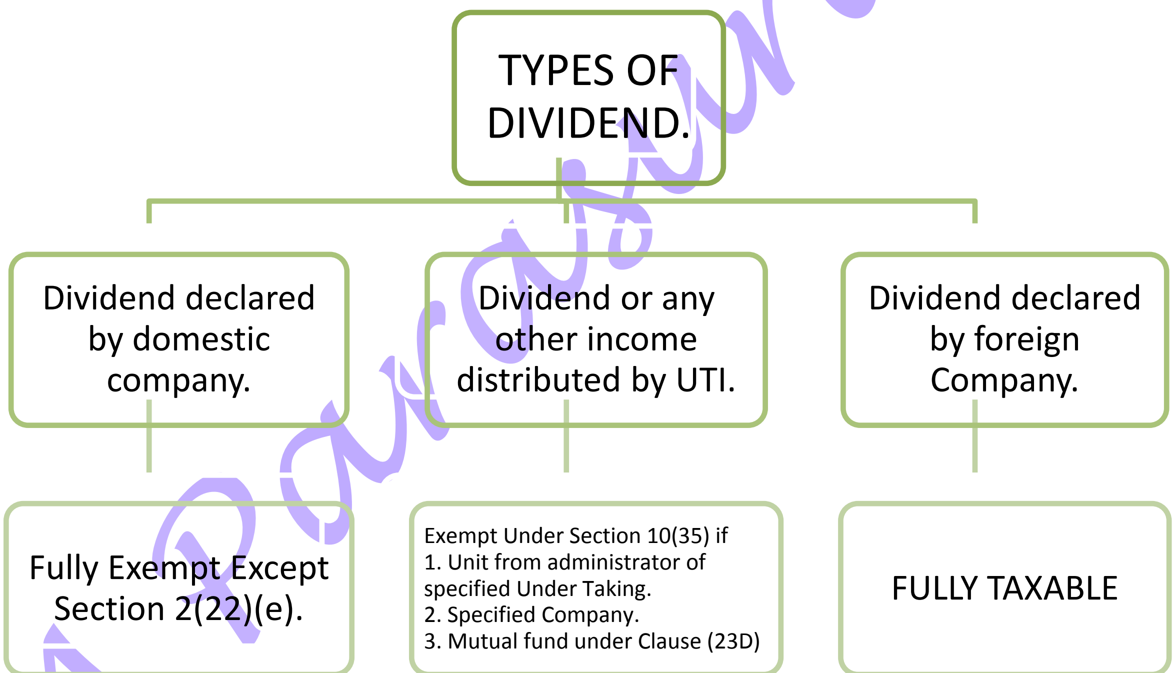
Basis of Charge Section 56(1)	• There must be an Income. • Such income is not exempt under any provision of this Act. • Such Income is not chargeable under any other head.

SPECIFIC INCOME COVERED UNDER THE HEAD OTHER SOURCES: SECTION 56(2).

1. Dividend (other than 115 - O)
2. Winning from Lotteries, Crossword Puzzles, races including horse races, card games and other game of any sort, or from gambling or betting of any nature.
3. Sum received by assessee from his employee as contribution to any provident fund or any other welfare fund for the employees provided it is not taxable under the head "Profits & Gains of Business or Profession."
4. Income by way of interest on securities provided the income is not chargeable to Income Tax under the head PGBP.
5. Income from Letting out of Machinery, Plant or Furniture on hire.
6. Composite Rent.
7. Sum received under Key man Insurance policy if it is not taxable under "Salary" or "PGBP".
8. Gift exceeding ₹ 50000/- (Most Important)
9. Share of Closely held company received for inadequate consideration or free of cost by the firm or a closely held company if the aggregate amount exceeds ₹ 50000/-
10. **Share Premium in excess of Fair Market Value Section 56(2)(viib) Inserted by F.A. 2012**
11. Interest on compensation or enhanced compensation.



