

# INCOME FROM OTHER SOURCES



## LEARNING OUTCOMES

After studying this chapter, you would be able to -

- ❑ **identify** the income which are chargeable to tax under the head “Income from other sources”;
- ❑ **identify** the admissible/ inadmissible deductions while computing income under this head;
- ❑ **examine** the circumstance(s) when amount paid or payable by a closely held company to the shareholder, being a beneficial owner or the concern in which such shareholder has the substantial interest would be deemed as dividend;
- ❑ **examine** the circumstances when any sum of money or property transferred without consideration or for inadequate consideration would be taxable in the hands of recipient and the exceptions thereto;
- ❑ **compute** the income under the head “Income from Other Sources” after allowing the deductions available thereunder.



## 5.1 INTRODUCTION

Any income, profits or gains includible in the total income of an assessee, which cannot be included under any of the preceding heads of income, is chargeable under the head 'Income from other sources'. Thus, 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. Therefore, when any income, profit or gain does not fall precisely under any of the other specific heads but is chargeable under the provisions of the Act, it would be charged under this head.



## 5.2 METHOD OF ACCOUNTING [SECTION 145]

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.

Under section 145(2), the Central Government is empowered to notify in Gazette from time to time, income computation and disclosure standards to be followed by any class of assesseees or in respect of any class of income.

Accordingly, Central Government has notified ten ICDSs to be followed by all assesseees (other than an individual or a HUF who is not required to get his accounts of the previous year audited in accordance with the provisions of section 44AB) following the mercantile system of accounting, for the purpose of computation of income chargeable to income-tax under the head "Profits and gains from business or profession" or "Income from other sources".

Text of notified ICDSs is given as an Annexure at the end of this module.



## 5.3 INCOMES CHARGEABLE UNDER THIS HEAD [SECTION 56]

### (1) Income chargeable only under the head 'Income from Other Sources':

#### (i) Dividend income [Section 56(2)(i)]

Dividend income is always taxable under the head "Income from other sources". The term 'dividend' as used in the Act has a wider scope and meaning than under the general law.

**Dividend [covered by sections 2(22)(a) to (e)]:**

According to section 2(22), the following receipts are deemed to be dividend:

- (a) **Distribution of accumulated profits, entailing the release of company's assets** - Any distribution of accumulated profits, whether capitalised or not, by a company to its shareholders is dividend if it entails the release of all or any part of its assets.

**Note:** If accumulated profits are distributed in cash, it is dividend in the hands of the shareholders. Where accumulated profits are distributed in kind, for example by delivery of shares etc. entailing the release of company's assets, the market value of such shares on the date of such distribution is deemed dividend in the hands of the shareholder.

- (b) **Distribution of debentures, deposit certificates to shareholders and bonus shares to preference shareholders** - Any distribution to its shareholders by a company of debenture, debenture stock or deposit certificate in any form, whether with or without interest, and any distribution of bonus shares to preference shareholders to the extent to which the company possesses accumulated profits, whether capitalised or not, will be deemed as dividend.

The market value of such bonus shares is deemed as dividend in the hands of the preference shareholder.

In the case of debentures, debenture stock etc., their value is to be taken at the market rate and if there is no market rate they should be valued according to accepted principles of valuation.

**Note:** Bonus shares given to equity shareholders are not treated as dividend.

- (c) **Distribution on liquidation** - Any distribution made to the shareholders of a company on its liquidation, to the extent to which the distribution is attributable to the accumulated profits of the company immediately before its liquidation, whether capitalised or not, is deemed to be dividend income.

**Note:** Any distribution made out of the profits of the company after the date of the liquidation cannot amount to dividend. It is a repayment towards capital.

- (d) **Distribution on reduction of capital** - Any distribution to its shareholders by a company on the reduction of its capital, to the extent to which the company possessed accumulated profits, whether capitalised or not, shall be deemed to be dividend.

- (e) **Advance or loan by a closely held company to its shareholder** – Any payment by a company in which the public are not substantially interested of any sum by way of advance

or loan to any shareholder who is the beneficial owner of 10% or more of the voting power of the company will be deemed to be dividend to the extent of the accumulated profits. If the loan is not covered by the accumulated profits, it is not deemed to be dividend.

**Advance or loan by a closely held company to a specified concern** - Any payment by a company in which the public are not substantially interested, to any concern (i.e. HUF/ Firm/ AOP/ BOI/ Company) in which a shareholder, having the beneficial ownership of at least 10% of the equity shares is a member or a partner and in which he has a substantial interest (i.e. at least 20% share of the income of the concern) will be deemed to be dividend.

Also, any payments by such a closely held company on behalf of, or for the individual benefit of any such shareholder will also be deemed to be dividend. However, in both cases the ceiling limit of dividend is to the extent of accumulated profits.

**Exceptions:** The following payments or loan given would not be deemed as dividend:

- (i) **Loan granted in the ordinary course of business** - If the loan is granted in the ordinary course of its business and lending of money is a substantial part of the company's business, the loan or advance to a shareholder or to the specified concern is not deemed to be dividend.
- (ii) **Dividend paid is set off against the deemed dividend** - Where a loan had been treated as dividend and subsequently, the company declares and distributes dividend to all its shareholders including the borrowing shareholder, and the dividend so paid is set off by the company against the previous borrowing, the adjusted amount will not be again treated as a dividend.

**Note:** Subsequent repayment of loan or charge of interest at market rate does not make any difference in the applicability of section 2(22)(e).

- (f) **Amount received by shareholder on buy-back of shares by domestic companies** - *In case of buyback of shares (whether listed or unlisted) before 1.10.2024 by a domestic company, additional income-tax@20% (plus surcharge @12% and cess@4%) is leviable in the hands of the company under section 115QA. Consequently, the income arising to the shareholders in respect of such buyback of shares by the domestic company is exempt under section 10(34A).*

*However, in case of buyback of shares (whether listed or unlisted) on or after 1.10.2024 by a domestic company, any sum paid by the domestic company for purchase of its own shares would be deemed as dividend in the hands of shareholders and shall be charged to*

income tax at applicable tax rates. No deduction for expenses would be available against such dividend income while determining the income from other sources.

Below here is the example to understand the provisions of section 46A and section 2(22)(f):

No. of shares of A Ltd. bought in 2020 By Mr. B @ ₹ 40 per share	100 shares
Total cost of acquisition	₹ 4,000 (100 x ₹ 40)
No. of shares bought back in November 2024 by A Ltd. @ ₹ 60 per share	20 shares
Income taxable as deemed dividend u/s 2(22)(f) [₹ 60 per share x 20 shares]	₹ 1,200
Long-term capital loss on such buyback as per section 46A (Value of consideration - COA) (Nil - ₹ 40 x 20) [Such LTCL can be set-off against other LTCG or it can be carried forward to the next year for set-off against other LTCG]	₹ 800
No. of shares sold in December 2025 by Mr. B @ ₹ 70 per share	50 Shares
Long-term capital Gain (₹ 70 x 50 - ₹ 40 x 50)	₹ 1,500
Chargeable long-term capital gain in P.Y. 2025-26 after set-off of long-term capital loss [₹ 1,500 - ₹ 800] would be	₹ 700

### Exceptions

The following also do not constitute “dividend” -

- (i) **Distribution in respect of non-participating shares issued for full cash consideration –** Any distribution made in accordance with (c) or (d) in respect of any share issued for full cash consideration and the holder of such share is not entitled to participate in the surplus asset in the event of liquidation.
- (ii) **Payment on buy back of shares -** Any payment made by a company on purchase of its own shares **upto 30th September, 2024**, from a shareholder in accordance with the provisions of section 77A of the Companies Act, 1956<sup>1</sup>;
- (iii) **Distribution of shares to the shareholders on demerger by the resulting company -** Any distribution of shares on demerger by the resulting company to the shareholders of the demerged company (whether or not there is a reduction of capital in the demerged company).

<sup>1</sup> Now section 58 of the Companies Act, 2013

### Meaning of “accumulated profits”

Accumulated profits in point (a), (b), (d) and (e) above include all profits of the company up to the date of distribution or payment of dividend.

Building & Machinery Depreciation fund not to be included in accumulated profits. - *CIT v. Jaldurama Rao (1983) 140 ITR 168 (Andhra Pradesh)*

Accumulated profits include in point (c) all profits of the company up to the date of liquidation whether capitalised or not. But where liquidation is consequent to the compulsory acquisition of an undertaking by the Government or by any corporation owned or controlled by the Government, the accumulated profits do not include any profits of the company prior to the 3 successive previous years immediately preceding the previous year in which such acquisition took place.

In the case of an amalgamated company, the accumulated profits, whether capitalized or not, of the amalgamating company on the date of amalgamation shall be included in the accumulated profits, whether capitalized or not or loss, as the case may be, of the amalgamated company.

#### **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. Some illustrations /examples of trade advances/commercial transactions held to be not covered under section 2(22)(e) are as follows:

- (i) Advances were made by a company to a sister concern and adjusted against the dues for job work done by the sister concern. It was held that amounts advanced for business transactions do not to fall within the definition of deemed dividend under section 2(22)(e) [*CIT vs. Creative Dyeing & Printing Pvt. Ltd. [NJRS] 2009-LL-0922-2, ITA No. 250 of 2009, Delhi High Court*].
- (ii) Advance was made by a company to its shareholder to install plant and machinery at the shareholder's premises to enable him to do job work for the company so that the company could fulfil an export order. It was held that as the assessee proved business expediency, the

advance was not covered by section 2(22)(e) [*CIT vs Amrik Singh, [NJRS] 2015-LL-0429-5, ITA No. 347 of 2013, P & H High Court*]

- (iii) A floating security deposit was given by a company to its sister concern against the use of electricity generators belonging to the sister concern. The company utilised gas available to it from GAIL to generate electricity and supplied it to the sister concern at concessional rates. It was held that the security deposit made by the company to its sister concern was a business transaction arising in the normal course of business between two concerns and the transaction did not attract section 2(22)(e) [*CIT, Agra vs Atul Engineering Udyog, [NJRS] 2014-LL-0926-121, ITA No. 223 of 2011, Allahabad High Court*]

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.

### **Basis of charge of dividend [Section 8]**

Dividend declared or distributed or paid by a company is deemed to be the income of the shareholder in the previous year in which it is so declared or distributed or paid, as the case may be.

**Deemed dividend u/s 2(22)(a)/(b)/(c)/(d)** – Distribution by a company which is deemed as dividend u/s 2(22)(a)/(b)/(c)/(d) would be the income of the previous year in which it is so distributed.

**Deemed dividend u/s 2(22)(e)** – Payment of advance or loan to a shareholder or a concern, as the case may be, which is deemed as dividend u/s 2(22)(e) will be the income of the previous year in which it is so paid.

**Interim dividend** – Interim dividend would be deemed to be the income of the previous year in which such dividend is unconditionally made available by the company to the members who are entitled to it.

**Tax rate on dividend income** - Any income by way of dividend received by a resident from a company, whether domestic or foreign, is taxable in the hands of shareholder at normal rates of tax.

### **ILLUSTRATION 1**

*Dhaval is in business of manufacturing customized kitchen equipments. He is also the Managing Director and held nearly 65% of the paid-up share capital of Aarav (P) Ltd. A substantial part of the*

*business of Dhaval is obtained through Aarav (P) Ltd. For this purpose, Aarav (P) Ltd. passed on the advance received from its customers to Dhaval to execute the job work entrusted to him.*

*The Assessing Officer held that the advance money received by Dhaval is in the nature of loan given by Aarav (P) Ltd. to him and accordingly is deemed dividend within the meaning of provisions of section 2(22)(e) of the Income-tax Act, 1961. The Assessing Officer, therefore, made the addition by treating advance money as deemed dividend.*

*Examine whether the action of the Assessing Officer is tenable in law.*

### SOLUTION

As per section 2(22)(e), in case a company, not being a company in which the public are substantially interested, makes payment of any sum by way of advance or loan to a shareholder holding not less than 10% of voting power/share capital of the company, then, the payment so made shall be deemed to be dividend in the hands of such shareholder to the extent to which the company possesses accumulated profits.

In the present case, Dhaval is holding 65% of the paid-up capital of Aarav (P) Ltd. Aarav (P) Ltd. has passed on advance received from its customers to Dhaval for execution of job work entrusted to Dhaval.

Since Aarav (P) Ltd. is not a company in which public are substantially interested, the applicability of the provisions of section 2(22)(e) in respect of such transaction has to be examined. In *CIT v. Rajkumar (2009) 318 ITR 462 (Del.)*, it was held that trade advance given to the shareholder which is in the nature of money transacted to give effect to a commercial transaction, would not amount to deemed dividend under section 2(22)(e). The Delhi High Court ruling in *CIT v. Ambassador Travels (P) Ltd. (2009) 318 ITR 376* also supports the above view.

In the present case, the payment is made to Dhaval by Aarav (P) Ltd. for execution of work is in the course of commercial business transaction and therefore, it cannot be treated as deemed dividend under section 2(22)(e). Hence, the action of the Assessing Officer is not tenable in law.

**Note** – *This can also be answered on the basis of Circular No. 19/2017, dated 12.06.2017. The CBDT has, in its 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. Since, the payment is made to Dhaval by Aarav (P) Ltd. for execution of work is in the course of commercial business transaction and therefore, the advance cannot be treated as deemed dividend under section 2(22)(e). Hence, the action of the Assessing Officer is not tenable in law.*

**ILLUSTRATION 2**

*MNO (P) Ltd. is a company in which the public are not substantially interested. K is a shareholder of the company holding 15% of the equity shares. The accumulated profits of the company as on 1.10.2024 amounted to ₹ 10,00,000. The company lent ₹ 1,00,000 to K by an account payee bank draft on 1.10.2024. The loan was not connected with the business of the company. K repaid the loan to the company by an account payee bank draft on 30.3.2025. Examine the effect of the borrowal and repayment of the loan by K on the computation of his total income for the assessment year 2025-26.*

**SOLUTION**

As per section 2(22)(e), any payment by a company, in which the public are not substantially interested, by way of advance or loan to a shareholder, being a person who is the beneficial owner of shares holding not less than 10% of the voting power, shall be treated as dividend to the extent to which the company possesses accumulated profits.

In the instant case, MNO (P) Ltd. is a company in which the public are not substantially interested. The company has accumulated profits of ₹ 10,00,000 on 1.10.2024. The loan given by the company to K was not in the course of its business. K holds more than 10% of the equity shares in the company. Therefore, assuming that K has voting power equivalent to his shareholding, section 2(22)(e) comes into play. Deemed dividend of ₹ 1,00,000 under section 2(22)(e) would be taxable in the hands of Mr. K at normal rates of tax.

Under section 2(22)(e), the liability arises the moment the loan is borrowed by the shareholder and it is immaterial whether the loan is repaid before the end of the accounting year or not. Therefore, the repayment of loan by K to the company on 30.3.2025 will not affect the taxability of the sum of ₹ 1,00,000 as deemed dividend.

**(ii) Casual Income [Section 56(2)(ib)]**

Casual income means income in the nature of winning from lotteries, crossword puzzles, races including horse races, card games and other games of any sort, gambling, betting etc. Such winnings are chargeable to tax at a flat rate of 30% under the head "Income from Other Sources".

