INCOME FROM OTHER SOURCES

Income from other source is a residuary head of income. Any item of income chargeable to tax but does not fall within the ambit of earlier four specific heads of income shall be included under the head of income from other sources.

Incomes chargeable under the head Income from other sources:

A. Incomes chargeable in general: Section 56(1)

1. Any fees, commission or remuneration received by employees from other than his employer.
2. Directors fees
3. Remuneration or fees received for examination work
4. Interest on bank deposits and loans
5. All interest including interest on securities
6. Rent on sub-letting of house property
7. Income from property acquired on lease
8. Ground rent
9. Royalty received by the owner of mine, copyright and patent right
10. Interest on foreign securities
11. Income from agriculture land situated in a foreign country
12. Income from undisclosed sources
13. Insurance commission received by the agents
14. Casual incomes
15. Salary or pension received from a foreign government
16. Salary or pension received by M.P, M.L.A and M.L.C
17. Family pension received etc.

B. Incomes chargeable in particular: Section 56(2)

1. Dividend(including dividend from Indian company from01-04-2020 onwards)
2. Any winning from lotteries, crossword puzzles, races including horse race, card games, other games, betting of any form.
3. Sum received by employees towards their share of contribution to any staff welfare fund account
4. Interest on securities if not charged to tax under the head of profits and gain from business
5. Income from letting plant, machinery or furniture with or without building
6. Any sum received under key man insurance policy including bonus
7. Gift exceeding Rs. 50,000, the whole of such sum is taxable etc.

Casual incomes: These are the incomes earned casually during the financial year without any effort. The receipt of casual income is accidental and without any stipulation. It is the income earned by chance factor. It is in the nature of unexpected wind fall profit. It is in the nature of non-recurring.

Examples of casual incomes:

1. Winning from lotteries
2. Crossword puzzles
3. Card games
4. Gambling or betting
5. Races including horse race etc.

Treatment of casual incomes:
1. These incomes are fully taxable
2. No expenditure is allowed out of these incomes
3. Set-off of losses is not allowed
4. Tax deducted at source is at 30%
5. In case of prize amount received is given, grossing up is compulsory
6. If prize amount is given that itself is the gross amount and no grossing up is required
7. No TDS is made from income on betting and gambling. Hence no grossing up of amount received
8. There is no TDS if the winning from lotteries etc is up to Rs.10,000 and horse race up to Rs 10,000
9. There can be no loss from winning from lotteries etc
10. Grossing of casual income = $\frac{\text{Casual income X 100}}{\text{100 – TDS rate}}$

Gifts Received: The amount received without any consideration is called gifts. It may in the form of cash or in kind. It is taxable under the head income from other sources.

If aggregate amount of gifts received from non relatives exceeds Rs. 50,000 in the previous year, it is fully taxable in the hands of the recipient of such gifts. This rule is however not applicable, if gifts are received from a relative or at the time of marriage or by will.

Provisions of Income tax regarding gifts:
1. The aggregate amount of gifts received during the previous year up to Rs. 50,000 is not taxable
2. If gifts exceed Rs 50,000 then the whole of the amount is taxable and exemption up to Rs 50,000 is not available.

Exceptions: The followings money or properties received as gift are not considered as gift as per the provisions of the Income Tax Act:
1. from any relative
2. on the occasion of the marriage of the individual
3. under a will or by way of inheritance
4. in contemplation of death of the payer or donor

Dividend: The dividend is the receipt of part of the profit of a company in cash or in kind by its shareholders. Dividend means any sum received by a shareholder of a company to distribution of its profits out of its total income.

Treatment of dividend in the hands of shareholders:
1. Dividend (interim or final) received from the domestic company is fully taxable.
2. Dividend received from a foreign company is fully taxable.
3. The rate of TDS is 7.5% on dividend.

Admissible deductions: Any collection charges or commission or expenses incurred for realizing the dividend and interest on loan taken exclusively for the purchase of such shares are deductible.

4. Dividend from co-operative society is fully taxable. TDS rules are not applicable. Hence grossing up is not necessary.

Admissible deductions: Any collection charges or commission or expenses incurred for realizing the dividend and interest on loan taken exclusively for the purchase of such shares are deductible.

Income from letting plant, machinery, furniture with or without building: Income from letting plant, machinery or furniture and building and when the letting of building is inseparable from letting of plant, machinery and furniture, then it is chargeable to tax under this head.
The following expenses are allowable:

1. Repairs of building
2. Insurance premium paid against the risk of damages or destruction of the premises
3. Repairs and insurance of plant, machinery or furniture
4. Depreciation of plant, machinery, furniture and building
5. Any other expenditure incurred by the assessee wholly and exclusively for earning such income.