- DEEMED DIVIDEND SECTION 2(22)
  - Section 2(22)(a)
    - Any income distributed to the extent of the accumulated profits (whether capitalized or not)involving the release of the asset of the Company.
  - Section 2(22)(b)
    - Distribution of Debenture or Deposit Certificate to Share Holder or Bonus to Preference Share holder to the extent of accumulated profits whether Capital or Not.
  - Section 2(22)(c)
    - Distribution to Share Holder at the Time of Liquidation of the Company to the extent of accumulated profits whether Capital or Not.
  - Section 2(22)(d)
    - Distribution on Reduction of Share Capital to the extent of accumulated profits whether Capital or Not.
  - Section 2(22)(e): Loan/ Advance to certain Share holder or Concerns by a company in which public are not substantially interested (to the extent of accumulated profits Excluding Capital Profits).
    - equity share holder not holding less than 10% of the voting rights.
    - any concern in which such share holder is a member or a partner & holds 20% voting rights or Shares in the concern
    - Any person for the benifit of such Share holder.

Special Point in relation to 2(22)(e):

- Total Reserve is to be considered not relating to only share holder.
- If assess received any dividend after receipt of loan & it is adjusted against loan then no DDT till such entire loan is repaid but after repayment company has to deduct DDT.

Illustration 1

Ratnesh Ltd. has accumulated profits of ₹ 3,00,000 excludinding capatilized profits i.e. bonus shares of ₹ 1,00,000 issued in the past. The company assets of 2,50,000 to the shares. Compute the amount taxabel as dividend if the market value of the asset on the date of the distribution is:

a. ₹ 2,00,000.
b. ₹ 3,50,000.
c. ₹ 4,50,000.

Illustration 2

Miss Rashmi Desai took a loan of ₹ 1,00,000 from a company in which the public is not substantially interested. The company also paid an insurance premium of ₹ 5,000 on her behalf. She hold 25% equity shares of the company. On the date of loan and paying the premium, the accumulated profits of the company were ₹ 80,000. Subsequently in the same year, the company declaired dividends. On her shareholding Miss Rashmi was entitled to a dividend amounting to ₹ 15,000 which was set-off against the amount of loan, etc.

Compute the amount that should be included in the income of Miss Rashmi Desai.

SOME IMPORTANT ISSUES RELATING TO INTEREST:

Bond Washing Transaction Section 94(1):	Loss arising on certain transactions Section 94(8):	Bonus Stripping Transaction Section 94(8):	Grossing up of Interest:
• Interest on security is due on certain date. • Owner of the security is a person of higher slab Income. • He transfers security before receipt of Interest income to a person of lower slab. • And acquires it back after the after the receipt of Interest Income in the hands of such other person. • then such Interest Income will be treated as Income of the Transferor & not of Transferee. • but the above shall not be applicable if the transferor proves that: • his intention was not to avoid tax or • avoidance of tax was exceptional & not systematic.	• Interest on Securities becomes due on specified date. • Person acquires a security 3 month prior to the RECORD DATE. • sales or transfer such security within a period of 3 months (normal securities) & 9 month in case of units. • Dividend or interest on such security is exempt. • Then loss on sale of such security shall not be treated as loss to the extent of exempt income earned by the assessee.	• Where bonus securities have been declared. • Person acquires a security 3 month prior to the RECORD DATE. • sales or transfer such security within a period of 3 months (normal securities) & 9 month in case of units. • there are still some part of such bonus unit unsold units or security left. • then in such case loss arising on such transaction will not be treated as loss. • it shall be treated as Cost of Acquisition of the additional units or securities in the stock.	• Such grossing up of Interest is to be done when TDS is deducted from Interest to arrive at the original Interest amount which is to be treated as Income • Same kind of Grossing up is done in case of Lottery or other Casual Income. • Grossing Up(in case of Interest)= $\frac{\text{Amount Received}}{\text{100-Tax Rate}}$ • Grossing Up(in case of Casual Income)= $\frac{\text{Amount Received}}{\text{100-30}}$

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Interest Exempt Under Section 10(15)	Interest, premium or redemption on security, bond, annuity certificate, saving certificate, other certificate issued by central govt. and deposit as the C.G. may by notification in official gazette specify. • Interest on Post Office Saving Bank account (upto Rs. 3500/-) • Interest on Gold Deposit Scheme, 1999 • Interest on bond issued by local authority or by State Finance Entity & specified by govt. of India in notification. • Interest on deposit with offshore banking unit received by non - resident or person not ordinarily resident in India. • Bonds issued by National Highway Authority of India (NHAI), Indian Railway Finance Corporation Ltd.(IRFCL), Housing & Urban Development Corporation Ltd. (HUDCL), Power Finance corporation (PFC), Rural Electrification Corporation Ltd (RECL) issued during the financial year 2011-12 for a period of 10 or 15 years.

