

Imp points to Remember before starting the chapter.

1. Income which are not taxable under any other head will be taxable under this head. **Sec 56(1)**
2. As per definition of income generally revenue receipts is taxable. Only those capital receipts which are included in the definition is considered as income
3. Income means **net income** i.e. net of expenses

Suppose a person receives rent from letting out
> plant and machine then from such rent expenses like repair, maintenance, dep can be deducted.

Person earning debenture interest can deduct
> bank charges for collecting such interest.

4. Expenses must be **revenue** in nature and related for earning such income. **Capital Exp not allowed**
5. Generally illegal Expenditure are not allowed.
6. Personal Expenses | disallowed Expenditure not allowed as deduction.

7 Income tax refund not taxable but interest on income tax refund is taxable.

Subject:

"1" / 2

Section 56

Sec 56 (1)
"Normal charge"

Income not taxable under other head taxable under this head after allowing deduction u/s 57 if any.

Sec 56 (2)
"Deemed charge"

Certain Income are always taxable under other sources after allowing deduction u/s 57 if any.

Section 56 (2) Deemed charge.

Following incomes are always taxable under head other sources

- 1) Dividend
 - 2) Gift
 - 3) Casual income
 - 4) Amount received from life insurance policy
 - 5) Amount forfeited on capital asset
 - 6) Interest on enhanced Compensation / Compensation
 - 7) Income from letting out plant and machine
 - 8) Income from composite letting of building and plant machine
 - 9) Interest on Securities
 - 10) Amount received on Keyman insurance policy
 - 11) Compensation received on termination of employment.
- "Agriculture income outside India is taxable as income from other sources"

Income mentioned under point 7, 8, 9, 10, 11

will be taxable under other sources only if not taxable under any other head.

Important incomes → Dividend, gift, received from life insurance

• 1 Gift

Meaning of gift.

Any Sum ^① of money or value ^② of property received without Consideration or inadequate Consideration is considered as gift in the hands of recipient ^③

Property must be Capital asset in the hands of recipient

↓

Personal movable item receive hoga to taxability ka sawal hi nhi hoga. Stock in trade Capital asset nhi hoga.

Car, mobile phone, Laptop if personal use Business me nahi toh it will not be considered as gift.

Subject:

/ / 4

In few cases gift received is exempt

1. Gift received from Relative.
2. Gift received on marriage of individual.
3. Gift received under will / inheritance
4. Gift received in contemplation to death → Movable is exempt
5. Gift received from Local authority
6. Gift received by fund, institution, university, education institute, hospital, medical institution registered u/s 10(23C) Trust
7. Gift received from person covered under point no 6.
8. Gift received by trust or institution registered u/s 1244 / 12AB

- 9.) Gift received from person covered under point 8
- 10) Gift received by a trust created solely for the benefit of the relative of individual.
- 11 Amount received from any person for treatment of Covid or illness related to Covid (himself + family)
- 12) Death due to Covid and amount received from employer whole amount is exempt. and received from any other person Exempt upto 10 lakh.

→ Amount must be received for the death of family member.

If gift is not covered by any of the above exemption then such gift will be taxable only if amount exceeds prescribed limit.

Limit

- 1) Sum of money upto 50000 p.a.
- 2) Movable property without consideration upto 50000 p.a.
- 3) Movable property without adequate consideration upto 50000 p.a.
- 4) Immovable property without consideration upto 50000 Single transaction
Stamp duty value of such property will be considered as gift
- 5) Immovable property without adequate consideration Limit is higher of
 - a) 50000
 - b) 10% of actual consideration
$$= \frac{10}{8} \text{ cr}$$

Stamp value on the date of agreement will be considered if any amount is received by prescribed mode on or before the date of agreement.

Example "A" transfers Land to "B" for Rs 70 lakh. Stamp value on date of agreement is 1 cr. and on date of registry is 1.2 cr. Amount of Rs 5 lakh by Imps on date of agreement.