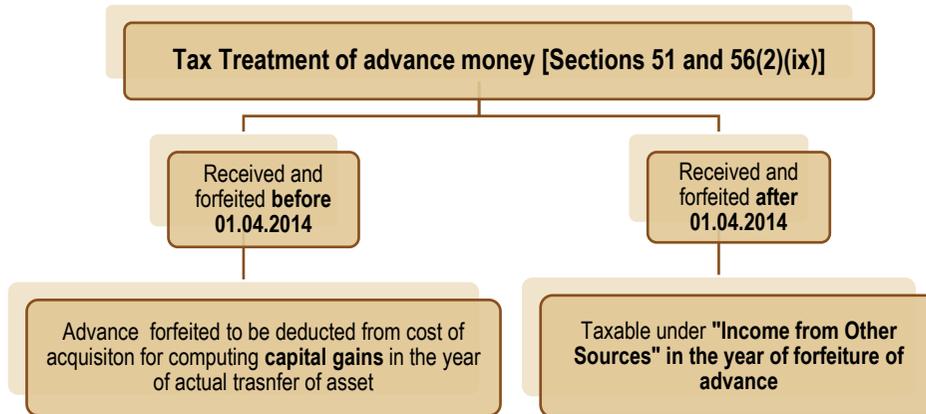
**(iii) Interest received on compensation/ enhanced compensation deemed to be income in the year of receipt and taxable under the head “Income from Other Sources” [Section 56(2)(viii)]**

- (a) 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.
- (b) Section 145B(1) provides that notwithstanding anything contained in section 145(1), the interest received by an assessee on compensation or on enhanced compensation shall be deemed to be his income of the previous year in which it is received, irrespective of the method of accounting followed by the assessee.
- (c) Section 56(2)(viii) provides that income by way of interest received on compensation or on enhanced compensation referred to in section 145B(1) shall be assessed as “Income from other sources” in the year in which it is received.

**(iv) Advance forfeited due to failure of negotiations for transfer of a capital asset to be taxable as “Income from other sources” [Section 56(2)(ix)]**

- (a) Prior to A.Y.2015-16, any advance retained or received in respect of a negotiation for transfer which failed to materialise is reduced from the cost of acquisition of the asset or the written down value or the fair market value of the asset, at the time of its transfer to compute the capital gains arising therefrom as per section 51. In case the asset transferred is a long-term capital asset, indexation benefit would be on the cost so reduced.
- (b) With effect from A.Y.2015-16, section 56(2)(ix) provides for the taxability of any sum of money, received as an advance or otherwise in the course of negotiations for transfer of a capital asset. Such sum shall be chargeable to income-tax under the head ‘Income from other sources’, if such sum is forfeited and the negotiations do not result in transfer of such capital asset.
- (c) In order to avoid double taxation of the advance received and retained, section 51 was amended to provide that where any sum of money received as an advance or otherwise in the course of negotiations for transfer of a capital asset, has been included in the total income of the assessee for any previous year, in accordance with section 56(2)(ix), such amount shall not be deducted from the cost for which the asset was acquired or the written down value or the fair market value, as the case may be, in computing the cost of acquisition.

- (d) It may be noted that advance received and forfeited upto 31.3.2014 has to be reduced from cost of acquisition while computing capital gains, since such advance would not have been subject to tax under section 56(2)(ix). Only the advance received and forfeited on or after 1.4.2014 would be subject to tax under section 56(2)(ix). Hence, such advance would not be reduced from the cost of acquisition for computing capital gains.



- (v) **Any sum of money or value of property received without consideration or for inadequate consideration to be subject to tax in the hands of the recipient [Section 56(2)(x)]**

In order to prevent the practice of receiving sum of money or the property without consideration or for inadequate consideration, section 56(2)(x) brings to tax any sum of money or the value of any property received by any person without consideration or the value of any property received for inadequate consideration.

- (a) **Sum of Money:** If any sum of money is received without consideration and the aggregate value of which exceeds ₹ 50,000, the whole of the aggregate value of such sum is chargeable to tax.
- (b) **Immovable property [Land or building or both]:**
- I. **If an immovable property is received**
    - (a) **Without consideration:** the stamp duty value of such property would be taxed as the income of the recipient, if it exceeds ₹ 50,000.
    - (b) **For Inadequate consideration:** If consideration is less than the stamp duty value of the property and the difference between the stamp duty value and consideration is more than the higher of –
      - (i) ₹ 50,000 and

(ii) 10% of consideration,

the difference between the stamp duty value and the consideration shall be chargeable to tax in the hands of the assessee as "Income from other sources".

It may be noted that the above limit shall be considered for **each property separately**.

**II. Value of property to be considered where the date of agreement is different from date of registration:** Taking into consideration the possible time gap between the date of agreement and the date of registration, the stamp duty value may be taken as on the date of agreement instead of the date of registration, if the date of the agreement fixing the amount of consideration for the transfer of the immovable property and the date of registration are not the same, provided whole or part of the consideration has been paid by way of an account payee cheque or an account payee bank draft or by use of electronic clearing system (ECS) through a bank account or through such prescribed electronic mode on or before the date of agreement.

The prescribed electronic modes notified are credit card, debit card, net banking, IMPS (Immediate payment Service), UPI (Unified Payment Interface), RTGS (Real Time Gross Settlement), NEFT (National Electronic Funds Transfer), and BHIM (Bharat Interface for Money) Aadhar Pay as other electronic modes of payment [CBDT Notification No. 8/2020 dated 29.01.2020].

**III. If the stamp duty value of immovable property is disputed by the assessee,** the Assessing Officer may refer the valuation of such property to a Valuation Officer. In such a case, the provisions of section 50C and section 155(15) shall, as far as may be, apply for determining the value of such property. As per section 50C, if such value is less than the stamp duty value, the same would be taken for determining the value of such property, for computation of income under this head in the hands of the buyer.

(c) **Movable Property [Property other than immovable property]:**

If movable property is received

(i) **Without consideration:** The **aggregate fair market value** of such property on the date of receipt would be taxed as the income of the recipient, if it exceeds ₹ 50,000.

- (ii) **For inadequate consideration:** If the difference between the **aggregate fair market value** and such consideration exceeds ₹ 50,000, such difference would be taxed as the income of the recipient.
- (d) **Applicability of section 56(2)(x):** The provisions of section 56(2)(x) would apply only to the specified property which is the nature of a capital asset of the recipient and not stock-in-trade, raw material or consumable stores of any business of the recipient. Therefore, only transfer of a specified capital asset, without consideration or for inadequate consideration would attract the provisions of section 56(2)(x).
- (e) **The table below summarizes the scheme of taxability of gifts –**

	Nature of asset	Taxable value
1	Money	The whole amount if the same exceeds ₹ 50,000.
2	Movable property	<p>(i) <b>Without consideration:</b> The aggregate fair market value of the property, if it exceeds ₹ 50,000.</p> <p>(ii) <b>Inadequate consideration:</b> The difference between the aggregate fair market value and the consideration, if such difference exceeds ₹ 50,000.</p>
3	Immovable property	<p>(i) <b>Without consideration:</b> The stamp value of the property, if it exceeds ₹ 50,000.</p> <p>(ii) <b>Inadequate consideration:</b> The difference between the stamp duty value and the consideration, if such difference is more than the higher of ₹ 50,000 and 10% of consideration.</p>

- (f) **Non-applicability of section 56(2)(x):** However, any sum of money or value of property received in the following circumstances would be outside the ambit of section 56(2)(x) -
- (i) from any relative; or
  - (ii) on the occasion of the marriage of the individual; or
  - (iii) under a will or by way of inheritance; or
  - (iv) in contemplation of death of the payer or donor, as the case may be; or
  - (v) from any local authority as defined in the *Explanation* to section 10(20); or
  - (vi) 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

- (vii) from or by any trust or institution registered under section 12A or section 12AA or section 12AB; or

However, where sum of money or property has been received by specified persons under section 13(3), this relaxation is not available and section 56(2)(x) would be applicable.

- (viii) by any fund or trust or institution or any university or other educational institution or any hospital or other medical institution referred to in Section 10(23C)(iv)/(v)/(vi)/(via).
- (ix) by way of transaction not regarded as transfer under section 47(i)/(iv)/(v)/(vi)/(via)/(viaa)/(vib)/(vic)/(vica)/(vib)/(vid)/(vii)/(viiac)/(viiad)/(viiac)/(viiac).
- (x) from an individual by a trust created or established solely for the benefit of relative of the individual.
- (xi) by an individual, from any person, in respect of any expenditure actually incurred by him on his medical treatment or treatment of any member of his family, for any illness related to COVID-19 subject to conditions notified by the Central Government.

Accordingly, the Central Government has, *vide Notification No. 91/2022 dated 5.8.2022*, specified the following conditions –

The individual has to keep a record of the following documents, namely:-

- (a) the COVID-19 positive report of the individual or his family member, or medical report if clinically determined to be COVID-19 positive through investigations in a hospital or an in-patient facility by a treating physician for a person so admitted;
- (b) all necessary documents of medical diagnosis or treatment of the individual or family member due to COVID-19 or illness related to COVID-19 suffered within 6 months from the date of being determined as a COVID-19 positive;

The details of the amount so received in any financial year has to be furnished in Form No. 1 to the Income-tax Department within 9 months from the end of such financial year.

- (xii) by a member of the family of a deceased person –
- (A) from the employer of the deceased person (without any limit); or
- (B) from any other person or persons to the extent that such sum or aggregate of such sums  $\leq$  ₹ 10 lakhs,

where the cause of death of such person is illness related to COVID-19 and the payment is –

- (i) received within 12 months from the date of death of such person; and
- (ii) subject to such other conditions notified by the Central Government.

Accordingly, the Central Government has, *vide Notification No. 92/2022 dated 5.8.2022*, specified the following conditions –

1. (i) the death of the individual should be within 6 months from the date of testing positive or from the date of being clinically determined as a COVID-19 case, for which any sum of money has been received by the member of the family;
  - (ii) the family member of the individual has to keep a record of the following documents,
    - (a) the COVID-19 positive report of the individual, or medical report if clinically determined to be COVID-19 positive through investigations in a hospital or an inpatient facility by a treating physician;
    - (b) a medical report or death certificate issued by a medical practitioner or a Government civil registration office, in which it is stated that death of the person is related to corona virus disease (COVID-19).
  2. The details of such amount received in any financial year has to be furnished in Form A to the Assessing Officer within 9 months from the end of such financial year.
- (xiii) from such class of persons and subject to such conditions, as may be prescribed.

Accordingly, CBDT has inserted Rule 11UAC to notify that the provisions of section 56(2)(x) would not be applicable to the following transactions –

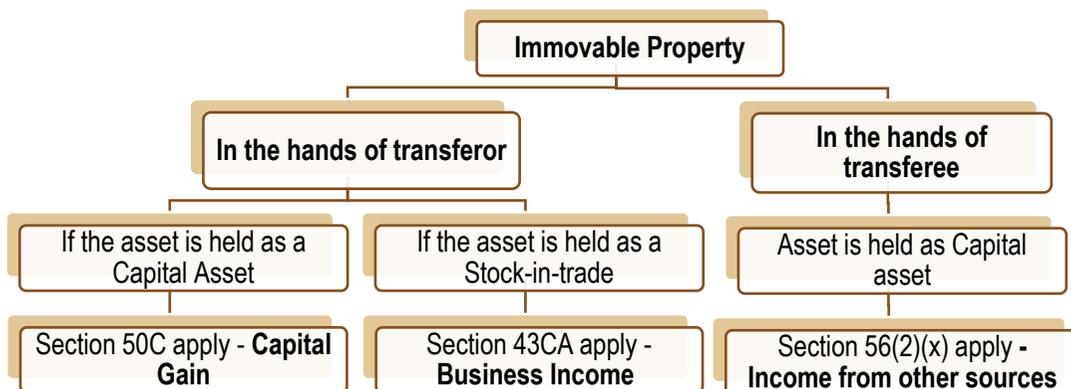
S. No.	Property	Received by	Condition
1.	Any immovable property, being land or building or both	a resident of an unauthorized colony in the National Capital Territory of Delhi	where the Central Government by notification in the Official Gazettee, regularised the transactions of such immovable property based on the latest Power of Attorney, Agreement to Sale, Will, possession letter and other documents including documents evidencing payment of consideration for conferring or recognising right of ownership or transfer or mortgage in regard to such immovable property in favour of such resident.

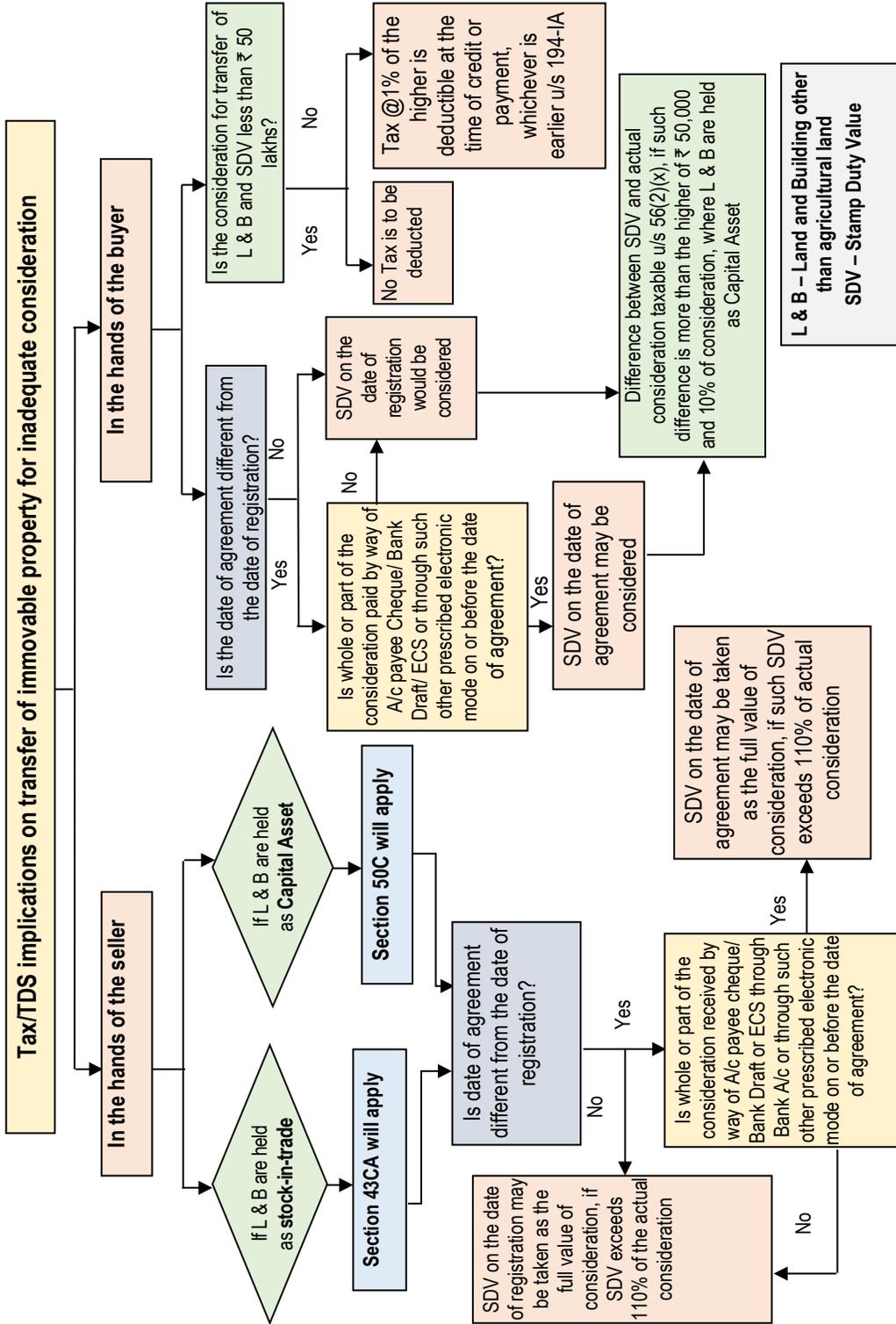
	<p><b>Resident means</b> a person having physical possession of property on the basis of a registered sale deed or latest set of Power of Attorney, Agreement to Sale, Will, possession letter and other documents including documents evidencing payment of consideration in respect of a property in unauthorised colonies and includes their legal heirs but does not include tenant, licensee or permissive user.</p> <p><b>Unauthorised colony means</b> a colony or development comprising of a contiguous area, where no permission has been obtained for approval of layout plan or building plans and has been identified for regularisation of such colony in pursuance to the notification number S.O. 683(E), dated the 24th March, 2008, of the Delhi Development Authority.</p>		
2.	Any movable property, being unquoted shares, of a company and its subsidiary and the subsidiary of such subsidiary	Shareholder	<p>Where,</p> <p>(i) the Tribunal, on an application moved by the Central Government under section 241 of the Companies Act, 2013, has suspended the Board of Directors of such company and has appointed new directors nominated by the Central Government under section 242 of the said Act; and</p> <p>(ii) share of company and its subsidiary and the subsidiary of such subsidiary has been received pursuant to a resolution plan approved by the Tribunal under section 242 of the Companies Act, 2013 after affording a reasonable opportunity of being heard to the jurisdictional Principal Commissioner or Commissioner.</p>
	A company shall be a subsidiary of another company, if such other company holds more than half in nominal value of the equity share capital of the company;		
3.	Any movable property, being equity shares, of the reconstructed bank	Investor or investor bank (SBI)	where the said share has been allotted by the reconstructed bank (Yes Bank) under the Yes Bank Limited Reconstruction Scheme, 2020 at ₹ 10 per share (Face value - ₹ 2 per share; Premium - ₹ 8 per share).