Illustration 3

Yami purchased 5,000 shares of Ayushman Ltd. @ ₹ 300 per share on 05.07.2012. Ayushman Ltd. declared bonus of ₹ 10 per share. The record date is fixed as 04.09.2012. Yami receivde dividend immediately after record date. The above shares were sold by Yami on 05.11.2012 for:

a. ₹ 275 per share.
b. ₹ 296 per share.
c. ₹ 308 per share.

Illustration 4

Compute gross interest/dividend and net interest/ dividend on securities and shares in the following cases:

1. 10% Bonds of Industrial Development Bank of India of ₹ 3,20,000.
2. 10% Debenture of ABC Corp. Ltd. listed on Allahabad Stock Exchange purchased at ₹ 96 (Face Value ₹ 100) ₹ 1,34,400.
3. Interest received from debenture issued by Mumtaz Ltd. listed on Stock Exchange – ₹ 29,700.
4. Interest received from debenture issued by a Ltd. Company not listed on Stock Exchange – ₹ 21,600.
5. Dividend received from Asha Ltd. on 25.05.2012 – ₹ 2,400.
6. Dividend declared by the company on 05.07.2012 on shares of Ashutosh Ltd. @ 50% on 1,000 shares of ₹ 10 each, which were purchased at ₹ 60 per share.
7. 10% Dividend on preference share of 10 each amounting to ₹ 2,25,000 paid on 31.03.2013.

   Also Compute Interest under the head other source.

TAXABILITY OF GIFT
[if received from non-relative]
SECTION 56(2)(vii)

Cash	Movable Property other than cash.	Immovable Property
Aggregate amount received during a financial year exceeds ₹ 50000/-.	Aggregate value of gift received (whether free of cost or for in adequate consideration) during a financial year exceeds ₹ 50000/- (Limt of free of cost & inadiquate consideration are different).	Individual value of gift received (only when received free of cost) during a financial year exceeds ₹ 50000/-.
Entire Amount Received is taxable it is other - wise exempt (less than ₹ 50000).	Entire Value of gift Received over the consideration paid shall taxable it is other - wise exempt (less than ₹ 50000).	The Stamp value of property shall be taxable of each property if it exceeds ₹ 50000/- other - wise exempt.

SOME IMPORTANT TERMS MENTIONED IN SECTION 56(2)(vii):

GIFT WHEN NOT TAXABLE

- Received from relative
- On occasion of Marriage of individual
- under Will or Inheritance.
- in contemplation of death of payer or donor.
- from any local authority as defined in explanation to section 10(20).
- from fund, foundation, university, other educational institution, hospital, medical institution, trust or institution registereddunder 10(23C).
- form any trust or institution registered under 12AA

RELATIVE

- i. Spouse of Individual
- ii. brother or sister of individual
- iii. brother or sister of spouse of the individual
- iv. brother or sister of either parents of individual.
- v. any lineal **ascendant** or descendent of individual
- vi. any lineal **ascendant** or descendent of spouse of individual
- vii. spouse of any person referred in (ii) to (vi)
- **ix. In case of HUF member of HUF (retro 1st Oct. 2009)**

PROPERTY

- Immovable property being a land or building or both.
- Shares & Securities.
- Jewellery
- Archaeological Collections.
- Drawing.
- Sculpture.
- Any work of Art.
- Bullion.

Illustration 5

Nargis the friend of Uday, has gifted an immovable property to Uday whose stamp duty value on the date of gift is ₹ 57,00,000.

a. What shall be the value of gift taxable under section 56(2)(vii) ?
b. What shall be the amount taxable under section 56(2)(vii) if Uday purchases the same property from Nargis for a consideration of ₹ 39,00,000 ? (give the effect in both Nargis & Uday's hand)

Illustration 6

Miss. Raksha who draws a salary ₹ 20,000 p.m received the following gifts during the previous year 2012 - 13 :