Subject:

Calculation of Gift in the hands of "B"

Limit = 50000 or 10% of 700000

Matlb 700000 tak ka gift hota to exempt hota but yaha to 10 - 70 lakh is 30 lakh he so whole amount taxable

agreement ke don ya usse
pohle kuch bi amount prescribed mode me mili he.

2. Dividend Income [including Dividend from Mutual Fund UTI]

Dividend received in the hands of share holder is taxable under the head other sources.

Meaning of dividend.

Sec 2(22)(a) Distribution to share holder whether in cash or kind.

If distribution is in kind then FMV on the date of distribution will be considered as dividend.

Sec 2(22)(b) 1 Distribution of bonus debenture to shareholder

2 Distribution of bonus share to preference share holder.

"No dividend at the time of demerger"
Subject: / / 7

Sec 2(22)(c) Distribution at the time of liquidation of Company to Share holder

Payment to non participating preference share will not be considered as dividend.

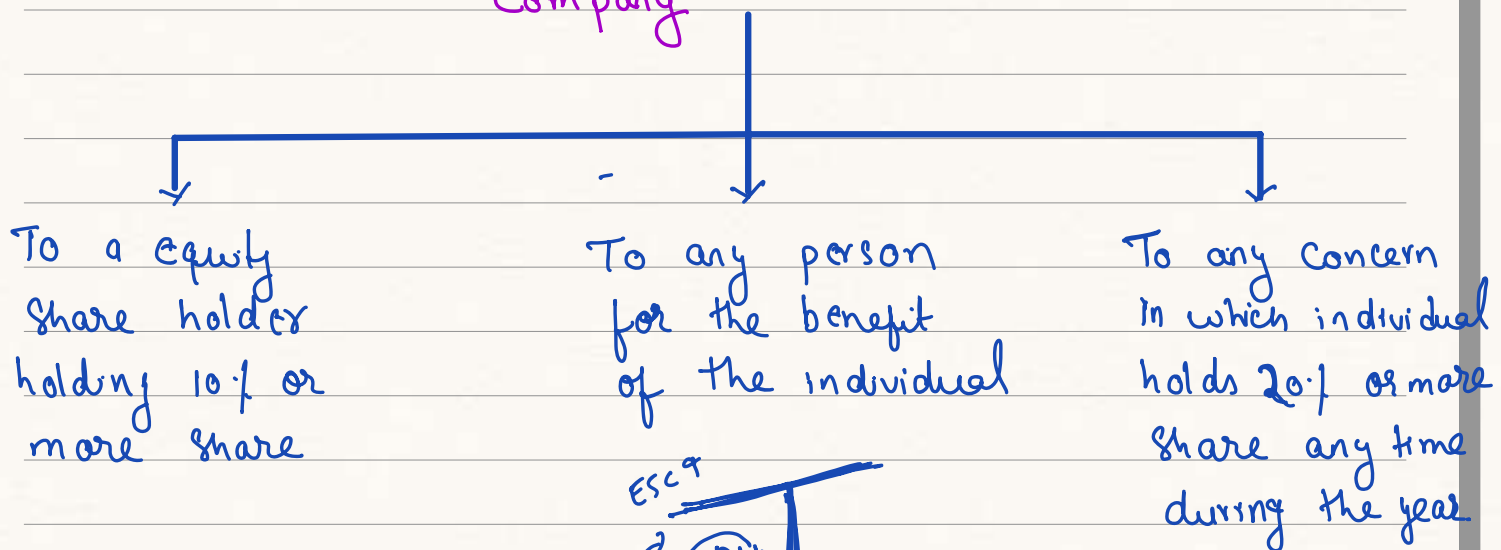
Sec 2(22)(d) Distribution to share holder at the time of reduction in share capital

eg, Redemption of preference share.

Simply writing off losses which reduces capital doesnot constitute dividend.