4.	Any movable property, being equity shares, of a public sector company or a company	a person	It should be received from a public sector company or the Central Government or any State Government under strategic disinvestment.
<p><b>Strategic disinvestment</b> - Sale of shareholding by the Central Government or any State Government or a public sector company, in a public sector company or in a company, which results in</p> <ul style="list-style-type: none"> <li>- reduction of its shareholding to below 51% and</li> <li>- transfer of control to the buyer.</li> </ul> <p>The condition of reduction below 51% would apply only in a case where shareholding of the Central Government or the State Government or the public sector company was above 51% before such sale of shareholding.</p> <p>The requirement of transfer of control may be carried out by the Central Government or the State Government or the public sector company or any two of them or all of them.</p>			
5.	Any movable property, being shares or units or interest in the resultant fund	The fund management entity of the resultant fund	<p>It should be received in lieu of shares or units or interest held by the investment manager entity in the original fund, pursuant to the relocation, subject to the following conditions, namely –</p> <ul style="list-style-type: none"> <li>(i) not less than 90% of shares or units or interest in the fund management entity of the resultant fund are held by the same entity(ies) or person(s) in the same proportion as held by them in the investment manager entity of the original fund; and</li> <li>(ii) not less than 90% of the aggregate of shares or units or interest in the investment manager entity of the original fund was held by such entity(ies) or person(s).</li> </ul>

(g) **Meaning of certain terms:**

Term	Meaning
<b>Property</b>	A <b>capital asset</b> of the assessee, namely,- (a) immovable property being land or building or both, (b) shares and securities, (c) jewellery, (d) archaeological collections, (e) drawings, (f) paintings, (g) sculptures, (h) any work of art or bullion. It also includes virtual digital asset.
<b>Relative</b>	<b>(a) In case of an individual –</b> (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 the spouse of the individual; (vii) spouse of any of the persons referred to above. <b>(b) In case of Hindu Undivided Family, any member thereof.</b>
<b>Family</b>	For the purpose of (xi) and (xii), family, in relation to an individual means (i) the spouse and children of the individual; and (ii) the parents, brothers and sisters of the individual or any of them, wholly or mainly dependent on the individual.

**SUMMARY**



**ILLUSTRATION 3**

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, 15<sup>th</sup> April, 2024.
- (2) Bullion, the fair market value of which was ₹ 60,000, on his birthday, 19<sup>th</sup> June, 2024.
- (3) A plot of land at Faridabad on 1<sup>st</sup> 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 19<sup>th</sup> June, 2024, the fair market value of which was ₹ 600 each on that date. Mr. A sold these shares in the course of his business on 23<sup>rd</sup> June, 2024.

Further, on 1<sup>st</sup> November, 2024, Mr. A took possession of property (building) booked by him two years back at ₹ 20 lakh. The stamp duty value of the property as on 1<sup>st</sup> 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 1<sup>st</sup> 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.

**SOLUTION****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 lakh being, the higher of ₹ 50,000 and 10% of consideration.	3,00,000
<b>Income from Other Sources</b>		<b>9,35,000</b>

**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
<b>Short-term capital gains</b>	<b>2,00,000</b>

**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.

**ILLUSTRATION 4**

Discuss the taxability or otherwise of the following in the hands of the recipient under section 56(2)(x) of 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 25<sup>th</sup> 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.

**SOLUTION**

	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.

#### ILLUSTRATION 5

*Mr. Hari, a property dealer, sold a building in the course of his business to his friend Mr. Rajesh, who is a dealer in automobile spare parts, for ₹ 90 lakh on 1.1.2025, when the stamp duty value was ₹ 150 lakh. The agreement was, however, entered into on 1.9.2024 when the stamp duty value was ₹ 140 lakh. Mr. Hari had received a down payment of ₹ 15 lakh by a crossed cheque from Mr. Rajesh on the date of agreement. Discuss the tax implications in the hands of Mr. Hari and Mr. Rajesh, assuming that Mr. Hari has purchased the building for ₹ 75 lakh on 12<sup>th</sup> July, 2023.*

*Would your answer be different if Hari was a share broker instead of a property dealer?*

#### SOLUTION

##### **Case 1: Tax implications if Mr. Hari is a property dealer**

In the hands of Mr. Hari	In the hands of Mr. Rajesh
<p>In the hands of Hari, the provisions of section 43CA would be attracted, since the building represents his stock-in-trade and he has transferred the same for a consideration less than the stamp duty value; and the stamp duty value exceeds 110% of consideration.</p> <p>Under section 43CA, the option to adopt the stamp duty value on the date of agreement can be exercised only if whole or part of the consideration has been received on or before the date of agreement by way of account payee cheque or draft or by use of ECS through a bank account or</p>	<p>Since Mr. Rajesh is a dealer in automobile spare parts, the building purchased would be a capital asset in his hands. The provisions of section 56(2)(x) would be attracted in the hands of Mr. Rajesh who has received immovable property, being a capital asset, for inadequate consideration and the difference between the consideration and stamp duty value exceeds ₹ 9,00,000, being the higher of ₹ 50,000 and <b>10% of consideration.</b></p>

<p>through credit card, debit card, net banking, IMPS (Immediate payment Service), UPI (Unified Payment Interface), RTGS (Real Time Gross Settlement), NEFT (National Electronic Funds Transfer), and BHIM (Bharat Interface for Money) Aadhar Pay on or before the date of agreement. In this case, since the down payment of ₹ 15 lakh is received on the date of agreement by crossed cheque and not account payee cheque, the option cannot be exercised.</p> <p>Therefore, <b>₹ 75 lakh</b>, being the difference between the stamp duty value on the date of transfer i.e., ₹ 150 lakh, and the purchase price i.e., ₹ 75 lakh, would be chargeable as <b>business income</b> in the hands of Mr. Hari, since stamp duty value exceeds <b>110% of the consideration</b>.</p>	<p>Therefore, <b>₹ 60 lakh</b>, being the difference between the stamp duty value of the property on the date of registration (i.e., ₹ 150 lakh) and the actual consideration (i.e., ₹ 90 lakh) would be taxable under section 56(2)(x) in the hands of Mr. Rajesh, since the payment on the date of agreement is made by crossed cheque and not account payee cheque/draft or ECS or through credit card, debit card, net banking, IMPS (Immediate payment Service), UPI (Unified Payment Interface), RTGS (Real Time Gross Settlement), NEFT (National Electronic Funds Transfer), and BHIM (Bharat Interface for Money) Aadhar Pay.</p>
--	--

**Case 2: Tax implications if Mr. Hari is a share broker**

In the hands of Mr. Hari	In the hands of Mr. Rajesh
<p>In case Mr. Hari is a share broker and not a property dealer, the building would represent his capital asset and not stock-in-trade. In such a case, the provisions of section 50C would be attracted in the hands of Mr. Hari, since building is transferred for a consideration less than the stamp duty value; and the stamp duty value exceeds 110% of consideration.</p> <p>Thus, <b>₹ 75 lakh, being the difference between the stamp duty value on the date of registration (i.e., ₹ 150 lakh) and the purchase price (i.e., ₹ 75 lakh) would be chargeable as short-term capital gains.</b></p> <p>It may be noted that under section 50C, the option to adopt the stamp duty value on the date of agreement can be exercised only if whole or part of the consideration has been received on or before the date of agreement by way of account payee cheque or draft or by use of ECS through a bank account or through credit card, debit card, net banking, IMPS (Immediate payment Service), UPI (Unified Payment Interface), RTGS (Real Time Gross</p>	<p>There would be no difference in the taxability in the hands of Mr. Rajesh, whether Mr. Hari is a property dealer or a stock broker, (except where the property transferred in a residential unit fulfilling the stipulated conditions, which is not so in this case).</p> <p>Therefore, the provisions of section 56(2)(x) would be attracted in the hands of Mr. Rajesh who has received immovable property, being a capital asset, for inadequate consideration and the difference between the consideration and stamp duty value exceeds ₹ 9,00,000, being the higher of ₹ 50,000 and 10% of consideration.</p> <p>Therefore, <b>₹ 60 lakh</b>, being the difference between the stamp duty value of the property on the date of registration (i.e., ₹ 150 lakh) and the actual consideration (i.e., ₹ 90 lakh) would be taxable under section 56(2)(x) in the hands of Mr. Rajesh, since the payment on the date of agreement is made by crossed cheque and not account payee cheque/draft or ECS or through credit card, debit card, net banking, IMPS (Immediate payment Service),</p>

Settlement), NEFT (National Electronic Funds Transfer), and BHIM (Bharat Interface for Money) Aadhar Pay on or before the date of agreement. In this case, since the down payment of ₹ 15 lakhs has been received on the date of agreement by crossed cheque and not account payee cheque, the option cannot be exercised.

UPI (Unified Payment Interface), RTGS (Real Time Gross Settlement), NEFT (National Electronic Funds Transfer), and BHIM (Bharat Interface for Money) Aadhar Pay.

**(vi) Compensation or any other payment received in connection with termination of his employment [Section 56(2)(xi)]**

Any compensation or any other payment, due to or received by any person, by whatever name called, in connection with the termination of his employment or the modification of the terms and conditions relating thereto shall be chargeable to tax under this head. However, if it is received from employer, then it is taxable u/s 17(3)(i) under the head “Income from Salaries”.

**(vii) Any specified sum received by a unit holder from a business trust during the previous year [Section 56(2)(xii)]**

Section 56(2)(xii) provides that any specified sum received by a unit holder from a business trust during the previous year with respect to unit held by him at any time during the previous year would be chargeable to tax in the hands of unit holder under the head “Income from other sources”.

Specified sum is to be computed in the following manner:

<b>Specified sum = A (-) B (-) C</b> (which shall be zero if sum of B and C is greater than A)	
<b>A</b>	Aggregate of sum distributed by the business trust with respect to such unit, during the previous year or during any earlier previous year or years, to such unit holder, who holds such unit on the date of distribution of sum or to any other unit holder who held such unit at any time prior to the date of such distribution, which is – (a) not in the nature of interest and dividend referred to in section 10(23FC) or rental income referred to in section 10(23FCA); and (b) not chargeable to tax in the hands of the business trust under section 115UA(2)
<b>B</b>	Amount at which such unit was issued by the business trust; and
<b>C</b>	Amount charged to tax under this clause in any earlier previous year;

(viii) Sum received, including the amount allocated by way of bonus, under a LIP other than under a ULIP and keyman insurance policy, which is not exempt u/s 10(10D) [Section 56(2)(xiii)]

Any sum received under a life insurance policy, including the sum allocated by way of bonus on such policy would not be included in the total income of a person [Section 10(10D)].

The following table summarizes the exemption available under section 10(10D) vis-a-vis the date of issue of such policies and the corresponding condition to be satisfied for exemption -

	<b>Exemption u/s 10(10D)</b>	
<b>In respect of policies issued before 1.4.2003</b>	Any sum received under a LIP including the sum allocated by way of bonus is exempt.	
<b>In respect of policies issued between 1.4.2003 and 31.3.2012</b>	Any sum received under a LIP including the sum allocated by way of bonus is exempt. However, exemption would not be available if the premium payable for any of the years during the term of the policy exceeds 20% of "actual capital sum assured".	
<b>In respect of policies issued on or after 1.4.2012 but before 1.4.2013</b>	Any sum received under a LIP including the sum allocated by way of bonus is exempt. However, exemption would not be available if the premium payable for any of the years during the term of the policy exceeds 10% of actual capital sum assured.	
<b>In respect of policies issued on or after 1.4.2013</b>	<b>(a)</b>	<b>Where the insurance is on the life of a person with disability or severe disability as referred to in section 80U or a person suffering from disease or ailment as specified under section 80DDB.</b>
		Any sum received under a LIP including the sum allocated by way of bonus is exempt. However, exemption would not be available if the premium payable for any of the years during the term of the policy exceeds 15% of "actual capital sum assured"
	<b>(b)</b>	<b>Where the insurance is on the life of any person, other than mentioned in (a) above</b>
		Any sum received under a LIP including the sum allocated by way of bonus is exempt. However, exemption would not be available if the premium payable for any of the years during the term of the policy exceeds 10% of "actual capital sum assured".
<b>In respect of ULIP issued on or after 1.2.2021</b>	Any sum received under a ULIP including the sum allocated by way of bonus is exempt.	