1. Gift of ₹ 5,00,000 on 16.4.2012 from a friend.
2. Gift of jewllery fair market value of which is ₹ 3,00,000 on 17.5.2012 from her finance.
3. Gifts of ₹ 51,000 each received from her 4 friends on the occasion of her marriage on 21.102012.
4. Gift of ₹ 1,00,000 on 22.11.2012 from her mother's sister.
5. Gift of ₹ 60,000 on 25.11.2012 from father's brother.
6. Gift of ₹ 50,000 from her husband's friend on 1.12.2012.
7. Gift of ₹ 21,000 on 15.12.2012 from her mother's friend.
8. Gift ₹ 26,000 on 25.12.2012 from her brother's father in law.
9. Gift of ₹ 1,21,000 from her husband's brother.
10. Gift of ₹ 26,000 from her employer.
11. Scholarship of ₹ 1,20,000 from a charitable institution registered under section 12AA.
12. He has purchased a immovable property from Keyuj who is not relative from a sum of ₹ ₹ 24,50,000. The stamp duty value of the property is ₹ 26,00,000.
13. She purchased bullion for ₹ 4,40,000 whose fair market value is ₹ 4,85,000.
14. Gift of immovable property from her friend whose stamp duty value is ₹ 5,00,000.

Compute her total income for the assessment year 2013 – 14.

Illustration 7

Akshay (42 years) give the following information for the previous year 2012 -13 :

1. On 1-12-2012, he gets gift of house A from his friend Shahrukh (stamp duty value is determined at ₹ 6,00,000).
2. On 3-12-2012, he gets gift of house B from Mahesh (who is father-in-law of his elder brother) (Stamp duty value is ₹ 40,000, however current market value is ₹ 65,000).
3. On 07-12-2012, Akshay purchase a second hand car for ₹ 70,000 from Mittesh (market value is, however, ₹ 3,00,000).
4. On 14-12-2012, Akshay purchased a work of art for ₹ 5,00,000 from Mamta (fair market value is ₹ 5,30,000).
5. On 20-12-2012, Akshay purchase jewellery for ₹ 7,00,000 from Raveen (fair market value ₹ 7,25,000). F is not a registered dealer.
6. On 21-12-2012, Akshay purchases a painting for ₹ 4,00,000 from Gagnam (who is brother of Twinkel wife of Akshay)(FMV is ₹ 7,00,000).
7. On 24-07-2012, Akshay purchased a commercial property for ₹ 20,00,000 from Himesh (FMV is ₹ 90,00,000).

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8. On 25-12-2012, Akshay gets a gift of 100 prefernce share in Aman Ltd. from Juhi (on 25-12-2012, stock exchange are closed, the lowest quotation on the immediately preceding working day in NSE is ₹ 45).
9. On 25-01-2013, Akshay gets a gift cheque of ₹ 1,00,000 from his friend Anushka on his birthday.
10. On 28-01-2013, minor son of Akshay gets a gift of ₹ 55,000 from elder brother of Akshay's grandfather.
11. Akshay contribute ₹ 10,000 in the PPF account of his dependent mother.

Determine the amount of net income of Akshay for the assessment year 2013-14.

OTHER REMAINING TOPICS:	
Value of Share received by a firm or a company for inadequate consideration or without consideration to be taxed in the hands of the recipient Section 56(2)(viia).	Where a firm or company not bring a company in which public are substantially interested, receives in any previous year, from any person or persons, any property, being shares of company not being a company in which public are substantially interested. a. Without consideration, the aggregate fair market value of which exceeds ₹ 50000/-, then whole of the aggregate fair market value of such property shall be taxable in the hands of recipient. b. For consideration which is less than the aggregate fair market value of the property by an amount exceeding ₹ 50000/-, the aggregate fair market value of such property as exceeds such consideration. The above will not be applicable in case of demerger or amalgamation or business reorganization.
Share Premium in excess of Fair Market Value Section 56(2)(viib) Inserted by F.A. 2012	**Company being a company not being a company in which public are not substantially interested receives in any previous year, from any person being resident any consideration for issue of share & if the consideration received for issue of share exceeds the FACE VALUE of such share, the aggregate consideration received for such share as exceeds the FARE MARKET VALUE of the share shall be chargeable to tax.** **Exception:** **Received by:** **a. Venture Capital Undertaking from a Venture Capital Company or a Venture Capital Fund.** **b. By a company from a class or classes of person as may be notified by C.G.** **Opportunity has been given to a company to substantiate it's claim over FMV. FMV is:** **a. As may be determined in accordance with such method as may be prescribed.** **b. As may be substantiated by the company to the satisfaction of Assessing Officer, based on the value, on the date of issue of share , of its assets, including intangible asset, being goodwill, know-how, patents, copyrights, trademark, licences, franchises or any other business or commercial rights of similar nature. WHICH EVER IS HIGHER.**

Interest on Compensation or enhanced Compensation Section 56(2)(viii)	i. Interest on compensation or enhanced compensation received is taxable under the head other sources. ii. 50% of such interest is allowed as deduction form the amount of interest received.