Sec 2(22)(e) Loan advanced by closely held Company

Ans. 2019



ESC 9
PSC
Gordon
2016

"Dividend is always upto the amount of accumulated profit whether capitalized or not under Sec 2(22)(a), 2(22)(b), 2(22)(c), 2(22)(d),

2(22)(e) laage hi

Interest charged at market rates on Repayment does not matter

Subject: Exception

// // 8

"Loan granted in ordinary course of Business will not be considered as dividend"

Tab Future me actual dividend milega
tab Vo loan amount tak taxable nhi hoga.

Amendment

Sec 2 (22) (F) → Any amount paid by Company (listed or unlisted) to its share holder at the time of buy back on or after 1-Oct-2024 will be considered as dividend. No deduction of any expenditure will be allowed from such receipt.

3. Interest on Compensation / Interest on enhanced Compensation

This income is taxable in the year when such income is received. Irrespective of the method of accounting followed by the assessee.

4. Advance money forfeited on transfer of Capital asset.

Any advance money received on or after 1 April 2014 is taxable under the head other Sources

Subject:

// / 9

Before 1 April 2014 it will be reduced from Cost of Capital asset.

5. Amount received from life insurance policy

This is not applicable in case of ULIP / Keyman policy

Amount received is taxable only if such amount is not exempt u/s 10(10D).

Exemption u/s 10(10D)

Amount received at the time of death



Exempt in any case.

Imp

→ "Any mix"

If premium exceed 50000 then policies whose premium is up to 5 lakh

Amount received from any policy issued before 1 April 2023



Such amount received is exempt if premium of all the years under policy term is "under prescribed policy"

In case of multiple policies aggregate premium of policies should not exceed 50000 for any of the year in term

Amount received from any policy issued on or after 1 April 23



Same +

NO exemption will be available if premium of policy exceeds 50000 for any of the previous year

is exempt

for policies.

Subject:

Imp / / 10

"Simple language me bolu toh
Multiple policies he toh
Vo policies choose kar lena exemption
ke liye jinki premium 50000 ko
exceed nhi karti" apni secha se.

GST will
not be
considered
while calculating
limit of Rs
5 lakh.

Taxable amount = Amount received - Premium (not allowed
as deduction)

Section - 57 Deduction from Income

"Specific deduction"

1 Dividend Income → Maximum
Interest deduction
20% of dividend
income.

Amendment → "Not available in case
of buyback"

2 Interest on Securities → Commission or
remuneration paid
to banker for collection

3. Rental income of
Plant machine,
Furniture, Building → Deduction u/s
30 - 31, 32

General deduction

Any Expenditure
from income
Except

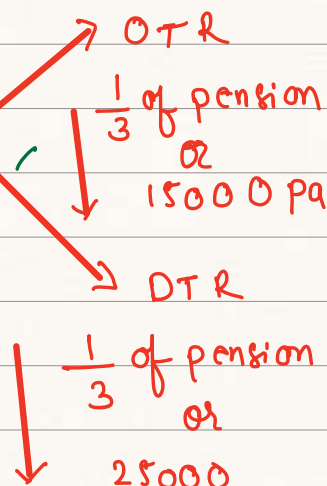
Capital Expenditure
Expenditure not
incurred wholly
and exclusively
for the purpose
of making or
earning such income

Subject:

"Amendment"