	<p>However, exemption would not be available if the premium payable for any of the years during the term of the policy exceeds 10% or 15%, as the case may be, of “actual capital sum assured.</p> <p>Further, exemption would also not be available with respect to ULIP issued on or after 1.2.2021, if the amount of premium payable exceeds ₹ 2,50,000 for any of the previous years during the term of such ULIP. Such ULIP would be specified ULIP, which is a capital asset.</p> <p>In a case where premium is payable by a person for more than one ULIP issued on or after 1.2.2021 and the aggregate of premium payable on such ULIPs exceed ₹ 2,50,000 for any of the previous years during the term of any such ULIPs, exemption would be available in respect of any of those ULIPs, at the option of the assessee, whose aggregate premium payable does not exceed ₹ 2,50,000 for any of the previous years during their term. All other ULIPs would be specified ULIPs, which are capital assets.</p> <p><b>Meaning of ULIP -</b> ULIP means a life insurance policy which has components of both investment and insurance and is linked to a unit defined under IRDA (ULIP) Regulations, 2019 issued by IRDA under the Insurance Act, 1938 and the IRDA Act, 1999.</p>
<p><b>In respect of life insurance policies issued on or after 1.4.2023</b></p>	<p>Any sum received under a LIP including the sum allocated by way of bonus is exempt.</p> <p>However, exemption would not be available if the premium payable for any of the years during the term of the policy exceeds 10% or 15%, as the case may be, of “actual capital sum assured.</p> <p>Further, exemption would also not be available if the amount of premium payable exceeds ₹ 5,00,000 for any of the previous years during the term of such policy.</p> <p>In a case where premium is payable by a person for more than one LIP (other than ULIP) issued on or after 1.4.2023 and the aggregate of premium payable on such policies exceed ₹ 5,00,000 for any of the previous years during the term of any such policy(ies), exemption would be available in respect of any of those LIPs (other than ULIP), at the option of the assessee, whose aggregate premium payable does not exceed ₹ 5,00,000 for any of the previous years during their term.</p>
<p>Any sum is received on the death of a person is exempt irrespective of the annual premium payable on the ULIP/LIP. The condition of payment of premium of 10% or 15% or 20% or ₹ 5,00,000 would not be applicable.</p>	

**Exemption is not available in respect of amount received from an insurance policy taken for disabled person under section 80DD:** Any sum received under section 80DD(3) shall not be exempt under section 10(10D). Accordingly, if the dependent disabled, in respect of whom an individual or the member of the HUF has paid or deposited any amount in any scheme of LIC or any other insurer, predeceases the individual or the member of the HUF, the amount so paid or deposited shall be deemed to be the income of the assessee of the previous year in which such amount is received. Such amount would not be exempt u/s 10(10D).

**Exemption is not available in respect of the sum received under a Keyman insurance policy:** Any sum received under a Keyman insurance policy shall also not be exempt.

*Explanation 1* to section 10(10D) defines “Keyman insurance policy” as a life insurance policy taken by one person on the life of another person who is or was the employee of the first-mentioned person or is or was connected in any manner whatsoever with the business of the first-mentioned person. The term includes within its scope a keyman insurance policy which has been assigned to any person during its term, with or without consideration. Therefore, such policies shall continue to be treated as a keyman insurance policy even after the same is assigned to the keyman. Consequently, the sum received by the keyman on such policies, being “keyman insurance policies”, would not be exempt u/s 10(10D).

### **Unit Linked Insurance Policies**

In order to deter the practice of high net worth individuals from claiming exemption u/s 10(10D) by investing in ULIPs with huge premium, additional condition has been stipulated u/s 10(10D) in respect of ULIPs issued on or after 1.2.2021.

**In case where an assessee has a Single ULIP issued on or after 1.2.2021** - Exemption u/s 10(10D) would **not** be available with respect to any ULIP issued on or after 1.2.2021, if the amount of premium payable exceeds ₹ 2,50,000 for any of the previous years during the term of such ULIP. Such ULIP would be a specified ULIP, which is a capital asset.

**In case where an assessee has multiple ULIPs issued on or after 1.2.2021** - In a case where premium is payable by a person for more than one ULIP issued on or after 1.2.2021 and the aggregate of premium payable on such ULIPs exceed ₹ 2,50,000 for any of the previous years during the term of any such ULIP(s), exemption u/s 10(10D) would be available in respect of any of those ULIPs, at the option of the assessee, whose aggregate premium payable does not exceed ₹ 2,50,000 for any of the previous years during their term. All other ULIPs would be specified ULIPs, which are capital assets under section 2(14)(c). However, to get exemption u/s 10(10D), the condition of annual premium not exceeding 10% of the actual capital sum assured also needs to be satisfied.

**Exemption in case of death of a person** - In case any sum is received on the death of a person, exemption u/s 10(10D) would be available irrespective of the annual premium payable of the ULIP.

**Guidelines by CBDT:** In case any difficulty arises in giving effect to the provisions of this clause, the CBDT may issue guidelines for the purpose of removing the difficulty with the previous approval of the Central Government.

Accordingly, the CBDT has, with the approval of the Central Government, vide Circular No. 2/2022, dated 19.01.2022, issued the following guidelines in respect of ULIPs –

**Situation 1:** No sum including any sum allocated by way of bonus (such sum hereinafter referred as “consideration”) is received by the assessee on any ULIPs which are issued on or after 1.2.2021 (such ULIPs hereinafter referred as “eligible ULIPs”) during any previous year preceding the current previous year or consideration has been received on such eligible ULIPs in an earlier previous year but has not been claimed exempt. In such a situation, the exemption u/s 10(10D) would be determined as under:

**I. Where the assessee has received consideration, during the current P.Y., under one eligible ULIP only**

Circumstance	Eligibility for exemption u/s 10(10D)
If the amount of premium payable on such eligible ULIP does not exceed ₹ 2,50,000 for any of the PYs during the term of such eligible ULIP and annual premium does not exceed 10% of actual capital sum assured	Such consideration would be eligible for exemption u/s 10(10D). <b>[Refer Example 1 given below]</b>
If the amount of premium payable on such eligible ULIP > ₹ 2,50,000 for any of the PYs during the term of such eligible ULIP	Such consideration would <b>not</b> be eligible for exemption u/s 10(10D). <b>[Refer Example 2 given below]</b>

**Example 1:**

ULIP	A
Date of issue	1.4.2021
Annual premium	2,50,000
Sum assured	25,00,000
Consideration received as on 01.11.2031 on maturity	32,00,000
<b>Note</b> – The assessee did not receive any consideration under any other eligible ULIPs in earlier P.Y. preceding the P.Y.2031-32.	

**Eligibility for exemption u/s 10(10D)** - The consideration received would be exempt u/s 10(10D) in A.Y. 2032-33, since the annual premium payable on the policy does not exceed ₹ 2,50,000 and also does not exceed 10% of actual capital sum assured.

**Example 2:**

ULIP	A
Date of issue	1.4.2021
Annual premium	5,00,000
Sum assured	50,00,000
Consideration received as on 01.11.2031 on maturity	60,00,000
<b>Note</b> – The assessee did not receive any consideration under any other eligible ULIPs in earlier P.Y. preceding the P.Y.2031-32.	

**Eligibility for exemption u/s 10(10D)** - The consideration received would **not** be exempt u/s 10(10D) in A.Y. 2032-33 since the annual premium payable on the eligible ULIP exceeds ₹ 2,50,000.

**II. Where the assessee has received consideration, during the current P.Y., under more than one eligible ULIP**

Circumstance	Eligibility for exemption u/s 10(10D)
If the aggregate of the amount of premium payable on such eligible ULIPs does not exceed ₹ 2,50,000 for any of the PYs during the term of such eligible ULIPs and the annual premium ≤ 10% of actual capital sum assured	Such consideration would be eligible for exemption under u/s 10(10D). <b>[Refer Example 3 given below]</b>
If the aggregate of the amount of premium payable on such eligible ULIPs > ₹ 2,50,000 for any of the PYs during the term of such eligible ULIP	Consideration in respect of any of those eligible ULIPs whose aggregate amount of premium payable does not exceed ₹ 2,50,000 for any of the PYs during their term would be eligible for exemption u/s 10(10D), provided their annual premium ≤ 10% of actual capital sum assured. <b>[Refer Examples 4 and 5 given below]</b>

**Example 3:**

ULIP	A	B
Date of issue	1.4.2021	1.4.2021
Annual premium	1,00,000	1,50,000

Sum assured	10,00,000	15,00,000
Consideration received as on 01.11.2031 on maturity	12,00,000	18,00,000
<b>Note</b> – The assessee did not receive any consideration under any other eligible ULIPs in earlier P.Y. preceding the P.Y.2031-32.		

**Eligibility for exemption u/s 10(10D)** – In this case, the aggregate of the annual premium payable for ULIP “A” and ULIP “B” does not exceed ₹ 2,50,000 during the term of these policies.

Further, annual premium payable in respect of ULIP “A” and ULIP “B” does not exceed 10% of actual capital sum assured. Therefore, the consideration received under ULIP “A” and “B” would be exempt u/s 10(10D) in A.Y. 2032-33

**Example 4:**

ULIP	A	B	C
Date of issue	1.4.2021	1.4.2021	1.4.2021
Annual premium	1,00,000	1,50,000	3,00,000
Sum assured	10,00,000	15,00,000	30,00,000
Consideration received as on 01.11.2031 on maturity	12,00,000	18,00,000	34,00,000
<b>Note</b> – The assessee did not receive any consideration under any other eligible ULIPs in earlier P.Y. preceding the P.Y.2031-32.			

**Eligibility for exemption u/s 10(10D)** – In this case, the aggregate of the annual premium payable for ULIP “A”, ULIP “B” and ULIP “C” exceeds ₹ 2,50,000 during the term of these policies.

However, the consideration received under ULIPs “A” and “B” would be exempt u/s 10(10D) in A.Y. 2032-33, since aggregate of annual premium payable for these two policies does not exceed ₹ 2,50,000 for any previous year during the term of these two policies and also does not exceed 10% of actual capital sum assured.

Consequently, the consideration received under ULIP “C” alone would **not** be exempt u/s 10(10D) in A.Y. 2032-33.

**Example 5:**

ULIP	X	A	B	C
Date of issue	1.4.2020	1.4.2021	1.4.2021	1.4.2021
Annual premium	2,50,000	1,00,000	1,50,000	3,00,000
Sum assured	25,00,000	10,00,000	15,00,000	30,00,000
Consideration received as on 01.11.2030 on maturity	30,00,000			

Consideration received as on 01.11.2031 on maturity		12,00,000	18,00,000	34,00,000
<b>Note</b> – The assessee did not receive any consideration under any other eligible ULIPs in earlier P.Y. preceding the P.Y.2031-32.				

**Eligibility for exemption u/s 10(10D)** - The consideration received under ULIP “X” would be exempt u/s 10(10D) in A.Y. 2031-32 since annual premium does not exceed 10% of the actual capital sum assured. Moreover, as the policy has been issued before 1.2.2021, limit of ₹ 2,50,000 of amount of premium payable is not applicable.

The aggregate of annual premium payable for ULIP “A”, ULIP “B” and ULIP “C” (being ULIPs issued on or after 1.2.2021) exceeds ₹ 2,50,000 during the term of these policies.

However, the consideration received under ULIPs “A” and “B” would be exempt u/s 10(10D) in A.Y. 2032-33, since aggregate of annual premium payable for these two policies does not exceed ₹ 2,50,000 for any previous year during the term of these two policies and annual premium payable in respect of these policies does not exceed 10% of actual capital sum assured.

Consequently, the consideration received under ULIP “C” alone would not be exempt u/s 10(10D) in A.Y. 2032-33.

**Situation 2:** Consideration has been received by the assessee under any one or more eligible ULIPs during any P.Y. preceding the current P.Y. and it has been claimed to be exempt u/s 10(10D). Such eligible ULIPs are referred as “Earlier Exempt Eligible ULIPs (EEE ULIPs)” in this paragraph and corresponding examples and reference to eligible ULIPs shall not include EEE ULIPs. The exemption u/s 10(10D) would be determined as under:

**I. Where the assessee has received consideration, during the current P.Y., under one eligible ULIP only**

Circumstance	Eligibility for exemption u/s 10(10D)
If aggregate amount of premium payable on such eligible ULIP and EEE ULIPs does not exceed ₹ 2,50,000 for any of the PYs during the term of such eligible ULIP and annual premium in respect of eligible ULIP does not exceed 10% of actual capital sum assured.	Consideration under such eligible ULIP would be eligible for exemption u/s 10(10D). <b>[Refer Example 6]</b>
If aggregate amount of premium payable on such eligible ULIP and EEE ULIPs > ₹ 2,50,000 for any of the PYs during the term of such eligible ULIP	Consideration under such eligible ULIP would <b>not</b> be eligible for exemption u/s 10(10D). <b>[Refer Example 7]</b>

**Example 6:**

ULIP	X	A
Date of issue	1.4.2021	1.4.2022
Annual premium	2,00,000	50,000
Sum assured	20,00,000	5,00,000
Consideration received as on 01.11.2031 on maturity	25,00,000	
Consideration received as on 01.11.2032 on maturity		6,00,000
<b>Note</b> – The assessee did not receive any consideration under any other eligible ULIPs in earlier P.Y. preceding the P.Y.2032-33, except ULIP X in P.Y. 2031-32.		

**Eligibility for exemption u/s 10(10D)** – The consideration under ULIP “X” would be exempt u/s 10(10D) in A.Y. 2032-33, since the annual premium does not exceed ₹ 2,50,000 and also does not exceed 10% of actual capital sum assured.

The consideration received under ULIP “A” will also be exempt u/s 10(10D) in A.Y. 2033-34 since aggregate of the annual premium payable for ULIP “A” and ULIP “X” does not exceed ₹ 2,50,000 for the P.Ys. 2022-23 to 2031-32 and the annual premium of ULIP “A” does not exceed 10% of actual capital sum assured.

**Example 7:**

ULIP	X	A
Date of issue	1.4.2021	1.4.2022
Annual premium	2,00,000	1,00,000
Sum assured	20,00,000	10,00,000
Consideration received as on 01.11.2031 on maturity	25,00,000	
Consideration received as on 01.11.2032 on maturity		12,00,000
<b>Note</b> – The assessee did not receive any consideration under any other eligible ULIPs in earlier P.Y. preceding the P.Y.2032-33, except ULIP X in P.Y. 2031-32.		

**Eligibility for exemption u/s 10(10D)** – The consideration under ULIP “X” would be exempt u/s 10(10D) in A.Y. 2032-33, since the annual premium does not exceed ₹ 2,50,000 and also does not exceed 10% of actual capital sum assured.

The consideration received under ULIP “A” will **not** be exempt u/s 10(10D) in A.Y. 2033-34 since aggregate of the annual premium payable for ULIP “A” and ULIP “X” (both ULIPs issued on or after 1.2.2021) exceeds ₹ 2,50,000.

**II. Where the assessee has received consideration, during the current P.Y., under more than one eligible ULIP**

Circumstance	Eligibility for exemption u/s 10(10D)
If aggregate of the amount of premium payable on such eligible ULIPs and EEE ULIPs does not exceed ₹ 2,50,000 for any of the PYs during the term of such eligible ULIPs and annual premium in respect of eligible ULIPs also does not exceed 10% of actual capital sum assured.	Consideration received would be eligible for exemption under u/s 10(10D).
If aggregate of the amount of premium payable on such eligible ULIPs and EEE ULIPs > ₹ 2,50,000 for any of the PYs during the term of such eligible ULIPs	Consideration in respect of any of those eligible ULIPs (whose aggregate amount of premium along with the aggregate amount of premium of EEE ULIPs does not exceed ₹ 2,50,000 for any of the PYs during their term) would be eligible for exemption u/s 10(10D). <b>[Refer Examples 8, 9 and 10 given below]</b>

**Example 8:**

ULIP	X	A	B	C
Date of issue	1.4.2021	1.4.2022	1.4.2022	1.4.2022
Annual premium	2,00,000	1,00,000	1,50,000	3,00,000
Sum assured	20,00,000	10,00,000	15,00,000	30,00,000
Consideration received as on 01.11.2031 on maturity	25,00,000			
Consideration received as on 01.11.2032 on maturity		12,00,000	18,00,000	34,00,000
<b>Note</b> – The assessee did not receive any consideration under any other eligible ULIPs in earlier P.Y. preceding the P.Y. 2032-33, except ULIP X in P.Y. 2031-32.				

