Income from other sources

Income from other sources is a residuary head of income that includes any income which is not exempt from tax and needs to be included in the total income and not chargeable under the following heads:

a) Salaries
b) Income from house property
c) Profits and gains from business or profession
d) Capital gains

Certain incomes, such as winnings from lotteries, gifts, interest on enhanced compensation, etc. are always taxable under this head.

Specific Incomes

Income taxable under the head 'income from other sources' shall be an aggregate of certain incomes which are specifically taxed under this head and other incomes which are not chargeable under any other head, hence, chargeable under this head.

The following incomes are taxable specifically under the head 'income from other sources':

Dividend Income [Section 56(2)(i)]

A dividend usually refers to the distribution of profits by a company to its shareholders. However, certain receipts are also deemed as a dividend. The deemed dividend, as defined in Section 2(22) of the Income-tax Act, includes following:

a) Distribution entailing the release of company's assets
b) Distribution of debentures, or deposit certificates
c) Distribution of bonus shares to preference shareholders
d) Distribution on liquidation
e) Distribution by the company on reduction of its capital
f) Loan or advance to shareholders

Dividend declared, distributed, or paid on or after 01-04-2020 is taxable in the hands of the shareholders. Dividend income is taxable either at the applicable tax rate or at the flat rate. Such taxation of a dividend income depends on two factors, namely, the residential status of the recipient and the nature of security.

A shareholder is allowed to deduct only the interest expenditure (if any) from dividend income subject to a limit of 20% of total dividend income. No further deduction is allowed for any other expenses including commission or remuneration paid to a banker or any other person to realise such dividend.

Income from gambling activities [Section 56(2)(ib)]

The gross amount of income earned from the following activities is taxable under the head 'income from other sources' at the flat rate of 30%:

a) Winnings from any lottery or crossword puzzle;

'Lottery' includes winnings from prizes awarded to any person by draw of lots or by chance or in any other manner whatsoever, under any scheme or arrangement by whatever name called.

b) Horse race (not being activity of owning and maintaining race horses);

'Horse race' means a horse race upon which wagering or betting may be lawfully made.

c) Card game and other game of any sort;

'Card game and other game of any sort' includes any game show, an entertainment programme on television or electronic mode, in which people compete to win prizes or any other similar game.

d) Gambling or betting of any form or nature.

Such income from gambling activities is taxable on a gross basis without claiming the deduction for any expense or set-off of any loss suffered under the same or other heads of income.

Employee's contribution to staff welfare schemes [Section 56(2)(ic)]

Section 2(24)(x) provides that any sum received by an employer from his employees as a contribution to any provident fund or superannuation fund or any fund set up under the provisions of the Employees state insurance, 1948, or any other fund for the welfare of such employee shall be deemed as income of the employer. However, if such sum is deposited by the employer to the employee's account in the relevant fund on or before the due date by which it is required to be deposited, such sum shall be allowed as a deduction under Section 36(1)(va).

Where the contribution received by the employer from the employee towards EPF is not deposited to the employee account on or before the due date specified under the relevant law, then the amount of contribution not deposited is taxable under the head of other sources if it is not taxable as business income under Section 28.

Interest on securities [Section 56(2)(id)]

Interest on securities is taxable under the head income from other sources if the same is not chargeable to income tax under the head "Business or Profession".

As per Section 2(28B) of the Income-tax Act, 'interest on securities' means:

(a) Interest on any security of the central government or a state government;

(b) 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 Central or State or Provincial Act.

The interest shall be chargeable as per tax rates applicable to the assessee. However, in the case of non-residents, certain interest incomes are taxable at concessional rates.

Income from letting of machinery, plant, or furniture [Section 56(2)(ii)/(iii)]

Income from the leasing or renting of machinery, plant, or furniture is taxable as income from other sources provided it is not chargeable to tax under the head profits and gains of business or profession.

Sum received under a Keyman Insurance Policy [Section 56(2)(iv)]

Any sum received from a keyman insurance policy, including bonus allocations, is considered taxable under the head income from other sources if it is not chargeable to tax under the head profits and gains of business or profession or under the head salaries.

Shares issued at a premium by closely held company [Section 56(2)(viib)]

Any excess premium received by a company from any person is considered taxable under the head income from other sources if the following conditions are satisfied:

a) Shares (equity or preference shares) are issued by a closely held company;

b) The consideration received for the issue of shares exceeds the face value and fair market value of shares.