/ / 11

4. Family pension received by family member of the employee in the event of death of employee



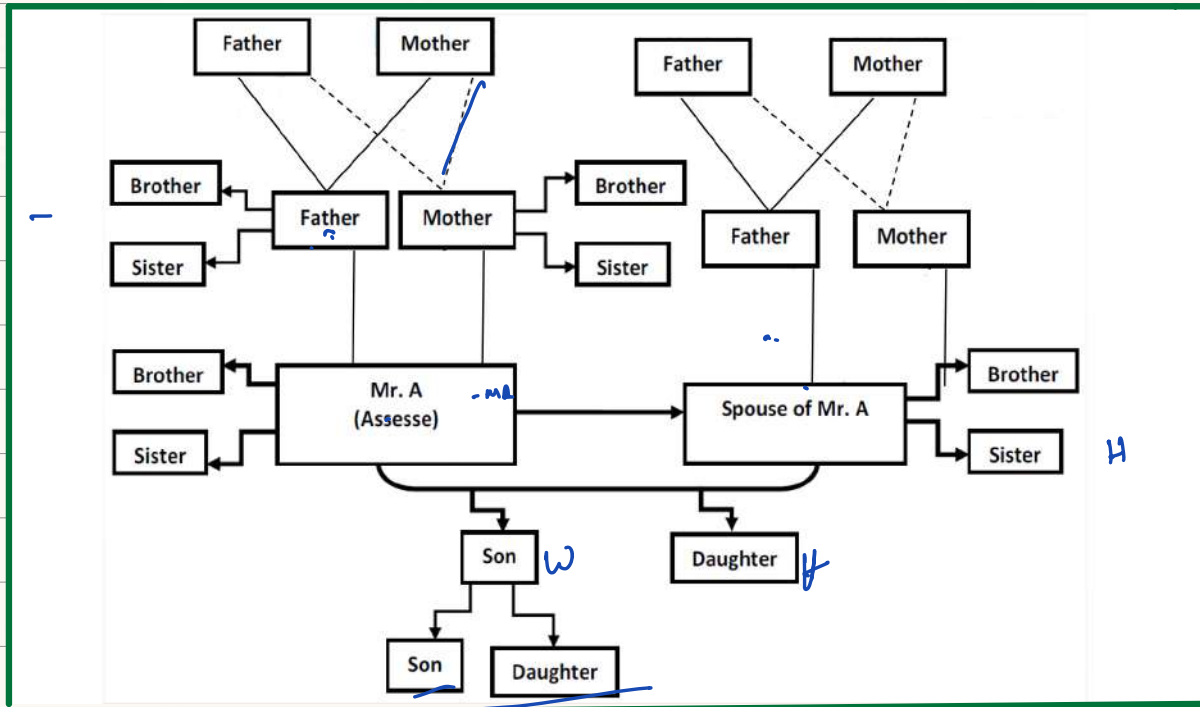
5. Interest on Compensation → 50% deduction of such income "no other deduction"

Expenditure Disallowed Sec 58

1. Any personal Expenditure
2. Interest paid outside India without deducting TDS
3. Salary paid outside India without deducting TDS
4. Any payment to Resident without deducting TDS or after deduction not deposited before filing Return of income → 30% deduction transporter 35000
5. Payment Exceeding 10000 to a person in a single day by non prescribed mode.
6. Payment to Related person above market value only Such extra payment is disallowed.
7. No deduction from Casual income. Even no Set off

Meaning of Relative for SB (2) (X)

↓ Relative
HUF → member



Rate of tax in case of Casual income online games Section (115 BB / 115BBJ)

- (i) This section provides that income by way of winnings from lotteries, crossword puzzles, races including horse races or card games and other games of any sort or from gambling or betting of any form would be taxed at a flat rate of 30% plus surcharge, if applicable, plus health and education cess@4%.

However, income by way of winnings from any online game would not be taxed under this section.

- (ii) No expenditure or allowance can be allowed from such income.
- (iii) Deduction under Chapter VI-A is not allowable from such income.
- (iv) Adjustment of unexhausted basic exemption limit is also not permitted against such income.

"Taxation of MP/MLA income"

Any income chargeable to tax under the Act, but not falling under any other head of income shall be chargeable to tax under the head "Income from other sources".

For example, salary received by an MPs/MLAs will not be chargeable to income-tax under the head 'Salary' but will be chargeable as "Income from other sources" under section 56. However, the following incomes of Members of Parliament or State Legislatures will be exempt under section 10(17):

- (i) **Daily Allowance** - Daily allowance received by any Member of Parliament or of any State Legislatures or any Committee thereof.
- (ii) **Constituency Allowance of MPs** - In the case of a Member of Parliament, any allowance received under Members of Parliament (Constituency Allowance) Rules, 1986; and
- (iii) **Constituency allowance of MLAs** - Any constituency allowance received by any person by reason of his membership of any State Legislature under any Act or rules made by that State Legislature.