Computation of income from letting plant, machinery, furniture etc:

Income from letting plant, machinery or furniture and building	-	XXX
Less: Repairs of building	XXX	
Insurance premium paid against the risk of damages or destruction of the premises	XXX	
Repairs and insurance of plant, machinery or furniture	XXX	
Depreciation of plant, machinery, furniture and building	XXX	
Any other expenditure incurred by the assessee wholly and exclusively for earning such income	XXX	XXX
Net income		**XXX**

Family Pension: Income from family pension is chargeable to tax under this head. Admissible deduction: 1/3rd of family pension received or Rs 15,000 whichever is less is allowed as deduction. No other expenses are deductible.
Note: Under Alternative Tax Regime this standard deduction is blocked.

Income from sub-letting of house: Whole or part of the let out property is let out by the tenant to some other persons for rent is called sub-letting. The rent received from the sub-letting is chargeable to tax under this head.
Admissible deductions:

1. Proportionate rent paid for the house property applicable to sub let part
2. Repairs and renewals, municipal taxes, insurance, ground rent, land revenue and all other revenue expenses incurred by the tenant in respect of the house sub-let is deductible proportionately applicable to the house sub-let.

Computation of income from sub-letting of house:

Income from **sub-letting of house**		XXX
Less: Proportionate rent paid for the house property applicable to sub let part	XXX	
Repairs and renewals	XXX	
Municipal taxes	XXX	
Insurance	XXX	
Ground rent	XXX	
Land revenue	XXX	
All other revenue expenses incurred by the tenant in respect of the house		

sub-let is deductible proportionately applicable to the house sub-let.	XXX	XXX
Net income		**XXX**

Income from Royalties: Income received by landlord, author and patentee in the form of royalty is taxable under this head.

Admissible deductions:

1. Manuscript expenses
2. Remuneration to employees
3. Collection charges
4. Other expenses incurred for earning a royalty etc

Computation of income from Royalties:

Income from **Royalties**		XXX
Less: Manuscript expenses	XXX	
Remuneration to employees	XXX	
Collection charges	XXX	
Other expenses incurred for earning a royalty etc.	XXX	XXX
Net income		**XXX**

Income from undisclosed sources or unexplained income: Any income found in possession of assessee for which proper explanation is not furnished or sources of income is not disclosed, is taxable under this head.

Salary and remuneration to MPs, MLAs and MLCs: The salary payable to MPs, MLAs and MLCs are fully taxable. No deductions of any sort of expenses are admissible

Note: Allowance of MP or MLA Or MLC is blocked in Alternative Tax Regime.

Interest on securities: Section 2 (28B): The income from interest on securities shall be chargeable to tax under the head income from other sources, if securities are held as investment.

Interest on securities means:

1. Interest on any security of the State or Central Government and
2. Interest on debentures or other securities for money issued by or on behalf of a local authority or a company or a corporation established by a State or Central Act.

Types or kinds of securities:

Tax-free Government Securities: These are the securities issued by the State or Central Government. The interest on these securities is fully exempt from tax u/s 10(15). It means interest on these securities is not taxable and such interest is not included in the total income of an assessee.

Note: At present the above securities are not issued by the Government and are not in existence.

The following interest incomes are fully exempt u/s 10(15):

1. Interest on National savings annuity certificates (12 years)
2. Interest on National defense gold bonds, 1980
3. Interest on special bearer bonds 1991
4. Interest on National plan savings certificates (10 & 12 years)
5. Interest on Post office cash certificates (5years)
6. Interest on Post office National savings certificates (7 &12 years)
7. Interest on Post office saving bank account

8. Interest on Post office Cumulative Time Deposit Account
9. Interest on Treasury savings deposit certificates (10 years)
10. Interest on 7% Capital investment bonds
11. Interest on 9% Relief bonds
12. Interest on NRI bonds issued by local authority
13. Interest on Gold deposit bonds issued under the Gold deposit schemes 1991

Government Securities or Less tax Government Securities: These are the securities issued by the State or Central Government. The interest on these securities is taxable. No tax is deducted at source on the interest on these securities. Therefore, interest on these securities should not be grossed up.