**Eligibility for exemption u/s 10(10D)** - The consideration under ULIP “X” would be exempt u/s 10(10D) in A.Y. 2032-33, since the annual premium does not exceed ₹ 2,50,000 and also does not exceed 10% of actual capital sum assured.

In this case, the aggregate of the annual premium payable for ULIP “A”, ULIP “B” and ULIP “C” along with the premium for ULIP “X” exceeds ₹ 2,50,000 during the term of these

policies. Hence, the consideration received under ULIPs “A”, “B” and “C” will **not** be exempt u/s 10(10D) in A.Y. 2033-34.

**Alternative treatment:** If the consideration under ULIP “X” was not claimed to be exempt u/s 10(10D) in A.Y. 2032-33 by the assessee, then, the consideration received under ULIP “A” and ULIP “B” would be exempt u/s 10(10D) in A.Y.2033-34 since the aggregate of the annual premium payable for the ULIPs “A” and “B” together did not exceed ₹ 2,50,000 for any of the previous years during the term of these two policies.

**Example 9:**

ULIP	X	A	B	C
Date of issue	1.4.2021	1.4.2022	1.4.2022	1.4.2022
Annual premium	1,00,000	1,00,000	1,50,000	3,00,000
Sum assured	10,00,000	10,00,000	15,00,000	30,00,000
Consideration received as on 01.11.2031 on maturity	12,00,000			
Consideration received as on 01.11.2032 on maturity		12,00,000	18,00,000	34,00,000
<b>Note –</b> The assessee did not receive any consideration under any other eligible ULIPs in earlier P.Y. preceding the P.Y.2032-33, except ULIP X in P.Y. 2031-32.				

**Eligibility for exemption u/s 10(10D) -** The consideration under ULIP “X” would be exempt u/s 10(10D) in A.Y. 2032-33, since the annual premium does not exceed ₹ 2,50,000 and also does not exceed 10% of actual capital sum assured.

In this case, the aggregate of the annual premium payable for ULIP “A”, ULIP “B” and ULIP “C” along with the premium for ULIP “X” exceeds ₹ 2,50,000 during the term of these policies.

However, the consideration received under ULIPs “A” or “B” (any one) can be claimed as exempt u/s 10(10D) in A.Y. 2033-34.

If the consideration received under ULIP “A” claimed to be exempt as aggregate of the annual premium payable for ULIP “X” and “A” did not exceed ₹ 2,50,000 for any of the PYs., the consideration received under ULIP “B” would not be exempt.

If the consideration received under ULIP “B” claimed to be exempt as aggregate of the annual premium payable for ULIP “X” and “B” did not exceed ₹ 2,50,000 for any of the PYs., the consideration received under ULIP “A” would not be exempt. Exemption for consideration received under ULIP “B” is preferred as it is more beneficial to the assessee.

**Alternative treatment:** If the consideration under ULIP “X” was not claimed to be exempt u/s 10(10D) in A.Y. 2032-33 by the assessee, then the consideration received under ULIP “A” and ULIP “B” would be exempt u/s 10(10D) in A.Y. 2033-34 since the aggregate of the annual premium payable for the ULIPs “A” and “B” together did not exceed ₹ 2,50,000 for any of the previous years during the term of these two policies.

It may be noted that in every case, the consideration received for ULIP “C” would not be exempt u/s 10(10D).

**Example 10:**

ULIP	X	Y	A	B	C
Date of issue	1.4.2021	1.4.2021	1.4.2022	1.4.2022	1.4.2022
Annual premium	1,00,000	1,00,000	1,00,000	1,50,000	3,00,000
Sum assured	10,00,000	10,00,000	10,00,000	15,00,000	30,00,000
Consideration received on surrender as on 1.7.2025	6,00,000				
Consideration received as on 01.11.2031 on maturity		12,00,000			
Consideration received as on 01.11.2032 on maturity			12,00,000	18,00,000	34,00,000
<b>Note</b> – The assessee did not receive any consideration under any other eligible ULIPs in earlier P.Y. preceding the P.Y.2032-33, except ULIP “X” and “Y”.					

**Eligibility for exemption u/s 10(10D)** - The consideration under ULIP “X” would be exempt u/s 10(10D) in A.Y.2026-27, since the annual premium does not exceed ₹ 2,50,000 and also does not exceed 10% of actual capital sum assured.

The consideration received under ULIP “Y” would be exempt u/s 10(10D) in A.Y. 2032-33, since the aggregate of annual premium payable for ULIP “X” and “Y” does not exceed ₹ 2,50,000 and annual premium payable for ULIP “Y” does not exceed 10% of actual capital sum assured.

The consideration received under ULIPs “A”, ULIP “B” and ULIP “C” would not be exempt u/s 10(10D) in A.Y. 2033-34, since aggregate of annual premium payable for these three policies and ULIP “X” and “Y” exceeds ₹ 2,50,000.

**Alternative treatment:** If the consideration on surrender under ULIP “X” was not claimed to be exempt u/s 10(10D) in A.Y. 2026-27 by the assessee, then the consideration received under ULIP “Y” would be exempt and the consideration received under ULIP “A” or ULIP “B”

(any one) can be exempt u/s 10(10D) in A.Y. 2033-34. If the consideration received under ULIP "A" claimed to be exempt, as aggregate of the annual premium payable for ULIP "Y" and "A" did not exceed ₹ 2,50,000 for any of the PYs., the consideration received under ULIP "B" would not be exempt.

If the consideration received under ULIP "B" is claimed to be exempt as aggregate of the annual premium payable for ULIP "Y" and "B" did not exceed ₹ 2,50,000 for any of the PYs., the consideration received under ULIP "A" would not be exempt. Exemption for consideration received under ULIP "B" is preferred as it is more beneficial to the assessee.

If the consideration on surrender of ULIP "X" and on maturity of ULIP "Y" were not claimed to be exempt under section 10(10D) in A.Y.2026-27 and A.Y.2032-33, respectively, then consideration received under both ULIP "A" and ULIP "B" would be exempt in A.Y.2033-34 (being ULIPs issued on or after 1.2.2021, whose aggregate consideration does not exceed ₹ 2,50,000).

It may be noted that, in every case, consideration received under ULIP "C" would not be exempt under section 10(10D).

### **Life Insurance Policies (Other than Unit Linked Insurance Policies)**

**In case where an assessee has a single life insurance policy (other than ULIP) issued on or after 1.4.2023** - Exemption u/s 10(10D) would **not** be available with respect to any life insurance policy (other than ULIP) issued on or after 1.4.2023, if the amount of premium payable exceeds ₹ 5,00,000 for any of the previous years during the term of such life insurance policy.

**In case where an assessee has multiple life insurance policies (other than ULIPs) issued on or after 1.4.2023** - In a case where premium is payable by a person for more than one life insurance policies (other than ULIPs) issued on or after 1.4.2023 and the aggregate of premium payable on such life insurance policies exceed ₹ 5,00,000 for any of the previous years during the term of any such LIP(s), exemption u/s 10(10D) would be available in respect of any of those LIPs, at the option of the assessee, whose aggregate premium payable does not exceed ₹ 5,00,000 for any of the previous years during their term. However, to get exemption u/s 10(10D), the condition of annual premium not exceeding 10% of the actual capital sum assured also needs to be satisfied.

**Exemption in case of death of a person** - In case any sum is received on the death of a person, exemption u/s 10(10D) would be available irrespective of the annual premium payable of the LIP.

**Guidelines by CBDT:** In case any difficulty arises in giving effect to the provisions of this clause, the CBDT may issue guidelines for the purpose of removing the difficulty with the previous approval of the Central Government.

Accordingly, the CBDT has, with the approval of the Central Government, vide Circular No. 15/2023, dated 16.08.2023, issued the following guidelines in respect of LIPs (other than ULIPs)–

**Situation 1:** No sum of any nature including bonus (such sum hereinafter referred as “consideration”) is received by the assessee on any LIPs which are issued on or after 1.4.2023 (such LIPs hereinafter referred as “eligible LIPs”) during any previous year preceding the current previous year or consideration has been received on such eligible LIPs in an earlier previous year but has not been claimed exempt. In such a situation, the exemption u/s 10(10D) would be determined as under:

I. **Where the assessee has received consideration, during the current P.Y., under one eligible LIP only**

Circumstance	Eligibility for exemption u/s 10(10D)
If the amount of premium payable on such eligible LIP does not exceed ₹ 5,00,000 for any of the PYs during the term of such eligible LIP and annual premium does not exceed 10% of actual capital sum assured	Such consideration would be eligible for exemption u/s 10(10D). <b>[Refer Example 11 and 12 given below]</b>
If the amount of premium payable on such eligible LIP > ₹ 5,00,000 for any of the PYs during the term of such eligible LIP	Such consideration would <b>not</b> be eligible for exemption u/s 10(10D). <b>[Refer Example 13 given below]</b>

**Example 11:**

LIP	A
Date of issue	1.4.2013
Annual premium	6,00,000
Sum assured	60,00,000
Consideration received as on 01.11.2023 on maturity	70,00,000
<b>Note</b> – The assessee did not receive any consideration under any other eligible LIPs in earlier P.Y. preceding the P.Y.2023-24.	

**Eligibility for exemption u/s 10(10D)** - The consideration received under LIP “A” would be exempt u/s 10(10D) in A.Y. 2024-25 since annual premium does not exceed 10% of the actual capital sum assured. Moreover, as the policy has been issued before 1.4.2023, limit of ₹ 5,00,000 of amount of premium payable is not applicable, since it is not an eligible ULIP.

**Example 12:**

LIP	A
Date of issue	1.4.2023
Annual premium	5,00,000
Sum assured	50,00,000
Consideration received as on 01.11.2033 on maturity	52,00,000
<b>Note</b> – The assessee did not receive any consideration under any other eligible LIPs in earlier P.Y. preceding the P.Y.2033-34.	

**Eligibility for exemption u/s 10(10D)** - The consideration received would be exempt u/s 10(10D) in A.Y. 2034-35, since the annual premium payable on the policy does not exceed ₹ 5,00,000 and also does not exceed 10% of actual capital sum assured.

**Example 13:**

LIP	A
Date of issue	1.4.2023
Annual premium	6,00,000
Sum assured	60,00,000
Consideration received as on 01.11.2033 on maturity	70,00,000
<b>Note</b> – The assessee did not receive any consideration under any other eligible LIPs in earlier P.Y. preceding the P.Y.2033-34.	

**Eligibility for exemption u/s 10(10D)** - The consideration received would **not** be exempt u/s 10(10D) in A.Y. 2034-35 since the annual premium payable on the eligible LIP exceeds ₹ 5,00,000.

**II. Where the assessee has received consideration, during the current P.Y., under more than one eligible LIP**

Circumstance	Eligibility for exemption u/s 10(10D)
If the aggregate of the amount of premium payable on such eligible LIPs does not exceed ₹ 5,00,000 for any of the PYs during the term of such eligible LIPs and the annual premium ≤ 10% of actual capital sum assured	Such consideration would be eligible for exemption under u/s 10(10D). <b>[Refer Example 14 given below]</b>
If the aggregate of the amount of premium payable on such eligible LIPs > ₹ 5,00,000 for any of the PYs during the term of such eligible LIP	Consideration in respect of any of those eligible LIPs whose aggregate amount of premium payable does not exceed ₹ 5,00,000 for any of the PYs during their term would be eligible for exemption u/s 10(10D),

	provided their annual premium $\leq$ 10% of actual capital sum assured. [Refer Examples 15, 16 and 17 given below]
--	---

**Example 14:**

LIP	A	B
Date of issue	1.4.2023	1.4.2023
Annual premium	3,00,000	2,00,000
Sum assured	30,00,000	20,00,000
Consideration received as on 01.11.2033 on maturity	32,00,000	21,00,000
<b>Note</b> – The assessee did not receive any consideration under any other eligible LIPs in earlier P.Y. preceding the P.Y.2033-34.		

**Eligibility for exemption u/s 10(10D)** – In this case, the aggregate of the annual premium payable for LIP “A” and LIP “B” does not exceed ₹ 5,00,000 during the term of these policies.

Further, annual premium payable in respect of LIP “A” and LIP “B” does not exceed 10% of actual capital sum assured. Therefore, the consideration received under LIP “A” and “B” would be exempt u/s 10(10D) in A.Y. 2034-35

**Example 15:**

LIP	A	B
Date of issue	1.4.2023	1.4.2023
Annual premium	4,50,000	5,50,000
Sum assured	45,00,000	55,00,000
Consideration received as on 01.11.2033 on maturity	52,00,000	60,00,000
<b>Note</b> – The assessee did not receive any consideration under any other eligible LIPs in earlier P.Y. preceding the P.Y.2033-34.		

**Eligibility for exemption u/s 10(10D)** – In this case, the aggregate of the annual premium payable for LIP “A” and LIP “B” exceeds ₹ 5,00,000 during the term of these policies.

However, the consideration received under LIP “A” would be exempt u/s 10(10D) in A.Y. 2034-35, since its annual premium payable does not exceed ₹ 5,00,000 for any previous year during the term of the policy and also does not exceed 10% of actual capital sum assured.

Consequently, the consideration received under LIP “B” alone would **not** be exempt u/s 10(10D) in A.Y. 2034-35.

**Example 16:**

LIP	A	B	C
Date of issue	1.4.2023	1.4.2023	1.4.2023
Annual premium	1,00,000	3,50,000	6,00,000
Sum assured	10,00,000	35,00,000	60,00,000
Consideration received as on 01.11.2033 on maturity	12,00,000	40,00,000	70,00,000
<b>Note</b> – The assessee did not receive any consideration under any other eligible LIPs in earlier P.Y. preceding the P.Y.2033-34.			

**Eligibility for exemption u/s 10(10D)** - The aggregate of annual premium payable for LIP "A", LIP "B" and LIP "C" exceeds ₹ 5,00,000 during the term of these policies.

However, the consideration received under LIPs "A" and "B" would be exempt u/s 10(10D) in A.Y. 2034-35, since aggregate of annual premium payable for these two policies does not exceed ₹ 5,00,000 for any previous year during the term of these two policies and annual premium payable in respect of these policies does not exceed 10% of actual capital sum assured.

Consequently, the consideration received under LIP "C" alone would not be exempt u/s 10(10D) in A.Y. 2034-35.

**Example 17:**

LIP	X	A	B	C
Date of issue	1.4.2022	1.4.2023	1.4.2023	1.4.2023
Annual premium	5,50,000	1,00,000	3,50,000	6,00,000
Sum assured	55,00,000	10,00,000	35,00,000	60,00,000
Consideration received as on 01.11.2032 on maturity	62,00,000			
Consideration received as on 01.11.2033 on maturity		12,00,000	40,00,000	70,00,000
<b>Note</b> – The assessee did not receive any consideration under any other eligible LIPs in earlier P.Y. preceding the P.Y.2033-34, except LIP X in P.Y. 2032-33.				