Method of accounting under other sources.

Income chargeable under the head "Income from other sources" has to be computed in accordance with the cash or mercantile system of accounting regularly employed by the assessee. For different sources of income different accounting method can be used. But must be followed regularly.

Meaning of casual income

Casual income means income in the nature of winnings from lotteries, crossword puzzles, races including horse races, card games and other games of any sort, gambling, betting etc.



This includes any game show, an entertainment programme on television or electronic mode in which people compete for prizes.

Clarification regarding trade advance not to be treated as deemed dividend under section 2(22)(e) - [Circular No. 19/2017, dated 12.06.2017]

Section 2(22)(e) provides that "dividend" includes any payment by a company in which public are not substantially interested, of any sum by way of **advance or loan** to a shareholder who is the beneficial owner of shares holding not less than 10% of the voting power, or to any concern in which such shareholder is a member or a partner and in which he has a substantial interest or any payment by any such company on behalf, or for the individual benefit, of any such shareholder, to the extent to which the company in either case possesses accumulated profits.

The CBDT observed that some Courts in the recent past have held that trade advances in the nature of commercial transactions would not fall within the ambit of the provisions of section 2(22)(e) and such views have attained finality.

In view of the above, the CBDT has, vide this circular, clarified that it is a settled position that trade advances, which are in the nature of commercial transactions, would not fall within the ambit of the word 'advance' in section 2(22)(e) and therefore, the same would not to be treated as deemed dividend.

Grossing up of income

1. If income received is net of TDS then such income should be grossed up.

TDS Rate

Casual income → 30% → 11588

Interest → 10% → 1944

Dividend → 10% → 194
(u/s 2(22) a to f)

Dividend
UTI/MF → 10% → 1944

Keep in Mind point
no 8, 9, 10
on page number "2"
and agriculture income
Outside India is taxable
under other sources

"Best of Luck"

1. *Examine under which heads the following incomes are taxable:*
 - (i) *Rental income in case property held as stock-in-trade for 3 years*
 - (ii) *Salary received by a partner from his partnership firm*
 - (iii) *Rental income of machinery*
 - (iv) *Winnings from lotteries by a person having the same as business activity*
 - (v) *Salaries received by a Member of Parliament*
 - (vi) *Receipts without consideration*
 - (vii) *In case of retirement, interest on employee's contribution if provident fund is unrecognized.*
 - (viii) *Rental income in case of a person engaged in the business of letting out of commercial properties.*

1. **Head under which following incomes are taxable:**

	Particulars	Head of Income
(i)	Rental income in case property held as stock-in trade for 3 years	Income from house property
	partnership firm	profession
(iii)	Rental income of machinery (See Note below)	Profits and gains of business or profession/Income from other sources
(iv)	Winnings from lotteries by a person having the same as business activity	Income from other sources
(v)	Salaries payable to a Member of Parliament	Income from other sources
(vi)	Receipts without consideration	Income from other sources
(vii)	In case of retirement, interest on employee's contribution if provident fund is unrecognized	Income from other sources
(viii)	Rental income in case of a person engaged in the business of letting out of commercial properties	Profits and gains from business or profession

Note - As per section 56(2)(ii), rental income of machinery would be chargeable to tax under the head "Income from Other Sources", if the same is not chargeable to income-tax under the head "Profits and gains of business or profession".

2. Examine whether the following are chargeable to tax and the amount liable to tax:

- (i) A sum of ₹ 1,20,000 was received as gift from non-relatives by Raj on the occasion of the marriage of his son Pravin.
- (ii) Interest on enhanced compensation of ₹ 96,000 received on 12-3-2025 for acquisition of urban land, of which 40% relates to P.Y.2023-24.