This provision does not apply to any consideration received for the issue of shares in the following cases:

(a) Where consideration is received by a Venture Capital Undertaking from a Venture Capital Company or Venture Capital Fund or Category-I or Category-II Alternative Investment Fund (AIF)

(b) Where the company is an eligible start-up fulfilling conditions as prescribed in the Notification issued by the DPIIT.

For Example, XYZ Pvt. Ltd. issued 10,000 shares to Mr. A having a face value of Rs. 100. Following are the different scenarios explaining the calculation of income under this provision:

Particulars	*Scenario 1*	*Scenario 2*	*Scenario 3*
Face value of the share[A]	Rs. 100	Rs. 100	Rs. 100
Fair market value of the share[B]	Rs. 120	Rs. 140	Rs. 150
Issue price of the share[C]	Rs. 100	Rs. 130	Rs. 160
Whether issue price exceeds face value and fair market value?	No	No	Yes
No. of shares issued [D]	10,000	10,000	10,000
Deemed income under section 56(2)(viib)[E = D*(C-B)]	*Nil*	*Nil*	Rs. 1,00,000

Interest on compensation or enhanced compensation [Section 56(2)(viii)]

Income received as interest on compensation or enhanced compensation is considered taxable under the head income from other sources. A deduction of 50% of such interest income is allowed under Section 57. Further, such interest is taxable in the previous year in which it is received.

The interest on compensation or enhanced compensation is only chargeable to tax if the original or enhanced compensation is taxable. Thus, if the compensation is exempt from tax, the interest payable on such compensation is also exempt from tax.

Forfeiture of advance money received for transfer of capital asset [Section 56(2)(ix)]

When any sum of money received as an advance or otherwise, in the course of negotiations for the transfer of a capital asset, is forfeited and negotiations do not result in the transfer of such capital asset, the amount so forfeited is considered taxable under the head other sources.

This treatment is applicable only when advance money is forfeited during the previous year 2014-15 or any subsequent year. The advance money so forfeited is taxable under this head only if the asset involved is a capital asset. If the asset is not a capital asset, forfeiture of advance money will not be taxable under this provision.

For example, Mr. A receives Rs. 2 lakhs advance money in the negotiation for the transfer of a personal car (or rural agricultural land). The car is not transferred and advance money is forfeited by Mr. A. As a personal car is treated as a personal effect (while rural agricultural land is not a capital asset), the advance money received by him shall not be chargeable to tax under this provision.

Deemed income [Section 56(2)(x)]

Section 56(2)(x) applies if any person receives from any person any benefit (cash, movable, or immovable) whose value exceeds Rs. 50,000. This provision is applicable notwithstanding the residential status or class of the assessee. The donor or donee can be an individual, partnership firm, LLP, company, AOP, BOI, co-operative society, or artificial juridical person, whether resident or non-resident.

The deemed income under this provision arises from the following transactions:

Nature of transaction	***Whether transactions in each category to be aggregated?***	***Threshold limit***
A sum of money received without consideration	Yes, the aggregate of all transactions in this category shall be considered	50,000
An immovable property received without consideration	No, each transaction in this category should be considered separately	50,000
An immovable property received for inadequate consideration	No, each transaction in this category should be considered separately	50,000
A movable property received without consideration	Yes, the aggregate of all the transactions in this category shall be considered	50,000
A movable property received for inadequate consideration	Yes, the aggregate of all transactions in this category shall be considered	50,000

Compensation on loss of employment [Section 56(2)(xi)]

Any compensation or other payment, due to or received by any person, in connection with the termination of his employment or the modification of the terms and conditions relating thereto is taxable under the head other sources.

Section 17(3)(i) contains a similar provision that any compensation due to or received by an employee from his employer or former employer at or in connection with the termination of his employment or modification of terms of employment is taxable as profit in lieu of salary.

Thus, both the provisions are similar except following:

a) Section 17(3)(i) covers 'compensation' only, section 56(2)(xi) covers 'any other payment' as well; and
b) Section 17(3)(i) covers payments from 'employer or former employer', and section 56(2)(xi) covers payments from 'any person'.

Payment would be taxed under section 17(3)(i) or section 56(2)(xi) depending on the payer and 'type of payment'.

For example, Mr. A entered into an employment agreement with a company under which he was to be employed as CEO of the company. However, the company denied employment to him and paid a certain amount to him as compensation for the non-commencement of employment. As the employer-employee relationship does not exist, the compensation received by him from the company cannot be taxed under the head salary. Thus, this compensation shall be taxable under the head other sources.

