

# IFOS



**AMIT MAHAJAN**



Charging section → Sec 56

↓  
 IF income [other than exempt income] is not falling under any other heads of incomes → such income would fall under IFS ✓

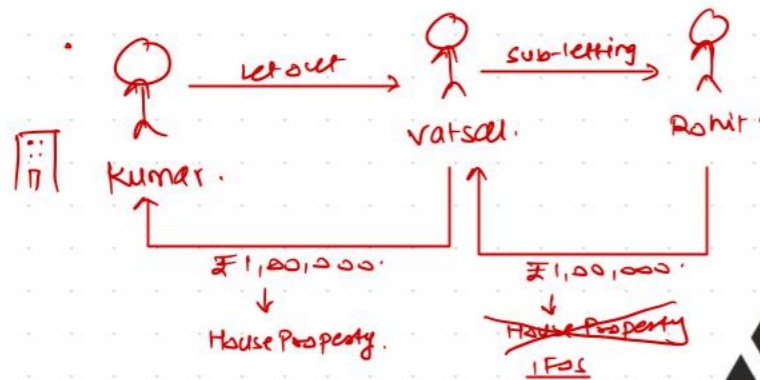
Income chargeable under this head is computed in accordance with the method of accounting regularly employed by the assessee.

Mercantile system → Accrual basis

Cash system → Receipt basis

Examples of IFS

- 1] Investment income ✓ → Exception → such income is in the ordinary course of business → PUBP ✓
- 2] Dividend received → Always IFS ✓
- 3] Sub-letting of House Property.



4] Letting out of P/M (not a bus)

5] Director sitting fees

6] Royalty received ✓

7] Winning from Lotteries/Puzzles/online games/ Game shows

8] Income-tax Refund × × × ×

Interest on Income-tax Refund

9] Agri income from a land located in India ✓

10] Salary of MP/MLAs

Concept 1 → Casual Income

Winning from

- Lotteries
- Card games
- online games
- Game shows
- horse races ✓

Tax Rate → 30%

No Chapter VI-A deduction ×

No Basic Exemption limit ×

No set off possible ×

No carry forward of loss ×

Imp Note

Gross IL ✓ ✓

1] Sometimes Qs mentions that lottery amt received / lottery amt received (net)

Eg. Lottery of ₹70000 received (net)

IFS Income → 70000

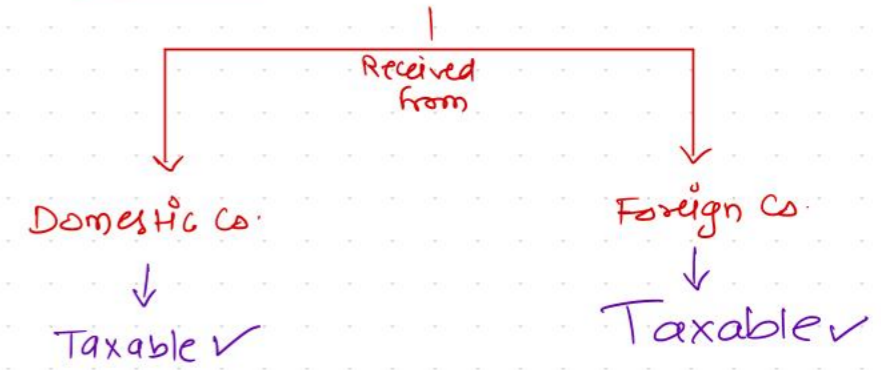
100%

70%

100%

This is called as crossing up

Concept 2 → Dividend



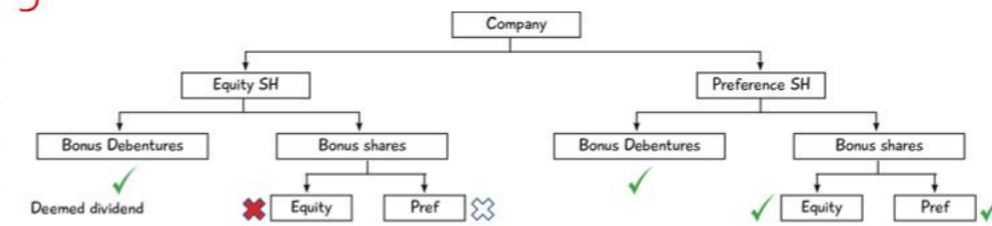
Deemed dividend

- Sec 2(22)(a)
- Sec 2(22)(b)
- Sec 2(22)(c)
- Sec 2(22)(d)
- 2(22)(e)