Illustration 8

Pawan whose property was compulsorily acquired in 2008 received enhanced compensation of ₹ 9,00,000 on 15.11.2012 which includes ₹ 2,40,000 as interest on such enhanced compensation. Discuss the taxability of such compensation.

Family Pension	i. After the death of an employee if there is family pension received by the legal heirs then such pension will be taxed under other source. ii. Deduction of 1/3rd of pension or Rs 15000/- whichever is less is allowed from such pension.
Contribution of the employee towards his welfare fund, deducted / received by the employer 56(2)(ic)	• Contribution received by the employer **as employee's contribution**. • Income is **not charged** under the head **PGBP**. • If the same is **deposited within the time specified in the scheme** the same will be allowed as **deduction under section 57(ia)**.
Any other Income taxable under the head Other Sources	• Any income not cover any were will be taxed under the head other source (should not be of capital in nature). • Deduction is allowed in respect of expenditure incurred for earning that income (not capital expenditure). • Interest on Post office saving bank account shall be exempt from tax to the extent of **₹ 3,500 in case of individual Account & ₹ 7,000 in case of Joint Account** Section 10(15).
Amount Not allowed as deduction under the head other sources	a. Personal expenses of the assessee b. Interest paid outside India on which tax has not been deducted at sources. c. Salary paid outside India on which tax is not deducted at source. d. Any expenditure referred to in section 40A like excessive or unreasonable payment to certain specific person (section 40A(2)) & Payment exceeding Rs 20000/- otherwise than by way of account payee cheque. e. Income tax/ wealth tax. f. Any expenditure or allowance in connection with winning of lottery, crossword puzzles etc., However, expenditure incurred by the assessee for the activity of owing and maintaining race horses shall be allowed as a deduction while computing the income from this activity.

SOME PROBLEMS ON COMPUTATION OF INCOME UNDER THE HEAD OTHER SOURCES

Illustration 9

Following incomes are received by Mr. Rupesh during the finaicial year 2012-13.

		₹
i.	Director Fees	2,000
ii.	Income from agricultural land in Pakistan	5,000
iii.	Ground rent for land in Pakistan	10,000
iv.	Interest on Postal Saving Bank A/c	100
v.	Interest on deposits with Industrial Financial Corphoration of India	500
vi.	Dividend from foreign Company	700
vii.	Rent from sub-letting a house	26,250
viii.	Rent payable by Mr. Rupesh for the sub-let house	12,000
ix.	Other expenses on sub let house	1,000
x.	Winning from horse race (Gross)	12,300
xi.	Interest on Securities (Gross)	4,000

You are required to calculate Income from Other Sources of Mr. Rupesh for the assessment year 2013-14.

Illustration 10

Compute the income under the head other sources in the case of following investments made by Amisha.

1. Purchase of 12% IDBI Debentures of ₹ 1,00,000 on 01.10.2012 directly from IDBI. Due date of interest is 31st March every year.
2. Purchase 100, 12% IDBI debenture on 01.03.2013 from market @ ₹ 1,050 per debenture. Face value of debenture is ₹ 1,000. Due date of interest is 31st of March every year. IDBI had issued these debentures in 2009.
3. Purchase 100, 14% debenture of Ashwin Ltd. listed on stock exchange from a broker at ₹ 100 each on 30.10.2012. Due date of interest are 30th of June and 31st of December every year.
4. Purchase 100, 12% debenture of B Ltd. @ ₹ 100 each by subscribing to the company directly. Date of issue was 31.10.2012. Interest due on 30th June and 31st of December of every year.
5. Purchase 1,000 shares of face value of ₹ 10 of Yuti Ltd. @ ₹ 60 per share from market on 15.06.2012. The company declared a divided @ 20% on 30.09.2012.