Family Pension [Section 56(1)]

'Family pension' is the monthly pension received by the family or heir of the deceased employee. The pension received by the employee himself is taxable under the head 'salaries', while the family pension is taxable under the head income from other sources.

The family members can claim a standard deduction from the family pension to the extent of lower of the following: (a) 1/3rd of the family pension; or (b) Rs. 15,000.

Any other income [Section 56(1)]

Any other income (not described above) shall be taxable under this head if it is not taxable under the other four heads of income. The following incomes are generally taxable under this head: (a) Interest on bank deposits (b) Income from investment in small saving schemes, etc.

Attributable Expenses

Deductible expenses [Section 57]

Section 57 specifically provides the list of expenditures which are allowed to be deducted from the income taxable under the head other sources. It also provides that the expenditure incurred wholly and exclusively to earn the income is allowed to be deducted from income taxable under this head, provided the following conditions are satisfied:

a) The expenditure must not be in the nature of personal expenditure of the assessee;

b) It must not be in the nature of capital expenditure; and

c) It must be laid out or expended wholly and exclusively to earn such income.

Amount not deductible [Section 58]

The following expenses are not allowed to be deducted in computing the income taxable under the head other sources.

(1) Deduction for interest

No deduction shall be allowed for any interest payable outside India if it is taxable in the hands of the recipient but tax has not been deducted or after deduction, it has not been paid to the credit of Central Govt. in accordance with provisions of TDS.

(2) Deduction for salary

No deduction is to be allowed for any payment, chargeable under the head 'salaries', payable outside India unless tax has been deducted therefrom and paid in accordance with provisions of TDS.

(3) Deduction in case of TDS default

Section 58(1A) extends the provisions of Section 40(a)(ia) while computing the income chargeable under the head other sources. This provision invokes disallowance of expenditure if tax is not deducted or after deduction tax is not deposited with the Central Govt. on or before the due date for filing of return.

(4) Personal expenses

No deduction shall be allowed for an expenditure which is in the nature of a personal expense of the assessee.

(5) Disallowance of the sum specified in section 40A

Section 58(2) extends the provisions of Section 40A while computing the income chargeable under the head other sources. Some of the disallowances invoked under this provision are as follows:

- Disallowance under Section 40A(2) for excessive payment made to relatives;
- Disallowance under Section 40A(3)/40(3A) for payment made in cash;
- Disallowance under Section 40A(7) for provision made for gratuity;
- Disallowance under Section 40A(9) for contributions made to non-statutory funds;
- Disallowance under Section 40A(13) for marked to market loss.

(6) Deduction of expenditure from betting income

No deduction is allowed in respect of any expenditure incurred to earn any income from any winning by way of lottery, crossword puzzle, races including horse races, card games, and other games of any sort or from gambling or betting.

However, the assessee is entitled to claim a deduction for any revenue expenditure incurred in owing and maintaining race horses to run in a horse race on which wagering or batting is lawfully allowed.

Recovery against loss or expenditure [Section 59]

Section 59 extends the provisions of Section 41(1) while computing the income chargeable under the head other sources. This provision provides that if deduction has been allowed to the assessee in any previous year in respect of loss, expenditure, or trading liability and subsequently he obtains any amount or benefit towards such loss, expenditure, or trading liability by way of remission or cessation, the amount or benefit so obtained shall be chargeable to tax. It is chargeable to tax as the income of that previous year in which such amount or benefit is obtained. This taxability arises regardless of the fact whether the source of income is in existence in that year or not.

MCQs on Income from other sources

Q1. Deemed Dividend includes_________.

(a) Dividend declared by the company

(b) Distribution of debentures, or deposit certificates

(c) Distribution by the company on reduction of its capital

(d) Both (b) and (c)

Correct answer: (d)

Justification of correct answer: The deemed dividend, as defined in Section 2(22) of the Income-tax Act, includes the following:

- Distribution entailing the release of the company's assets
- Distribution of debentures, or deposit certificates
- Distribution of bonus shares to preference shareholders
- Distribution on liquidation
- Distribution by the company on reduction of its capital
- Loan or advance to shareholders

Q2. Mr. A, a shareholder received dividends from ABC Ltd. of Rs. 50,000. He incurred some expenses to get such dividends which are commission to a broker of Rs. 5,000 and Rs. 20,000 as interest payment for a loan which was taken to buy shares of ABC Ltd. How much deduction he can claim against the income of Rs. 50,000?