Background: Some shareholders get huge amount of dividend from the company & accordingly they need to pay huge amt of taxes to the government ✓

↓  
 To save these taxes, companies try to provide benefit to the shareholders by not paying cash but in some other way equivalent to the amt of dividend (transfer of asset)

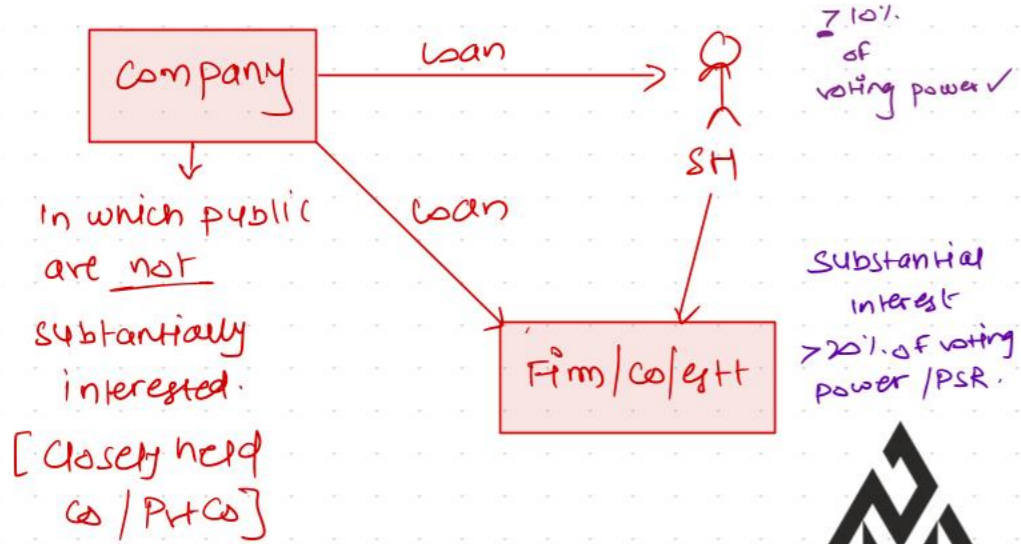
- 1] Sec 2(22)(a) → Distribution of assets of the company.
- 2] Sec 2(22)(b) →



3] Sec 2(22)(c) → Distribution of assets on its liquidation.

4] Sec 2(22)(d) → Reduction of share capital ✓

Section 2(22)(e) → Loan given to Shareholders.



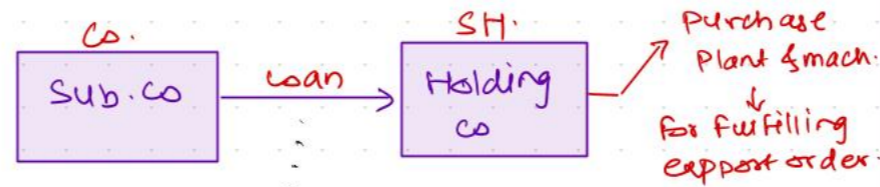
Notes

- 1] Co needs to a company in which public are not substantially interested → closely held Co / Pvt Co
- 2] SH shall have  $\geq 10\%$  of voting power in that closely held company.
- 3] IF Company (giving div) is giving a loan to another establishment in which SH has a substantial int. it will still be considered as deemed dividend for the shareholder ✓

- 1] what if shareholder repays the loan amount??  
↓  
Still deemed dividend.
- 2] what if the loan is genuine / Int is charged at market rate??  
↓  
Still deemed dividend.

Exception

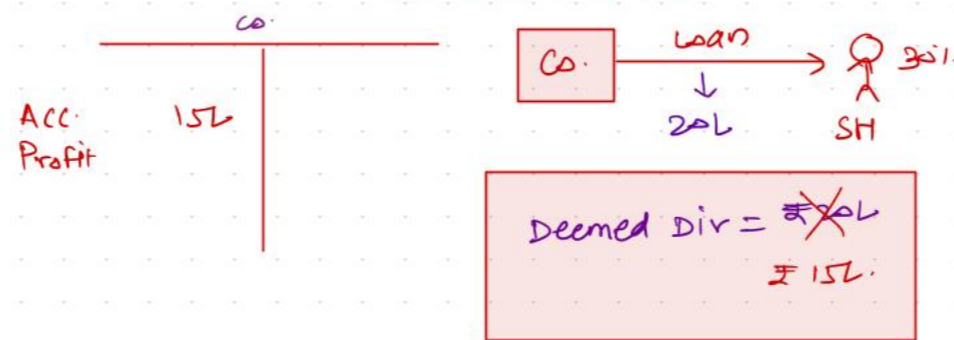
If loan is given as Trade Advance to the shareholder  
↓  
Such trade advance is considered as genuine & thus, it will not be considered as deemed dividend in the hands of the SH.