**Eligibility for exemption u/s 10(10D)** - The consideration received under LIP "X" would be exempt u/s 10(10D) in A.Y. 2032-33, since annual premium does not exceed 10% of the actual capital sum assured. Moreover, as the policy has been issued before 1.4.2023, limit of ₹ 5,00,000 on amount of premium payable is not applicable, since LIP "X" is not an eligible LIP.

The aggregate of annual premium payable for LIP “A”, LIP “B” and LIP “C” (being LIPs issued on or after 1.4.2023) exceeds ₹ 5,00,000 during the term of these policies.

However, the consideration received under LIPs “A” and “B” would be exempt u/s 10(10D) in A.Y. 2034-35, since aggregate of annual premium payable for these two policies does not exceed ₹ 5,00,000 for any previous year during the term of these two policies and annual premium payable in respect of these policies does not exceed 10% of actual capital sum assured.

Consequently, the consideration received under LIP “C” alone would not be exempt u/s 10(10D) in A.Y. 2034-35.

**Situation 2:** Consideration has been received by the assessee under any one or more eligible LIPs (i.e., issued on or after 1.4.2023) during any P.Y. preceding the current P.Y. and it has been claimed to be exempt u/s 10(10D). Such eligible LIPs are referred as “Earlier Exempt Eligible LIPs (EEE LIPs)” in this paragraph and corresponding examples and reference to eligible LIPs shall not include EEE LIPs. The exemption u/s 10(10D) would be determined as under:

**I. Where the assessee has received consideration, during the current P.Y., under one eligible LIP only**

Circumstance	Eligibility for exemption u/s 10(10D)
If aggregate amount of premium payable on such eligible LIP and EEE LIPs does not exceed ₹ 5,00,000 for any of the PYs during the term of such eligible LIP and annual premium in respect of eligible LIP does not exceed 10% of actual capital sum assured.	Consideration under such eligible LIP would be eligible for exemption u/s 10(10D).
If aggregate amount of premium payable on such eligible LIP and EEE LIPs > ₹ 5,00,000 for any of the PYs during the term of such eligible LIP	Consideration under such eligible LIP would <b>not</b> be eligible for exemption u/s 10(10D).

**II. Where the assessee has received consideration, during the current P.Y., under more than one eligible LIP**

Circumstance	Eligibility for exemption u/s 10(10D)
If aggregate of the amount of premium payable on such eligible LIPs and EEE LIPs does not exceed ₹ 5,00,000 for any of the PYs during the term of such eligible LIPs and annual premium in respect of eligible LIPs also does not exceed 10% of actual capital sum	Consideration received would be eligible for exemption under u/s 10(10D).

assured.	
If aggregate of the amount of premium payable on such eligible LIPs and EEE LIPs > ₹ 5,00,000 for any of the PYs during the term of such eligible LIPs	Consideration in respect of any of those eligible LIPs (whose aggregate amount of premium along with the aggregate amount of premium of EEE LIPs does not exceed ₹ 5,00,000 for any of the PYs during their term) would be eligible for exemption u/s 10(10D). <b>[Refer Examples 18, 19 and 20 given below]</b>

**Example 18:**

LIP	X	A	B	C
Date of issue	1.4.2023	1.4.2024	1.4.2024	1.4.2024
Annual premium	4,50,000	1,00,000	1,50,000	6,00,000
Sum assured	45,00,000	10,00,000	15,00,000	60,00,000
Consideration received as on 01.11.2033 on maturity	50,00,000			
Consideration received as on 01.11.2034 on maturity		12,00,000	18,00,000	70,00,000
<b>Note</b> – The assessee did not receive any consideration under any other eligible LIPs in earlier P.Y. preceding the P.Y.2034-35, except LIP X in P.Y. 2033-34.				

**Eligibility for exemption u/s 10(10D)** - The consideration under LIP “X” would be exempt u/s 10(10D) in P.Y. 2033-34, since the annual premium does not exceed ₹ 5,00,000 and also does not exceed 10% of actual capital sum assured.

In this case, the aggregate of the annual premium payable for LIP “A”, LIP “B” and LIP “C” along with the premium for LIP “X” exceeds ₹ 5,00,000 during the term of these policies.

The aggregate of the annual premium payable for LIP “A” and the premium for LIP “X” also exceeds ₹ 5,00,000 during the term of these policies.

Consequently, the consideration received under LIP “A”, LIP “B” and LIP “C” would not be exempt u/s 10(10D) in A.Y. 2035-36.

**Example 19:**

LIP	X	A	B	C
Date of issue	1.4.2023	1.4.2024	1.4.2024	1.4.2024
Annual premium	2,50,000	2,00,000	2,50,000	6,00,000
Sum assured	25,00,000	20,00,000	25,00,000	60,00,000
Consideration received as on 01.11.2033 on maturity	30,00,000			

Consideration received as on 01.11.2034 on maturity		24,00,000	38,00,000	70,00,000
<b>Note</b> – The assessee did not receive any consideration under any other eligible LIPs in earlier P.Y. preceding the P.Y.2034-35, except LIP X in P.Y. 2033-34.				

**Eligibility for exemption u/s 10(10D)** - The consideration under LIP “X” would be exempt u/s 10(10D) in P.Y. 2033-34, since the annual premium does not exceed ₹ 5,00,000 and also does not exceed 10% of actual capital sum assured.

In this case, the aggregate of the annual premium payable for LIP “A”, LIP “B” and LIP “C” along with the premium for LIP “X” exceeds ₹ 5,00,000 during the term of these policies.

However, the consideration received under LIPs “A” or “B” (any one) can be claimed as exempt u/s 10(10D) in A.Y. 2035-36.

If the consideration received under LIP “A” is claimed to be exempt as aggregate of the annual premium payable for LIP “X” and “A” did not exceed ₹ 5,00,000 for any of the PYs., the consideration received under LIP “B” would not be exempt.

If the consideration received under LIP “B” is claimed to be exempt as aggregate of the annual premium payable for LIP “X” and “B” did not exceed ₹ 5,00,000 for any of the PYs., the consideration received under LIP “A” would not be exempt. Exemption for consideration received under LIP “B” is preferred as it is more beneficial to the assessee.

**Alternative treatment:** If the consideration under LIP “X” was not claimed to be exempt u/s 10(10D) in A.Y. 2034-35 by the assessee, then, the consideration received under LIP “A” and LIP “B” would be exempt u/s 10(10D) in A.Y. 2035-36 since the aggregate of the annual premium payable for the LIPs “A” and “B” together did not exceed ₹ 5,00,000 for any of the previous years during the term of these two policies. However, the most beneficial treatment is to claim LIP “X” and “B” as exempt.

It may be noted that in every case, the consideration received for LIP “C” would not be exempt u/s 10(10D).

**Example 20:**

LIP	X	Y	A	B	C
Date of issue	1.4.2023	1.4.2023	1.4.2024	1.4.2024	1.4.2024
Annual premium	2,00,000	2,00,000	2,00,000	3,00,000	6,00,000
Sum assured	20,00,000	20,00,000	20,00,000	30,00,000	60,00,000
Consideration received on surrender as on 1.7.2033	12,00,000				

Consideration received as on 01.11.2034 on maturity		24,00,000			
Consideration received as on 01.11.2035 on maturity			24,00,000	36,00,000	70,00,000
<b>Note</b> – The assessee did not receive any consideration under any other eligible LIPs in earlier P.Y. preceding the P.Y.2035-36, except LIP “X” and “Y”.					

**Eligibility for exemption u/s 10(10D)** - The consideration under LIP “X” would be exempt u/s 10(10D) in A.Y.2034-35, since the annual premium does not exceed ₹ 5,00,000 and also does not exceed 10% of actual capital sum assured.

The consideration received under LIP “Y” would be exempt u/s 10(10D) in A.Y. 2035-36, since the aggregate of annual premium payable for LIP “X” and “Y” does not exceed ₹ 5,00,000 and annual premium payable for LIP “Y” does not exceed 10% of actual capital sum assured.

The consideration received under LIPs “A”, ULIP “B” and ULIP “C” would not be exempt u/s 10(10D) in A.Y. 2036-37, since aggregate of annual premium payable for these three policies and LIP “X” and “Y” exceeds ₹ 5,00,000.

**Alternative treatment:** If the consideration on surrender under LIP “X” was not claimed to be exempt u/s 10(10D) in A.Y. 2034-35 by the assessee, then the consideration received under LIP “Y” would be exempt and the consideration received under LIP “A” or LIP “B” (any one) can be exempt u/s 10(10D) in A.Y. 2036-37. If the consideration received under LIP “A” is claimed to be exempt, as aggregate of the annual premium payable for LIP “Y” and “A” did not exceed ₹ 5,00,000 for any of the PYs., the consideration received under LIP “B” would not be exempt.

If the consideration received under LIP “B” is claimed to be exempt as aggregate of the annual premium payable for LIP “Y” and “B” did not exceed ₹ 5,00,000 for any of the PYs., the consideration received under LIP “A” would not be exempt. Exemption for consideration received under LIP “B” is preferred as it is more beneficial to the assessee.

If the consideration on surrender of LIP “X” and on maturity of LIP “Y” were not claimed to be exempt under section 10(10D) in A.Y.2034-35 and A.Y.2035-36, respectively, then consideration received under both LIP “A” and LIP “B” would be exempt in A.Y.2036-37 (being LIPs issued on or after 1.4.2023, whose aggregate consideration does not exceed ₹ 5,00,000).

It may be noted that, in every case, consideration received under LIP "C" would not be exempt under section 10(10D).

**Example 21:**

LIP			A	B	C
ULIP	X	Y			
Date of issue	1.4.2021	1.4.2023	1.4.2023	1.4.2023	1.4.2023
Annual premium	1,00,000	1,00,000	1,00,000	1,50,000	3,00,000
Sum assured	10,00,000	10,00,000	10,00,000	15,00,000	30,00,000
Consideration received on surrender as on 1.7.2033	6,00,000		6,00,000		
Consideration received as on 01.11.2034 on maturity		12,00,000		18,00,000	34,00,000
<b>Note</b> – The assessee did not receive any consideration under any other eligible LIPs or ULIPs in earlier P.Y. preceding the P.Y.2034-35, except ULIP "X" and LIP "A".					

**Eligibility for exemption u/s 10(10D)** - The consideration under ULIP "X" would be exempt u/s 10(10D) in A.Y. 2034-35, since the annual premium does not exceed ₹ 2,50,000 and also does not exceed 10% of actual capital sum assured.

The consideration under ULIP "Y" would be exempt u/s 10(10D) in A.Y.2035-36, since the aggregate of annual premium for UIP "X" and ULIP "Y" does not exceed ₹ 2,50,000 and also does not exceed 10% of actual capital sum assured.

The consideration under LIP "A" would be exempt u/s 10(10D) in A.Y.2034-35, since the annual premium does not exceed ₹ 5,00,000 and also does not exceed 10% of actual capital sum assured.

In this case, the aggregate of the annual premium payable for LIP "B" and LIP "C" along with the premium for LIP "A" exceeds ₹ 5,00,000 during the term of these policies.

However, the consideration received under LIPs "B" or "C" (any one) can be claimed as exempt u/s 10(10D) in A.Y. 2035-36.

If the consideration received under LIP "B" is claimed to be exempt as aggregate of the annual premium payable for LIP "A" and "B" did not exceed ₹ 5,00,000 for any of the PYs., the consideration received under LIP "C" would not be exempt.

If the consideration received under LIP “C” is claimed to be exempt as aggregate of the annual premium payable for LIP “A” and “C” did not exceed ₹ 5,00,000 for any of the PYs., the consideration received under LIP “B” would not be exempt. Exemption for consideration received under LIP “C” should be preferred as it is more beneficial to the assessee.

**Alternative treatment:** If the consideration under LIP “A” was not claimed to be exempt u/s 10(10D) in A.Y. 2034-35 by the assessee, then the consideration received under LIP “B” and LIP “C” would be exempt u/s 10(10D) in A.Y. 2035-36 since the aggregate of the annual premium payable for the LIPs “B” and “C” together did not exceed ₹ 5,00,000 for any of the previous years during the term of these two policies. This would be most beneficial to the assessee.

**Clarification on GST Component:** It is also clarified by the CBDT that the premium payable/ aggregate premium payable for a life insurance policy/policies, other than a ULIP, issued on or after 1.4.2023, for any previous year, would be exclusive of the amount of GST payable on such premium.

**Clarification on premium of Term life insurance policy:** It is further clarified by the CBDT that the limit of ₹ 5,00,000 of amount of premium payable would not be applicable in case of a term life insurance policy i.e. where sum under a life insurance policy is only paid to the nominee in case of the death of the person insured during the term of the policy and no amount is paid to anyone if the insured person survives the policy tenure.

Hence, any sum received under a term insurance policy shall continue to be exempt under section 10(10D), irrespective of the amount of the premium payable in respect of such policy. Further the premium paid for such policies would not be counted for checking the limit of ₹ 5,00,000 of amount of premium payable.

**Taxability of sum received under a LIP which is not exempt u/s 10(10D) [Section 56(2)(xiii)]**

Where any sum is received (including the amount allocated by way of bonus) at any time during a previous year, under a life insurance policy, other than the sum

- (i) received under a ULIP
- (ii) received under a Keyman insurance policy

which is not exempt under section 10(10D), the sum so received as exceeds the aggregate of the premium paid during the term of such life insurance policy, and not claimed as deduction under any other provision of the Act, computed in the prescribed manner, would be chargeable to tax under the head “Income from other sources”.

Accordingly, the CBDT has, vide this notification, notified Rule 11UACA to compute the income chargeable to tax under section 56(2)(xiii). Where any person receives at any time during any previous year any sum under such LIP, then, the income chargeable to tax under section 56(2)(xiii) during the previous year in which such sum is received has to be computed in the following manner -

	Situation	Income chargeable to tax during the previous year in which such sum is received
(i)	Where the sum is received for the first time under the LIP during the previous year (first previous year)	<p><b>A-B, where</b>                      A = the sum or aggregate of sum received under the LIP during the first previous year; and                      B = the aggregate of the premium paid during the term of the LIP till the date of receipt of the sum in the first previous year that has not been claimed as deduction under any other provision of the Act.</p>
(ii)	where the sum is received under the LIP during the previous year subsequent to the first previous year (subsequent previous year)	<p><b>C-D, where</b>                      C = the sum or aggregate of sum received under the LIP during the subsequent previous year; and                      D = the aggregate of the premium paid during the term of the LIP till the date of receipt of the sum in the subsequent previous year not being premium which –                      (a) has been claimed as deduction under any other provision of the Act; or                      (b) is included in “B” or “D” in any of the previous year(s).</p>

“Sum received under a LIP” means any amount, by whatever name called, received under such policy which is not exempt under section 10(10D), other than the sum–

- (a) received under a ULIP; or
- (b) received under a Keyman insurance policy

**(2) Income chargeable under the head “Income from other sources” only if not chargeable under the head “Profits and gains of business or profession” -**

- (i) Any sum received by an employer-assessee from his employees as contributions to any provident fund, superannuation fund or any other fund for the welfare of the employees.
- (ii) Income from letting out on hire, machinery, plant or furniture.
- (iii) Where letting out of buildings is inseparable from the letting out of machinery, plant or furniture, the income from such letting.
- (iv) Interest on securities

**However, the following Interest income arising to certain persons would be exempt under section 10(15):**

- (a) Income by way of interest, premium on redemption or other payment on notified securities, bonds, annuity certificates or other savings certificates is exempt subject to such conditions and limits as may be specified in the notification.