2. Taxability of Receipts

S. No.	Taxable/ Not Taxable	Answer Amount liable to tax (₹)	Reason
(i)	Taxable	1,20,000	The exemption from applicability of section 56(2)(x) would be available if, <i>inter alia</i> , gift is received from a relative or gift is received on the occasion of marriage of the individual himself. In this case, since gift is received by Mr. Raj from a non-relative on the occasion of marriage of his son, it would be taxable in his hands under section 56(2)(x).
(ii)	Taxable	48,000	As per section 145B(1), interest received by the assessee on enhanced compensation shall be deemed to be the income of the year in which it is received, irrespective of the method of accounting followed by the assessee. Interest of ₹ 96,000 on enhanced compensation is chargeable to tax in the year of receipt i.e. P.Y. 2024-25 under section 56(2)(viii) after providing deduction of 50% under section 57(iv). Therefore, ₹ 48,000 is chargeable to tax under the head "Income from other sources".

3. On 10.10.2024, Mr. Govind (a bank employee) received ₹ 5,00,000 towards interest on enhanced compensation from State Government in respect of compulsory acquisition of his land effected during the financial year 2016-17.

Out of this interest, ₹ 1,50,000 relates to the financial year 2017-18; ₹ 1,65,000 to the financial year 2018-19; and ₹ 1,85,000 to the financial year 2019-20. He incurred ₹ 50,000 by way of legal expenses to receive the interest on such enhanced compensation.

How much of interest on enhanced compensation would be chargeable to tax in the A.Y.2025-26?

3. Section 145B provides that interest received by the assessee on enhanced compensation shall be deemed to be the income of the assessee of the year in which it is received, irrespective of the method of accounting followed by the assessee and irrespective of the financial year to which it relates.

Section 56(2)(viii) states that such income shall be taxable as 'Income from other sources'.

50% of such income shall be allowed as deduction by virtue of section 57(iv) and no other deduction shall be permissible from such Income.

Therefore, legal expenses incurred to receive the interest on enhanced compensation would not be allowed as deduction from such income.

Computation of interest on enhanced compensation taxable as "Income from other sources" for the A.Y 2025-26:

Particulars	₹
Interest on enhanced compensation taxable u/s 56(2)(viii)	5,00,000
Less: Deduction under section 57(iv) (50% x ₹ 5,00,000)	2,50,000
Taxable interest on enhanced compensation	2,50,000

4. The following details have been furnished by Mrs. Hemali pertaining to the year ended 31.3.2025:

- Cash gift of ₹ 51,000 received from her friend on the occasion of her "Shastiaptha Poorthi", a wedding function celebrated on her husband completing 60 years of age. This was also her 25th wedding anniversary.
- On the above occasion, a diamond necklace worth ₹ 2 lacs was presented by her sister living in Dubai.
- When she celebrated her daughter's wedding on 21.2.2025, her friend assigned in Mrs. Hemali's favour, a fixed deposit held by the said friend in a scheduled bank; the value of the fixed deposit and the accrued interest on the said date was ₹ 52,000.

Compute the income, if any, assessable as "Income from other sources" for A.Y.2025-26.

4. (i) Any sum of money received by an individual on the occasion of the marriage of the individual is exempt. This provision is, however, not applicable to a cash gift received during a wedding function celebrated on completion of 60 years of age.

The gift of ₹ 51,000 received from a non-relative is, therefore, chargeable to tax under section 56(2)(x) in the hands of Mrs. Hemali, since the same exceeds ₹ 50,000.

- (ii) The provisions of section 56(2)(x) are not attracted in respect of any sum of money or property received from a relative. Thus, the gift of diamond necklace received from her sister, being a relative, is not taxable under section 56(2)(x), even though jewellery falls within the definition of "property".
- (iii) To be exempt from applicability of section 56(2)(x), the property should be received on the occasion of the marriage of the individual, not that of the individual's son or daughter. Therefore, this exemption provision is not attracted in this case.