(a) Rs. 25,000

(b) Rs. 20,000

(c) Rs. 4,000

(d) Rs. 10,000

Correct answer: (d)

Justification of correct answer: A shareholder is allowed to deduct only the interest expenditure (if any) from dividend income subject to a limit of 20% of total dividend income. No further deduction is allowed for any other expenses including commission or remuneration paid to a banker or any other person to realise such dividend. Hence the answer is (d) Rs. 10,000 (Rs. 50,000 * 20%).

Q3. Income from gambling activities is taxable at the rate of ______.

(a) 10%

(b) 20%

(c) 30%

(d) 40%

Correct answer: (c)

Justification of correct answer: The gross amount of income earned from Winnings from any lottery or crossword puzzle, Horse race (not being activity of owning and maintaining race horses), Card game and other game of any sort, Gambling or betting of any form or nature is taxable under the head 'income from other sources' at the flat rate of 30%.

Q4. Whether any deduction is allowed for expenditure incurred for earning income from the lottery?

(a) Yes

(b) No

(c) Maybe

(d) Allowed with a certain limit

Correct answer: (b)

Justification of correct answer: Income from the lottery is taxable on a gross basis without claiming the deduction for any expense or set-off of any loss suffered under the same or other heads of income.

Q5. Any excess premium received on the issuance of _________ issued by a closely held company from any person is considered taxable under the head income from other sources where the consideration received exceeds the face value and fair market value.

(a) Equity shares

(b) Preference shares

(c) Both (a) and (b)

(d) None of the above

Correct answer: (c)

Justification of the correct answer: Any excess premium received by a company from any person is considered taxable under the head income from other sources if the following conditions are satisfied:

a) Shares (equity or preference shares) are issued by a closely held company;

b) The consideration received for the issue of shares exceeds the face value and fair market value of shares.

Q6. Interest on compensation or enhanced compensation is taxable in the year of __________.

a) Compulsory acquisition of asset

b) Receipt of the compensation

c) Accrual of interest on such compensation

d) Receipt of interest on such compensation

Correct answer: (d)

Justification of the correct answer: Income received as interest on compensation or enhanced compensation is considered taxable under the head income from other sources. Further, such interest is taxable in the previous year in which it is received.

Q7. How much deduction shall be allowed if a taxpayer has interest income on compensation or enhanced compensation?

(a) All expenses incurred on earning such interest

(b) 20% of such interest

(c) 50% of such interest

(d) No deduction is allowed

Correct answer: (c)

Justification of the correct answer: Income received as interest on compensation or enhanced compensation is considered taxable under the head income from other sources. A deduction of 50% of such interest income is allowed under Section 57.

Q8. Amount forfeited on account of non-transfer of __________ is considered as an income chargeable under the head 'Income from other sources'

(a) Personal assets

(b) Contracts revenue in nature

(c) Capital assets

(d) All of the above

Correct answer: (c)

Justification of the correct answer: When any sum of money received as an advance or otherwise, in the course of negotiations for the transfer of a capital asset, is forfeited and negotiations do not result in the transfer of such capital asset, the amount so forfeited is considered taxable under the head other sources.

Q9. The immovable properties received without consideration are considered as deemed income if the benefit exceeds __________ and this limit shall be checked for ________.

(a) Rs. 50,000; a financial year

(b) Rs. 50,000; each immovable property separately

(c) Rs. 1,00,000; a financial year

(d) Rs. 1,00,000; each immovable property separately

Correct answer: (b)

Justification of the correct answer: where an immovable property received without consideration exceeds Rs. 50,000, each transaction in this category should be considered separately.

Q10. How much deduction is allowed with respect to the family pension received?

(a) One-third of the family pension

(b) Rs. 15,000

(c) Higher of (a) or (b)

(d) Lower of (a) or (b)

Correct answer: (d)

Justification of the correct answer: The family members can claim a standard deduction from the family pension to the extent of lower of the following: (a) 1/3rd of the family pension; or (b) Rs. 15,000.

Q11. Which type of expenses are not allowed from the income chargeable under the head other sources?

(a) Personal expense

(b) Capital expenditure

(c) Both (a) and (b)

(d) None of the above

Correct answer: (c)

Justification of the correct answer: Section 57 provides that the expenditure incurred wholly and exclusively to earn the income is allowed to be deducted from income taxable under this head, provided the following conditions are satisfied:

a) The expenditure must not be in the nature of personal expenditure of the assessee;

b) It must not be in the nature of capital expenditure; and

c) It must be laid out or expended wholly and exclusively to earn such income.