Interest on Post Office Savings Bank Account would be exempt from tax to the extent of:

- (1) ₹ 3,500 in case of an individual account.
- (2) ₹ 7,000 in case of a joint account.

- (b) Interest payable —

- (1) by public sector companies on certain specified bonds and debentures subject to the conditions which the Central Government may specify by notification, including the condition that the holder of such bonds or debentures registers his name and holding with that company;

Accordingly, the Central Government has specified tax free bonds issued by India Infrastructure Company Ltd. and tax free, secured, redeemable, non-convertible Bonds of the Indian Railway Finance Corporation Ltd. (IRFCL), National Highways Authority of India (NHAI), Rural Electrification Corporation Ltd. (RECL), Housing and Urban Development Corporation Ltd. (HUDCL), Power Finance Corporation (PFC), Jawaharlal Nehru Port Trust, Dredging Corporation of India Limited, Ennore Port Limited and The Indian Renewable Energy Development Agency Limited, the interest from which would be exempt under this section.

- (2) by Government of India on deposit made by an employee of the Central or State Government or a public sector company in accordance with the scheme as may be notified of the moneys due to him on account of his retirement while on superannuation or otherwise. It is significant that this scheme is not applicable to non-Government employees.

The term 'industrial undertaking' means any undertaking which is engaged in:

- (i) the manufacture or processing of goods; or
- (ii) the manufacture of computer software or recording of programmes on

any disc, tape, perforated media or other information device; or

- (iii) the business of generation or generation and distribution of electricity or any other form of power; or
- (iv) the business of providing telecommunication services; or
- (v) mining; or
- (vi) construction of ships, or
- (vii) the business of ship-breaking; or
- (viii) the operation of ships or aircrafts or construction or operation of rail systems.

For the purposes of the clause, "interest" shall not include interest paid on delayed payment of loan or default if which is more than 2% p.a. over the rate of interest payable in terms of such loan. Interest would include hedging transaction charges on account of currency fluctuation.

- (c) **Bhopal Gas Victims** - Section 10(15)(v) provides exemption in respect of interest on securities held by the Welfare Commissioner, Bhopal Gas Victims, Bhopal, in the Reserve Bank's Account No. SL/DH 048. Recently, in terms of an order of the Supreme Court to finance the construction of a hospital at Bhopal to serve the victims of the gas leak, the shares of the Union Carbide Indian Ltd., have been sold. The scope of the above exemption has been extended to interest on deposits for the benefit of the victims of the Bhopal Gas Leak disaster. Such deposits can be held in such account with the RBI or with a public sector bank as the Central Government may notify in the Official Gazette.
- (d) Interest on Gold Deposit Bond issued under the Gold Deposit Scheme, 1999 or deposit certificates issued under the Gold Monetization Scheme, 2015 notified by the Central Government.
- (e) Interest on bonds, issued by –
  - (1) a local authority; or
  - (2) a State Pooled Finance Entityand specified by the Central Government by notification in the Official Gazette.

**“State Pooled Finance Entity”** means such entity which is set up in accordance with the guidelines for the Pooled Finance Development Scheme notified by the Central Government in the Ministry of Urban Development.

Accordingly, the Central Government has specified the “Tax-free Pooled Finance Development Bonds” under Pooled Finance Development Fund Scheme of Government of India, interest from which would be exempt under section 10(15).

### **(3) Keyman Insurance Policy**

Any sum received under a Keyman insurance policy including the sum allocated by way of bonus on such policy is chargeable under the head “Income from other sources” if such income is not chargeable under the head “Profits and gains if business or profession” or under the head “Salaries” i.e. if such sum is received by any person other than the employer who took the policy and the employee in whose name the policy was taken.

### **(4) Residual 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” e.g. 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.

***Interest from non-SLR Securities of Banks: Whether chargeable under the head "Profits and gains of business or profession" or "Income from other sources"? [Circular No. 18, dated 2.11.2015]***

The issue addressed by this circular is whether in the case of banks, expenses relating to investment in non-SLR securities need to be disallowed under section 57(i), by considering interest on non-SLR securities as "Income from other sources."

Section 56(1)(id) provides that income by way of interest on securities shall be chargeable to income-tax under the head "Income from Other Sources", if the income is not chargeable to income-tax under the head "Profits and Gains of Business and Profession".

The CBDT clarified that the **investments made by a banking concern are part of the business of banking**. Therefore, the income arising from such investments is attributable to the business of banking falling **under the head "Profits and Gains of Business and Profession"**.



## 5.4 APPLICABLE RATE OF TAX IN RESPECT OF CASUAL INCOME [SECTION 115BB]

- (1) 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.

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



## 5.5 APPLICABLE RATE OF TAX IN RESPECT OF WINNINGS FROM ONLINE GAMES [SECTION 115BBJ]

- (1) This section provides that net winnings from any online game would be taxed at a flat rate of 30% *plus* surcharge, if applicable, plus health and education cess@4%.

- (2) No expenditure or allowance can be allowed from such income.
- (3) Deduction under Chapter VI-A is not allowable from such income.
- (4) Adjustment of unexhausted basic exemption limit is also not permitted against such income.
- (5) **Meaning of certain terms**

S. No.	Term	Meaning
(i)	Internet	The combination of computer facilities and electromagnetic transmission media, and related equipment and software, comprising the interconnected worldwide network of computer networks that transmits information based on a protocol for controlling such transmission
(ii)	Online game	A game that is offered on the internet and is accessible by a user through a computer resource including any telecommunication device



## 5.6 DEDUCTIONS ALLOWABLE [SECTION 57]

The income chargeable under the head “Income from other sources” shall be computed after making the following deductions:

- (1) **In the case of dividend (*other than deemed dividend arise on account of buy-back of shares by a domestic company*) or income in respect of units of a mutual fund specified under section 10(23D) or income in respect of units of a specified company defined in the *Explanation to section 10(35)*:** Interest expenditure to earn such income is allowed as deduction subject to a maximum of 20% of such income included in the total income, without deduction under this section.

*No deduction in respect of any expenditure is allowed in case of deemed dividend arise on account of buy-back of shares by a domestic company.*

- (2) **In the case of interest on securities:** Any reasonable sum paid by way of commission or remuneration to a banker or any other person for the purpose of realising such interest on behalf of the assessee.
- (3) **Income consists of recovery from employees as contribution to any provident fund etc. in terms of section 2(24)(x):** A deduction will be allowed in accordance with the provisions of section 36(1)(va) i.e. to the extent the contribution is remitted before the due date under the respective Acts.

- (4) **Where the income to be charged under this head is from letting on hire of machinery, plant and furniture, with or without building:** The following items of deductions are allowable in the computation of such income:
- (i) the amount paid on account of any current repairs to the machinery, plant or furniture.
  - (ii) the amount of any premium paid in respect of insurance against risk of damage or destruction of the machinery or plant or furniture.
  - (iii) the normal depreciation allowance in respect of the machinery, plant or furniture, due thereon.

- (5) **In the case of income in the nature of family pension:** A deduction of a sum equal to 33-1/3 per cent of such income or ₹ 15,000 (*in case of option regime*) or ₹ 25,000 (*in case of default regime*), whichever is less, is allowable.

This deduction is allowable both under the default tax regime u/s 115BAC and under the optional tax regime i.e., normal provisions of the Act.

For the purposes of this deduction “family pension” means a regular monthly amount payable by the employer to a person belonging to the family of an employee in the event of his death.

#### **Exemption in respect of family pension**

1. The family pension received by the widow or children or nominated heirs, **of a member of the armed forces (including para-military forces)** of the Union, where the death of such member has occurred in the course of operational duties, in specified circumstances would, however, be exempt under section 10(19).
2. The family pension received by any member of the family of an individual who had been in the service of Central or State Government and had been awarded “Param Vir Chakra” or “Vir Chakra” or “Vir Chakra” or other notified gallantry awards would be exempt under section 10(18)(ii).

- (6) **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.
- (7) **In case of income by way of interest on compensation/ enhanced compensation received chargeable to tax under section 56(2)(viii):** Deduction of 50% of such income. No deduction would be allowable under any other clause of section 57 in respect of such income.

**ILLUSTRATION 6**

Interest on enhanced compensation received by Mr. G during the previous year 2024-25 is ₹ 5,00,000. Out of this interest, ₹ 1,50,000 relates to the previous year 2020-21, ₹ 1,65,000 relates to previous year 2021-22 and ₹ 1,85,000 relates to previous year 2022-23. Discuss the tax implication, if any, of such interest income for A.Y.2025-26.

**SOLUTION**

The entire interest of ₹ 5,00,000 would be taxable in the year of receipt, namely, P.Y.2024-25.

Particulars	₹
Interest on enhanced compensation taxable u/s 56(2)(viii)	5,00,000
Less: Deduction under section 57(iv) @50%	2,50,000
<b>Interest chargeable under the head "Income from other sources"</b>	<b>2,50,000</b>

**Chart summarising the taxability of compensation/enhanced compensation (including interest) received on compulsory acquisition:**

Initial Compensation will be taxable in the year in which first instalment is received under the head 'Capital Gains'

Enhanced Compensation will be taxable as & when received under the head 'Capital Gains'

Interest on compensation/ enhanced compensation is taxable in year of receipt under the head 'Income from Other Sources' after deduction of 50% of such interest



## 5.7 DEDUCTIONS NOT ALLOWABLE [SECTION 58]

No deduction shall be made in computing the "Income from other sources" of an assessee in respect of the following items of expenses:

- (1) **In the case of any assessee:**
  - (i) any personal expense of the assessee;

- (ii) any interest chargeable to tax under the Act which is payable outside India on which tax has not been paid or deducted at source.
- (iii) any payment taxable in India as salaries, if it is payable outside India unless tax has been paid thereon or deducted at source.
- (2) **Any expenditure in respect of which a payment is made to a related person or made in cash in excess of ₹ 10,000:** In addition to these disallowances, section 58(2) specifically provides that the disallowance of any expenditure in respect of which a payment is made to a related person, to the extent the same is considered excessive or unreasonable by the Assessing Officer, having regard to the FMV. and disallowance of payment or aggregate of payments exceeding ₹ 10,000 made to a person during a day otherwise than by account payee cheque or draft or ECS through bank account or through such other prescribed electronic mode such as credit card, debit card, net banking, IMPS, UPI, RTGS, NEFT, and BHIM Aadhar Pay covered by section 40A will be applicable to the computation of income under the head 'Income from other sources' as well.
- (3) **Disallowance of 30% of expenditure:** 30% of expenditure shall not be allowed, in respect of a sum which is payable to a resident and on which tax is deductible at source, if
- such tax has not been deducted or;
  - such tax after deduction has not been paid on or before the due date of return specified in section 139(1).

In case, assessee fails to deduct the whole or any part of tax on any such sum but is not deemed as assessee in default under the first proviso to section 201(1) by reason that such payee –

- (i) has furnished his return of income under section 139;
- (ii) has taken into account such sum for computing income in such return of income; and
- (iii) has paid the tax due on the income declared by him in such return of income, and the payer furnishes a certificate to this effect from an accountant in such form as may be prescribed,

it would be deemed that the assessee has deducted and paid the tax on such sum.

The date of deduction and payment of taxes by the payer shall be deemed to be the date on which return of income has been furnished by the payee.

- (4) **No deduction in respect of any expenditure incurred in connection with casual income:** No deduction in respect of any expenditure or allowance in connection with income by way of earnings from lotteries, cross word puzzles, races including horse races, card games and other games of any sort or from gambling or betting of any form or nature whatsoever shall be allowed in computing the said income.

The prohibition will not, however, apply in respect of the income of an assessee, being the owner of race horses, from the activity of owning and maintaining such horses. In respect of the activity of owning and maintaining race horses, expenses incurred shall be allowed even in the absence of any stake money earned. Such loss shall be allowed to be carried forward in accordance with the provisions of section 74A.



## 5.8 DEEMED INCOME CHARGEABLE TO TAX [SECTION 59]

The provisions of section 41(1) are made applicable, so far as may be, to the computation of income under this head. Accordingly, where a deduction has been made in respect of a loss, expenditure or liability and subsequently any amount is received or benefit is derived in respect of such expenditure incurred or loss or trading liability allowed as deduction, then it shall be deemed as income in the year in which the amount is received or the benefit is accrued.

## SIGNIFICANT SELECT CASES

S. No.	Case Law			
1.	<b><i>PCIT v. Dr. Ranjan Pai (2021) 431 ITR 250 (Karn)</i></b>			
	<table border="1"> <thead> <tr> <th data-bbox="283 394 624 452">Issue</th> <th data-bbox="624 394 1288 452">Analysis &amp; Decision</th> </tr> </thead> <tbody> <tr> <td data-bbox="283 452 624 1306">Can bonus shares received by shareholders be taxable under the head 'Income from other sources' as per the provisions of section 56(2)(x), as they are received without consideration?</td> <td data-bbox="624 452 1288 1306"> <p><b>The issue of bonus shares by capitalization of reserves is merely a reallocation of the company's funds. There is no inflow of fresh funds or increase in the capital employed, which remains the same.</b> Thus, there is no addition or alteration to the profit-making apparatus and the total funds available with the company remain the same. On the other hand, when a shareholder gets bonus shares, the value of the original shares held by him goes down and the market value as well as intrinsic value of the two shares put together will be the same or nearly the same as the value of original share before the issue of bonus shares. <b>Thus, any profit derived by the assessee shareholder on account of receipt of bonus shares is adjusted by depreciation in the value of equity shares originally held by him.</b></p> <p>Hence, <b>the provisions of section 56(2)(x) would not be attracted in the hands of the recipient shareholders on receipt of bonus shares.</b></p> <p><i>Note - This decision was rendered in the context of section 56(2)(vii); however, the underlying principle emanating therefrom applies with equal force in the context of the present provisions contained in section 56(2)(x). Accordingly, the issue and decision has been presented with reference to section 56(2)(x).</i></p> </td> </tr> </tbody> </table>	Issue	Analysis & Decision	Can bonus shares received by shareholders be taxable under the head 'Income from other sources' as per the provisions of section 56(2)(x), as they are received without consideration?
Issue	Analysis & Decision			
Can bonus shares received by shareholders be taxable under the head 'Income from other sources' as per the provisions of section 56(2)(x), as they are received without consideration?	<p><b>The issue of bonus shares by capitalization of reserves is merely a reallocation of the company's funds. There is no inflow of fresh funds or increase in the capital employed, which remains the same.</b> Thus, there is no addition or alteration to the profit-making apparatus and the total funds available with the company remain the same. On the other hand, when a shareholder gets bonus shares, the value of the original shares held by him goes down and the market value as well as intrinsic value of the two shares put together will be the same or nearly the same as the value of original share before the issue of bonus shares. <b>Thus, any profit derived by the assessee shareholder on account of receipt of bonus shares is adjusted by depreciation in the value of equity shares originally held by him.</b></p> <p>Hence, <b>the provisions of section 56(2)(x) would not be attracted in the hands of the recipient shareholders on receipt of bonus shares.</b></p> <p><i>Note - This decision was rendered in the context of section 56(2)(vii); however, the underlying principle emanating therefrom applies with equal force in the context of the present provisions contained in section 56(2)(x). Accordingly, the issue and decision has been presented with reference to section 56(2)(x).</i></p>			
2.	<b><i>CIT v. Sree Rama Multi Tech Ltd. (2018) 403 ITR 426 (SC)</i></b>			
	<table border="1"> <thead> <tr> <th data-bbox="283 1363 624 1421">Issue</th> <th data-bbox="624 1363 1288 1421">Analysis &amp; Decision</th> </tr> </thead> <tbody> <tr> <td data-bbox="283 1421 624 1707">Is interest income from share application money deposited in bank eligible for set-off against public issue expenses or should such interest be subject to tax under the head 'Income from Other Sources'?</td> <td data-bbox="624 1421 1288 1707">The assessee-company was statutorily required to keep share application money in a separate account till the allotment of shares was completed. Part of the share application money would normally have to be returned to unsuccessful applicants, and therefore, the entire share application money would not ultimately be appropriated by the company. <b>The interest earned was inextricably linked with the requirement of raising share capital.</b></td> </tr> </tbody> </table>	Issue	Analysis & Decision	Is interest income from share application money deposited in bank eligible for set-off against public issue expenses or should such interest be subject to tax under the head 'Income from Other Sources'?
Issue	Analysis & Decision			
Is interest income from share application money deposited in bank eligible for set-off against public issue expenses or should such interest be subject to tax under the head 'Income from Other Sources'?	The assessee-company was statutorily required to keep share application money in a separate account till the allotment of shares was completed. Part of the share application money would normally have to be returned to unsuccessful applicants, and therefore, the entire share application money would not ultimately be appropriated by the company. <b>The interest earned was inextricably linked with the requirement of raising share capital.</b>			

