apr- 2014 would be subject to tax under section 56(2) (ix).

6. The following income is chargeable under the head "Income from Other Sources" only if such income is not chargeable under the head "Profit and Gain from Business or Profession"-

i. Any sum received by an employer-assessee from his employees as contributions to provident fund, superannuation fund for welfare of the employees.
ii. Interest on securities
iii. Income from letting out on hire, machinery, plant or furniture.
iv. Where letting out of building is inseparable from the letting out of machinery, plant or furniture, the income from such letting.
v. Any sum under a keyman insurance policy.
vi. Income chargeable to tax under the act, but not falling under any other head. For example – Salary of MLAs/ MPs will not be chargeable under the head 'Salary' but will be chargeable as 'Income from other Sources" under section 56.

7. Bond washing transactions and dividend stripping [Section 94]:

- **Bond washing transactions –**
  - A bond washing transaction is a transaction where securities are sold some time before the due date of interest and reacquired after the due date is over.
  - This practice is adopted by persons in the higher income group to avoid tax by transferring the securities to their relative/ friends in the lower income group just before the due date of payments of interest.
  - This section provides that where the owner of security transfer the security just before the due date of interest and buy back the same immediately after the due date and interest is received by the transferee, such interest income will be deemed to be the income of the transferor and would be taxable in his hands.
- **Dividend stripping –**

  Section 94(7) provides that where –

  - Any person buys or acquires any securities or unit within a period of three months prior to record date and
  - Such person sale or transfer –
    i. Such securities within a period of three months after such dates, or
    ii. Such unit within a period of nine months after such date and
  - The dividend or income on such securities or unit received or receivable by such person is exempted,

  Then, the loss, if any, arising therefrom shall be ignored for the purpose of computing his income chargeable to tax such loss should not exceed the amount of dividend or income received or receivable on such securities or unit.

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8. Applicable rate of tax in respect of casual income [Section 115BB]:

- This section provides that Casual income in the nature of winning from lotteries, crossword puzzles, horse races, card game and other game of any sort, gambling, betting etc. such winning income shall be chargeable to tax at a flat rate of **30%** plus surcharge, if applicable, plus education cess plus secondary and higher education cess.
- No expenditure or allowances can be allowed from such income.
- Deduction under chapter VI-A is not allowable from such income.
- Adjustment of unexhausted basic exemption limit is also not permitted against such income.

9. Deduction allowable [Section 57]:

- Any reasonable sum paid by way of commission or remuneration to a banker or any other person for the purpose of realising dividend or interest or dividend on behalf of assessee.
- Any recovery from employees as contribution to any provident fund etc.
- The amount paid on account of any current repairs to the machinery, plant or furniture.
- Insurance premium paid on damage or destruction of the machinery or plant or furniture.
- The normal desperation allowable in respect of the machinery, plant or furniture, due thereon.
- In case of family pension, a deduction of a sum equal to $33\,{}^{1}/_{3}$ of such income or ₹15,000, whichever is less, is allowable.
- Any other expenditure not being in the nature of capital expenditure laid out or expended wholly and exclusively for the purpose of making or earning such income.
- 50% of income by way of compensation or enhance compensation received chargeable to tax under section 57 in respect of such income.

10. Deduction not allowable [Section 58]:

Following expenses are not allowed as deduction –

- In the case of any assessee –
  - Any personal expenses of the assessee;
  - Any interest chargeable to tax under the Act which is payable outside India on which tax has not been paid or deducted at source.
  - Any payment taxable in India as salaries, if it is payable outside India unless tax been pai thereon or deducted at sources.
- Any payment made in a single day in exceed ₹20,000 in aggregate other that by way of account payee cheque or draft covered under section 40A.
- Income-tax and wealth-tax paid.
- No deduction is allowed in respect of casual income such as lottery, puzzle etc.

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