Tax free Commercial Securities: These are the securities issued by a local authority, commercial bodies or statutory corporation or a company in the form of debentures or bonds etc. In case of tax free commercial securities the investor receives full interest and tax on the interest is payable by the issuing authorities. Thus, there is no tax burden on the investor. For income tax purpose the tax liability borne by the issuing authority also treated as the part of the interest because income tax is a direct tax which cannot be shifted on somebody else. Therefore, the amount of interest received is Net Interest. So, grossing up of interest is compulsory

Rules of grossing up of tax free commercial securities:

a. When amount of net interest received and TDS amount is given:

Gross interest = Net interest + TDS amount

b. When only interest received is given:

The grossing up is made compulsory depending upon whether the securities are listed or unlisted:

i. Listed tax free securities: (TDS rate is @ 7.5%)

$$\text{Gross interest} = \frac{\text{Net interest X 100}}{\text{100 – TDS rate}}$$

ii. Unlisted tax free securities: (TDS rate is @ 7.5%)

$$\text{Gross interest} = \frac{\text{Net interest X 100}}{\text{100 – TDS rate}}$$

iii. When the amount of investment and the rate of interest is given:

Net interest = Amount of investment X Rate of interest

$$\text{Gross interest} = \frac{\text{Net interest X 100}}{\text{100 – TDS rate}}$$

Commercial securities or less tax commercial securities: These are the securities issued by a local authority, commercial bodies or statutory corporation or a company in the form of debentures or bonds etc. The tax should be deducted at source from interest on these securities and balance amount is paid to the assessee. These are the securities on which full interest is not paid to the holders. Income tax is deducted at source and only net interest is paid to the holders of these securities. It is to be assumed that if the word tax free is not mentioned, then those securities are treated as less tax securities

Rules of grossing up of commercial or less tax commercial securities:

a. When the amount of investment and the rate of interest is given:

Gross interest = Amount of investment X Rate of interest

b. When the amount of interest received is given:
i. Listed less tax securities: (TDS rate is @ 7.5%)

$$\text{Gross interest} = \frac{\text{Net interest X 100}}{100 - \text{TDS rate}}$$

ii. Unlisted less tax securities: (TDS rate is @ 7.5%)

$$\text{Gross interest} = \frac{\text{Net interest X 100}}{100 - \text{TDS rate}}$$

Deductions allowable: Section 57
In case of dividends and interest on securities:

1. Commission, brokerage or remuneration on collection of dividend and interest on securities.
2. Interest on loan taken for the purpose of purchasing the shares and securities.

The above deductions are allowed to all assessees except to a foreign company.
Note: Any commission or interest payable on loan pertaining to the following securities are not allowable expenses:

1. Interest on securities which is exempt u/s 10(15)
2. Income from units of mutual funds or from units of specified undertaking or company which is exempt u/s 10(35).

Expenses not deductible: Section 58

1. Personal expenses
2. Any interest chargeable to tax which is payable outside India on which tax has not been paid or deducted at source
3. Wealth tax
4. Expenses concerned with exempted incomes

Bond Washing Transaction: Bond Washing Transaction refers to the selling of securities normally to a friend or relatives just before the due dates of interest or dividend and acquiring the same securities back after the due date of interest or dividend. The primary object of this transaction is to avoid the tax. Section 94(1) provides that where the securities are transferred before the due date and acquired back, then the interest received by the transferee is treated as income of the transferor and included in the income of the transferor.

Cum Interest Transaction: Another method of avoiding the tax is sale of securities cum interest before the due date of interest. In this case income from such securities would be deemed as income of transferor.

Grossing up: Grossing up means calculation of gross income. Gross income means actual income received by the assessee plus income tax paid or TDS.

Chart showing calculation of Gross income:

Kinds of income	**Calculation of gross income**
1. **Tax free Government securities**	Exempt from tax u/s 10(15). No question of grossing up
2. **Government Securities or Less tax Government Securities**	$\text{Gross interest} = \frac{\text{Face value of securities X Rate}}{100}$

3. Tax free Commercial Securities:	
a. When face value, rate of interest and Tax paid is given	Net interest = $\frac{\text{Face value of securities X Rate}}{100}$ Gross interest = Net interest + Tax paid
b. When face value, rate of interest are given and Tax paid is not given	Net interest = $\frac{\text{Face value of securities X Rate}}{100}$ Gross interest = Net interest X 100/92.5
c. When interest amount is given	Gross interest = Net interest X 100/92.5
d. When interest received and tax paid are given	Gross interest = Net interest + Tax paid
4. **Commercial securities or Less tax commercial securities**	
a. When face value and rate of interest are given	Gross interest = $\frac{\text{Face value of securities X Rate}}{100}$
b. When interest received is given	Gross interest = Net interest X 100/92.5
c. When interest received and tax paid are given	Gross interest = Net interest + Tax paid
5. Casual incomes	Gross income = Net casual income X 100/70