will not be considered as Deemed Dividend

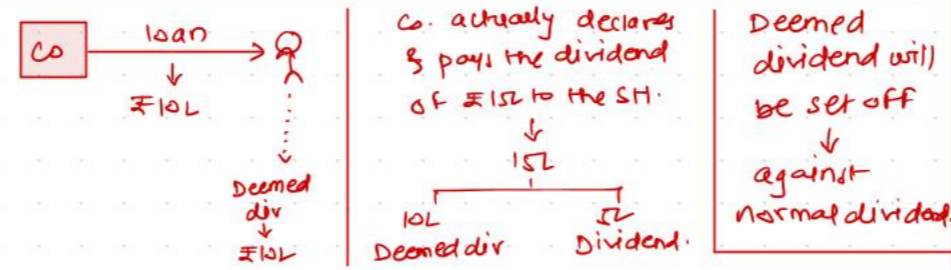
Common Point

Deemed Dividend will be restricted only to the extent of Accumulated Profits.



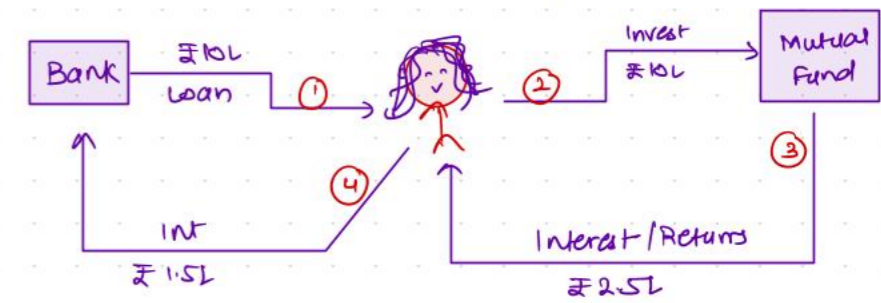
Exception 2

Loan given by a company to its SHs in the ordinary course of business.



Sec 57 → Deductions from IFS.

1] Dividend / Income in respect of Mutual Fund / specified units.

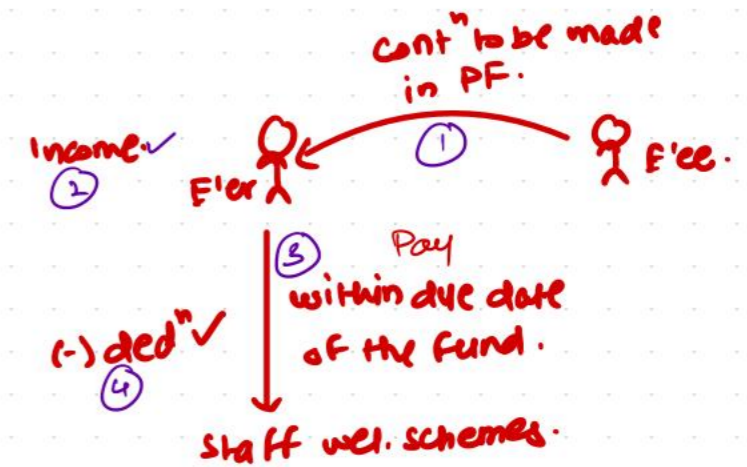


Taxability

Income u/s 56	2,50,000
(-) Exp u/s 57	(50,000) ... 20% of 2.5L
	<del>1,50,000</del>
IFS	2,00,000

Deduction of exp. is allowed only to the extent of 20% of Total Income from MF [2.5L in the present case.]

2] Contribution deposited by Employer on behalf of employee.



3] Repairs / Depn in case of letting out of P/M, Furniture, building.

Just like PubP, Assessee will get a deduction of Sec 30/31/32 under IFS as well ✓.

4] In case of income by way of 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.

5] Std deduction in case of Family Pension

Family Pension → Regular monthly amount paid by the employer to a family member of the employee, in the event of employee's death.

Deduction = (i) ₹ 25,000  
OR  
(ii) 1/3<sup>rd</sup> of Pension Received.

Example → Pension received → ₹ 90,000.