Any sum of money received without consideration by an individual is chargeable to tax under section 56(2)(x), if the aggregate value exceeds ₹ 50,000 in a year. "Sum of money" has, however, not been defined under section 56(2)(x).

Therefore, there are two possible views in respect of the value of fixed deposit assigned in favour of Mrs. Hemali –

- (1) The first view is that fixed deposit does not fall within the meaning of "sum of money" and therefore, the provisions of section 56(2)(x) are not attracted. It may be noted that fixed deposit is also not included in the definition of "property".
- (2) However, another possible view is that fixed deposit assigned in favour of Mrs. Hemali falls within the meaning of "sum of money" received.

Income assessable as "Income from other sources"

If the first view is taken, the total amount chargeable to tax as "Income from other sources" would be ₹ 51,000, being cash gift received from a friend on her Shastipatha Poorthi.

As per the second view, the provisions of section 56(2)(x) would also be attracted in respect of the fixed deposit assigned and the "Income from other sources" of Mrs. Hemali would be ₹ 1,03,000 (₹ 51,000 + ₹ 52,000).

5. Examine the following transactions in the context of Income-tax Act, 1961:

- (i) Mr. B transferred 500 shares of R (P) Ltd. to M/s. B Co. (P) Ltd. on 10.10.2024 for ₹ 3,00,000 when the fair market value was ₹ 5,00,000. The indexed cost of acquisition of shares for Mr. B was computed at ₹ 4,45,000. The transfer was not subjected to securities transaction tax.

Determine the income chargeable to tax in the hands of Mr. B and M/s. B Co. (P) Ltd. because of the above said transaction.

- (ii) Mr. Chezian is employed in a company with taxable salary income of ₹ 5,00,000. He received a sum of ₹ 1,00,000 from Atma Charitable Trust (registered under section 12AB) by account payee cheque in December 2024 for meeting his medical expenses.

Is the sum of money so received from the trust chargeable to tax in the hands of Mr. Chezian?

5. (i) Any movable property received for inadequate consideration by any person is chargeable to tax under section 56(2)(x), if the difference between aggregate Fair Market Value of the property and consideration exceeds ₹ 50,000.

Thus, share received by M/s B. Co. (P) Ltd. from Mr. B for inadequate consideration is chargeable to tax under section 56(2)(x) to the extent of ₹ 2,00,000.

As per section 50CA, since, the consideration is less than the fair market value of unquoted shares of R (P) Ltd., fair market value of shares of the company would be deemed to be the full value of consideration. It is presumed that the shares of R (P) Ltd are unquoted shares.

The full value of consideration (₹ 5,00,000) less the indexed cost of acquisition (₹ 4,45,000) would result in a long term capital gains of ₹ 55,000 in the hands of Mr. B.

- (ii) The provisions of section 56(2)(x) would not apply to any sum of money or any property received from any trust or institution registered under section 12AB. Therefore, the sum of ₹ 1 lakh received from Atma Charitable Trust, being a trust registered under section 12AB, for meeting medical expenses would not be chargeable to tax under section 56(2)(x) in the hands of Mr. Chezian.

7

Discuss the taxability or otherwise of the following in the hands of the recipient under section 56(2)(x) the Income-tax Act, 1961 -

- (i) Akhil HUF received ₹ 75,000 in cash from niece of Akhil (i.e., daughter of Akhil's sister). Akhil is the Karta of the HUF.
- (ii) Nitisha, a member of her father's HUF, transferred a house property to the HUF without consideration. The stamp duty value of the house property is ₹ 9,00,000.
- (iii) Mr. Akshat received 100 shares of A Ltd. from his friend as a gift on occasion of his 25th marriage anniversary. The fair market value on that date was ₹ 100 per share. He also received jewellery worth ₹ 45,000 (FMV) from his nephew on the same day.
- (iv) Kishan HUF gifted a car to son of Karta for achieving good marks in XII board examination. The fair market value of the car is ₹ 5,25,000.