		Any surplus money deposited in the bank for the purpose of earning interest is liable to be taxed as “Income from Other Sources”. Here, the share application money was deposited with the bank not to make additional income but to comply with the statute. The interest accrued on such deposit is merely incidental. Moreover, the issue of shares relates to capital structure of the company and hence, expenses incurred in connection with the issue of shares are to be capitalized. <b>Accordingly, the accrued interest is not liable to be taxed as “Income from Other Sources”; the same is eligible to be set-off against public issue expenses.</b>
3.	<b><i>Movaliya Bhikhubhai Balabhai v. ITO (TDS) (2016) 388 ITR 343 (Guj)</i></b>	
	<b>Issue</b>	<b>Analysis &amp; Decision</b>
	Is interest on enhanced compensation u/s 28 of the Land Acquisition Act, 1894 assessable as capital gains or as income from other sources?	The assessee <b>has received interest u/s 28 of the Land Acquisition Act, 1894 which represents enhanced value of land and thus, partakes the character of compensation and not interest. Hence, interest u/s 28 is liable to be taxed under the head of ‘Capital Gains’</b> and not under ‘Income from Other Sources’. On the other hand, interest u/s 34 of the Land Acquisition Act, 1894 is for the delay in making payment after the compensation amount is determined. Such amount is liable to be taxed under the head ‘Income from Other Sources’.  <b>Note:</b> <i>The Land Acquisition Act, 1894 has now been repealed and replaced by the Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement Act, 2013. Section 72 and Section 80 of the new legislation have similar provisions regarding award of interest.</i>
4.	<b><i>CIT v. Parle Plastics Ltd. (2011) 332 ITR 63 (Bom.)</i></b>	
	<b>Issue</b>	<b>Analysis &amp; Decision</b>
	What are the tests for determining “substantial part of business” of lending company for the purpose of application of exclusion provision u/s 2(22)?	U/s 2(22), “dividend” does not include, <i>inter alia</i> , any advance or loan made to a shareholder by a company in the ordinary course of its business, where the lending of money is a substantial part of the business of the company.  <b>Percentage of turnover in relation to the whole as also the percentage of the profit in relation to the whole and sometimes even percentage of manpower</b>

		<p><b>used for a particular part of the business in relation to the total manpower or work force of the company</b> would be required to be taken into consideration for determining the substantial part of business. <b>The capital employed for a specific division of a company in comparison to total capital employed</b> would also be relevant to determine whether the part of the business constitutes a substantial part.</p>
5.	<b>CIT v. Vir Vikram Vaid (2014) 367 ITR 365 (Bom)</b>	
	<b>Issue</b>	<b>Analysis &amp; Decision</b>
	<p>Can repair and renovation expenses incurred by a company in respect of premises leased out by a shareholder having substantial interest in the company, be treated as deemed dividend?</p>	<p>The expenditure incurred by virtue of repairs and renovation on the premises cannot be brought within the definition of advance or loan given to the shareholder having substantial interest in the company, though he is the owner of the premises. It cannot be treated as payment by the company on behalf of the shareholder or for the individual benefit of such shareholder.</p> <p>Accordingly, <b>the repair and renovation expenses in respect of premises owned by the shareholder having substantial interest in the company and occupied by the company cannot be treated as deemed dividend.</b></p>
6.	<b>Pradip Kumar Malhotra v. CIT (2011) 338 ITR 538 (Cal.)</b>	
	<b>Issue</b>	<b>Analysis &amp; Decision</b>
	<p>Can the loan or advance given to a shareholder by the company, in return for an advantage conferred on the company by the shareholder, be deemed as dividend under section 2(22)(e)?</p>	<p>The phrase "by way of advance or loan" appearing in section 2(22)(e) must be construed to mean those advances or loans which a shareholder enjoys simply on account of being a person who is the beneficial owner of shares (not being shares entitled to a fixed rate of dividend whether with or without a right to participate in profits) holding not less than 10% of the voting power. In case such loan or advance is given to such shareholder as a consequence of any further consideration which is beneficial to the company received from such a shareholder, such advance or loan cannot be deemed as dividend within the meaning of the Act.</p> <p>Thus, only gratuitous loan or advance given by a company to a shareholder, who is the beneficial owner of shares holding not less than 10% of the voting power, would come within the purview of section 2(22)(e) but not cases where the loan or advance is given in return for an advantage conferred upon the company by such shareholder.</p>

7.	<b><i>CIT v. Ambassador Travels (P) Ltd. (2009) 318 ITR 376 (Del.)</i></b>	
	<b>Issue</b>	<b>Analysis &amp; Decision</b>
	Would the provisions of deemed dividend u/s 2(22)(e) be attracted in respect of financial transactions entered into in the normal course of business?	<p>U/s 2(22)(e), loans and advances made out of accumulated profits of a company in which public are not substantially interested to a beneficial owner of shares holding not less than 10% of the voting power or to a concern in which such shareholder has substantial interest is deemed as dividend. However, this provision would not apply in the case of advance made in the course of the assessee's business as a trading transaction.</p> <p><b>The assessee was involved in booking of resorts for the customers of these companies and entered into normal business transactions as a part of its day-to-day business activities. Such financial transactions cannot under any circumstances be treated as loans or advances received by the assessee from these concerns for the purpose of application of section 2(22)(e).</b></p>
8.	<b><i>CIT v. Manjoo and Co. (2011) 335 ITR 527 (Kerala)</i></b>	
	<b>Issue</b>	<b>Analysis &amp; Decision</b>
	Can winnings of prize money on unsold lottery tickets held by the distributor of lottery tickets be assessed as business income and be subject to normal rates of tax instead of the rates prescribed u/s 115BB?	<p>The receipt of the prize money is not in his capacity as a lottery distributor but as a holder of the lottery ticket which won the prize. The Lottery Department also does not treat it as business income received by the distributor but instead treats it as prize money paid on which tax is deducted at source.</p> <p><b>Further, winnings from lotteries are assessable under the special provisions of section 115BB, irrespective of the head under which such income falls.</b></p>

## TEST YOUR KNOWLEDGE

### Questions

1. *Parimal, Managing Director of Heavens Engg. Pvt. Ltd. holds 70% of its paid up capital of ₹ 20 lakhs. The balance as at 31.03.2024 in General Reserve was ₹ 6 lakhs. The company on 1.04.2024 gave an interest-free loan of ₹ 5 lakhs to its Supervisor having salary of ₹ 4,000 p.m., who in turn on 15.4.2024 advanced the said amount of loan so taken from the company to Shri Parimal. The Assessing Officer had treated the amount of advance as deemed dividend. Is the action of Assessing Officer correct?*
2. *Mr. Santhanam holding 25% voting power in VKS Manufacturing Private Limited permitted his own land to be mortgaged to a bank for enabling the company to obtain a loan. Mr. Santhanam requested the company to release the property from the mortgage. The company failed to do so, but for retaining the benefit of bank loan it gave an advance of ₹ 10 lakhs to Mr. Santhanam, which was authorized by a resolution passed by the Board of Directors. The company's accumulated profit on the date of payment of advance was ₹ 50 lakhs. The Assessing Officer proposes to treat the amount of ₹ 10 lakhs as deemed dividend by invoking the provision of section 2(22)(e).*

*Is the proposition of the Assessing Officer correct in law?*

3. *An enterprise engaged in manufacturing of steel balls discontinued its activities and decided to lease out its factory building, plant and machinery and furniture from 1.4.2024 on a consolidated lease rent of ₹ 50,000 per month. Compute the income for Assessment Year 2025-26 of the assessee from following information:*

	<b>₹</b>
(i) Interest received on deposits	1,00,000
(ii) Brokerage paid on hundi loan taken	2,000
(iii) Interest paid on hundi and other loans which were given as deposits on interest to others	75,000
(iv) Expenses incurred on repairs of building, plant and machinery	15,000
(v) Fire insurance premium of plant and machinery and furniture	12,000
(vi) Depreciation for the year	1,47,500
(vii) Legal fees paid to an advocate for drafting and registering the lease agreement	1,500

- (viii) Factory licence fees paid for the year 1,000
- (ix) There is unabsorbed depreciation of ₹ 2,75,000 of the Assessment Years 2023-24 and 2024-25.
- (x) Interest paid in (iii) above includes an amount of ₹ 25,000 remitted to a non-resident outside India on which tax was not deducted at source.
4. In July 2024, Mr. Pervez employed as Marketing Manager in a Pharma company, received a Maruti car as gift from a distributor of the company. The value of the gifted car is estimated at ₹ 2,60,000. Is the value of car taxable as income? If so, under what head it is taxable?

## Answers

---

1. The company had advanced a loan to an employee who in turn had advanced the same to the Managing Director of the company holding 70% of its capital. By virtue of the provisions of section 2(22)(e), the same shall be treated as the payment by a company in which public are not substantially interested, on behalf of, or for individual benefit of any such shareholder (who holds not less than 10% of the voting power), to the extent to which the company possesses accumulated profits.

In this case, the company has reserves of ₹ 6 lakhs on 31<sup>st</sup> March of the preceding year and the amount of loan advanced on 1<sup>st</sup> April is ₹ 5 Lakhs. Therefore, the payment is to be treated as deemed dividend. The amount of interest-free loan of ₹ 5 lakhs given by the company to the supervisor who in turn had given the same to Mr. Parimal, shall be construed as the amount given for the benefit of Mr. Parimal and would be treated as deemed dividend. This has been held by the Supreme Court in the case of *L. Alagusundaram Chettiar v. CIT (2001) 252 ITR 893*.

2. The issue under consideration is whether loan or advance given to a shareholder by the company, in return of an advantage or benefit conferred on the company by the shareholder, can be deemed as dividend under section 2(22)(e) of the Income-tax Act, 1961 in the hands of the shareholder

The facts of the case are similar to the facts in *Pradip Kumar Malhotra v. CIT (2011) 338 ITR 538*, wherein the above issue came up before the Calcutta High Court.

The High Court observed that the phrase "by way of advance or loan" appearing in section 2(22)(e) must be construed to mean those advances or loans which a shareholder enjoys simply on account of being a person who is the beneficial owner of shares (not being

shares entitled to a fixed rate of dividend whether with or without a right to participate in profits) holding not less than 10% of the voting power.

In case such loan or advance is given to such shareholder as a consequence of any further consideration received from such a shareholder which is beneficial to the company, such advance or loan cannot be a deemed dividend within the meaning of the Act.

Thus, gratuitous loan or advance given by a company to a shareholder, who is the beneficial owner of shares holding not less than 10% of the voting power, would come within the purview of section 2(22)(e) to the extent of accumulated profits of the company but not the cases where the loan or advance is given in return for an advantage conferred upon the company by such shareholder.

In this case, advance of ₹ 10 lakhs was given by VKS Manufacturing (P) Ltd. to Mr. Santhanam holding 25% of voting power in lieu of non-release of his personal property from mortgage thereby enabling the company to retain the benefit of loan obtained from bank. Therefore, applying the rationale of the Calcutta High Court ruling in *Pradip Kumar Malhotra's* case, such advance cannot be brought within the purview of section 2(22)(e), since it was not in the nature of gratuitous advance but was given to protect the interest of the company.

The proposition of the Assessing Officer to treat the amount of ₹ 10 lakhs as deemed dividend by invoking the provisions of section 2(22)(e) in this case is, therefore, **not correct**.

3. The income derived from leased assets shall be chargeable to tax as 'Income from other sources' under section 56(2)(iii) but the computation thereof shall be made after allowing deductions specified under sections 30, 31 and 32 subject to section 38. This is as per the provisions of section 57(ii) and 57(iii).

#### Computation of income under the head "Income from other sources"

Particulars	₹	₹
(A) Lease Rent for 12 months @ ₹ 50,000 p.m.		6,00,000
Less: Expenses and deductions allowable under section 57(ii) & 57(iii):		
Repairs	15,000	
Fire Insurance Premium	12,000	
Legal expenses for drafting of lease agreement	1,500	
Factory Licence fee	1,000	
Depreciation for the year	1,47,500	

Unabsorbed depreciation of earlier assessment years – eligible for deduction ( <b>Note 1</b> )		2,75,000	4,52,000
(B) Interest on Deposits		1,00,000	1,48,000
Less: Expenses allowable under section 57(i)			
Brokerage	₹ 2,000		
Interest on hundi loans ( <b>Note 2</b> )	₹ 50,000	52,000	48,000
<b>Total Income</b>			<b>1,96,000</b>

**Notes:**

1. Unabsorbed depreciation of ₹ 2,75,000 pertains to earlier assessment years. The unabsorbed depreciation shall form part of the current year depreciation and can be set off against any other head of income. Accordingly, the amount of ₹ 2,75,000 is adjustable/ allowed to be set off against 'Income from other sources'.
2. Since deposits are made by investing amount received on hundi and other loans, the interest on hundi and other loans would be eligible for deduction from the income arising on such deposits.

However, interest paid to non-resident is not eligible for deduction as the tax has not been deducted at source.

4. Mr. Pervez, an employee of a Pharma company, has received a car as a gift from a distributor of the company. Since there is no employer-employee relationship in this case between the distributor and Mr. Pervez, the value of gift is **not** a perquisite chargeable to tax under the head "Salaries".

Section 56(2)(x) brings within its scope the value of any property received by any person. For this purpose, "property" means immovable property being land or building or both, shares and securities, jewellery, archaeological collections, drawings, paintings, sculptures, any work of art or bullion.

Therefore, for the purpose of attracting the provisions of section 56(2)(x) for chargeability under the head "Income from Other Sources", an individual should be in receipt of property as defined therein. Since, car is not included in the definition of "property", the provisions of section 56(2)(x) would not be attracted in the hands of Mr. Pervez.