Income v/s 56 → ₹ 90,000.  
(-) Expenditure v/s 57 → (₹ 25,000)  
(i) ₹ 25,000  
OR  
(ii) ₹ 30,000  
1/3 of ₹ 90,000

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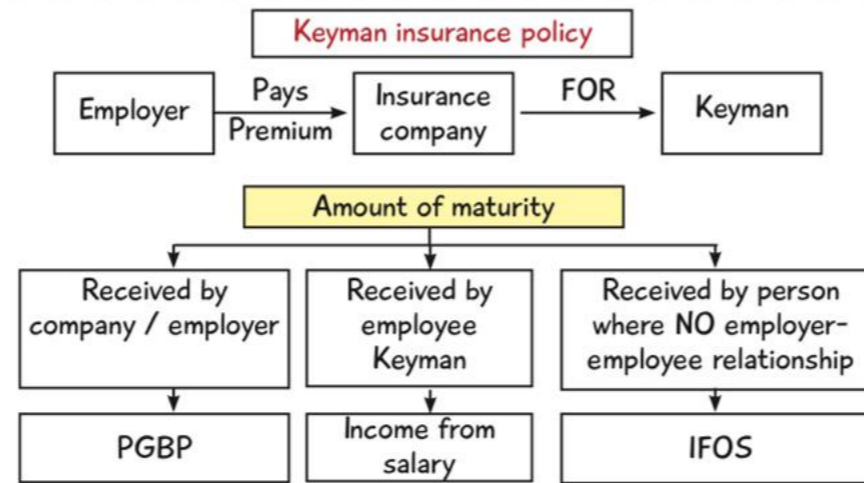
IFOS 65,000

6] Misc expenditures

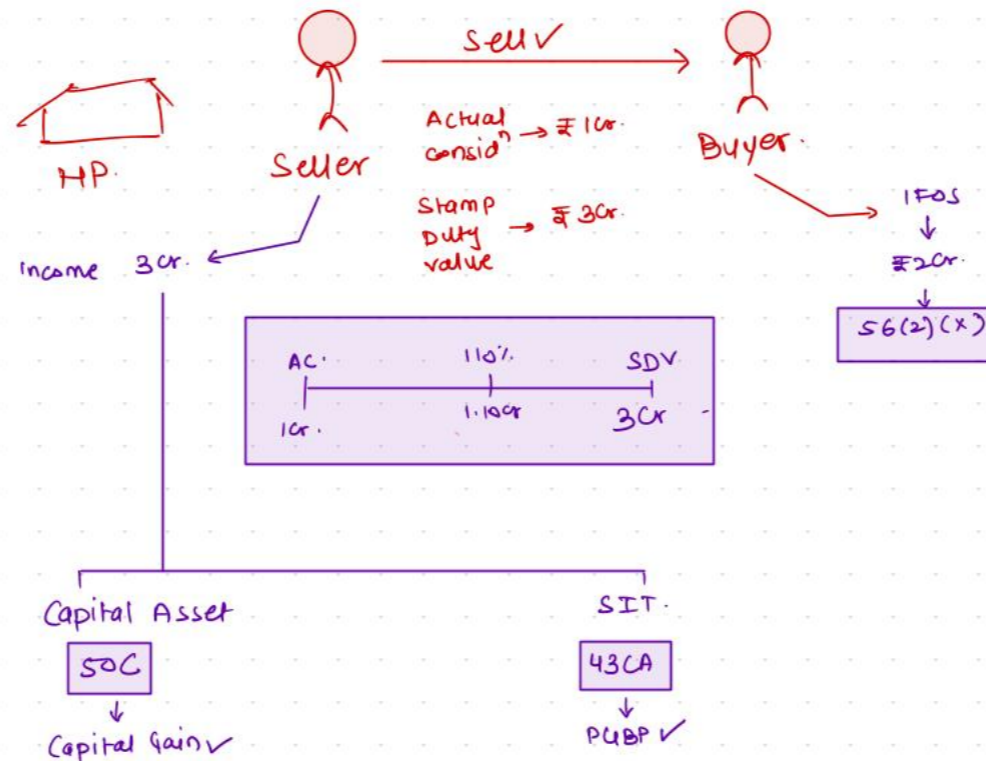
Any expense incurred for earning income will be allowed as deduction u/s 57.

Sec 58 → Specific Disallowance

- 1] Personal Expense:  $1L$  3.5L  $40A(2)$  2.5L
- 2] Int paid o/s India without deducting TDS.
- 3] Salary paid o/s India w/o deducting TDS.
- 4] Amount specified by sec 40A. [Refer PQBP Page \_\_\_\_\_]
- 5] Expenditure in respect of winning from lottery.



Very Important Concept



Example for better understanding