	Taxable/ Non- taxable	Amount liable to tax (₹)	Reason
(i)	Taxable	75,000	Sum of money exceeding ₹ 50,000 received without consideration from a non-relative is taxable under section 56(2)(x). Daughter of Mr. Akhil's sister is not a relative of Akhil HUF, since she is not a member of Akhil HUF.
(ii)	Non-taxable	Nil	Immovable property received without consideration by a HUF from its relative is not taxable under section 56(2)(x). Since Nitisha is a member of the HUF, she is a relative of the HUF. However, income from such asset would be included in the hands of Nitisha under 64(2).
(iii)	Taxable	55,000	As per provisions of section 56(2)(x), in case the aggregate fair market value of property, other than immovable property, received without consideration exceeds ₹ 50,000, the whole of the aggregate value shall be taxable. In this case, the aggregate fair market value of shares (₹ 10,000) and jewellery (₹ 45,000) exceeds ₹ 50,000. Hence, the entire amount of ₹ 55,000 shall be taxable.
(iv)	Non-taxable	Nil	Car is not included in the definition of property for the purpose of section 56(2)(x), therefore, the same shall not be taxable.

Mr. A, a dealer in shares, received the following without consideration during the P.Y. 2024-25 from his friend Mr. B, -

- (1) Cash gift of ₹ 75,000 on his anniversary, 15th April, 2024.
- (2) Bullion, the fair market value of which was ₹ 60,000, on his birthday, 19th June, 2024.
- (3) A plot of land at Faridabad on 1st July, 2024, the stamp value of which is ₹ 5 lakh on that date. Mr. B had purchased the land in April, 2009.

Mr. A purchased from his friend Mr. C, who is also a dealer in shares, 1000 shares of X Ltd. @ ₹ 400 each on 19th June, 2023, the fair market value of which was ₹ 600 each on that date. Mr. A sold these shares in the course of his business on 23rd June, 2024.

Further, on 1st November, 2024, Mr. A took possession of property (office building) booked by him two years back at ₹ 20 lakh. The stamp duty value of the property as on 1st November, 2024 was ₹ 32 lakh and on the date of booking was ₹ 23 lakh. He had paid ₹ 1 lakh by account payee cheque as down payment on the date of booking.

On 1st March, 2025, he sold the plot of land at Faridabad for ₹ 7 lakh.

Compute the income of Mr. A chargeable under the head "Income from other sources" and "Capital Gains" for A.Y. 2025-26.

Computation of "Income from other sources" of Mr. A for the A.Y. 2025-26

	Particulars	₹
(1)	Cash gift is taxable under section 56(2)(x), since it exceeds ₹ 50,000	75,000
(2)	Since bullion is included in the definition of property, therefore, when bullion is received without consideration, the same is taxable, since the aggregate fair market value exceeds ₹ 50,000	60,000
(3)	Stamp value of plot of land at Faridabad, received without consideration, is taxable under section 56(2)(x)	5,00,000
(4)	Difference of ₹ 2 lakh in the value of shares of X Ltd. purchased from Mr. C, a dealer in shares, is not taxable as it represents the stock-in-trade of Mr. A. Since Mr. A is a dealer in shares and it has been mentioned that the shares were	-

subsequently sold in the course of his business, such shares represent the stock-in-trade of Mr. A.	
(5) Difference between the stamp duty value of ₹ 23 lakh on the date of booking and the actual consideration of ₹ 20 lakh paid is taxable under section 56(2)(x) since the difference exceeds ₹ 2,00,000, being the higher of ₹ 50,000 and 10% of consideration	3,00,000
Income from Other Sources	9,35,000

Computation of "Capital Gains" of Mr. A for the A.Y.2025-26

Particulars	₹
Sale Consideration	7,00,000
Less: Cost of acquisition [deemed to be the stamp value charged to tax under section 56(2)(x) as per section 49(4)]	5,00,000
Short-term capital gains	2,00,000

Note – The resultant capital gains will be short-term capital gains since for calculating the period of holding, the period of holding of previous owner is not to be considered.