CHAPTER 9
OTHER SOURCES (IFOS)

1. ICAI STUDY MATERIAL QUESTIONS

Concept Problem 1

Rahul, holding 28% of equity shares in a company, took a loan of INR 5,00,000 from the Company. On the date of granting the loan, the company had accumulated profit of INR 4,00,000. The company is engaged in some manufacturing activity.

a) Is the amount of loan taxable as deemed divided in the hands of Mr. Rahul if the Company is a company in which the public are substantially interested?

b) What would be your answer, if the lending Company is a private limited company i.e., a company in which the public are not substantially interested?

Solution

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

i) The provisions of section 2(22)(e), however, will not apply where the loan is given by a company in which public are substantially interested. In such a case, the loan would not be taxable as deemed dividend.

ii) However, if the loan is taken from a private company (i.e., a company in which the public are not substantially interested), which is a manufacturing company and not a company where lending of money is a substantial part of the business of the company, then, the provisions of section 2(22)(e) would be attracted, since Rahul holds more than 10% of the equity shares in the company.

The amount chargeable as deemed dividend cannot, however, exceed the accumulated profits held by the company on the date of giving the loan. Therefore, the amount taxable as deemed dividend would be limited to the accumulated profit i.e., INR 4,00,000 and not the amount of loan which is INR 5,00,000.

Concept Problem 2

Mr. Shyam received interest of INR 5,00,000 on enhanced compensation during the PY 2021-22. Out of this interest, INR 1,50,000 relates to the PY 2017-18; INR 1,65,000 relates to previous year 2018-19; and INR 1,85,000 relates to PY 2019-20.

He also incurred legal expense of INR 25,000. Discuss the tax implication of such interest income for AY 2022-23.

Solution

The entire interest of INR 5,00,000 would be taxable in the year of receipt, namely, PY 2021-22.

Particulars	Amount
Interest on enhanced compensation taxable u/s 56(2)	5,00,000
Less: Deduction under section 57 @ 50%	2,50,000
Interest chargeable under the head Income from other sources	**2,50,000**

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

Section 56(2)(viii) states that such income shall be taxable as 'Income from Other Sources'. 50% of such income shall be allowed as deduction by virtue of section 57(iv) and no other deduction shall be permissible from such Income.

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

Concept Problem 3

Examine under which heads the following incomes are taxable:

i) Rental income in case property held as stock-in-trade for 3 years

ii) Dividend on shares in case of a dealer in shares

iii) Salary received by a partner from his partnership firm

iv) Rental income of machinery

v) Winnings from lotteries by a person having the same as business activity

vi) Salaries payable to a Member of Parliament

vii) Receipts without consideration

viii) In case of retirement, interest on employee's contribution if provident fund is unrecognized

ix) Rental income in case of a person engaged in the business of letting out of properties.

Solution

S. No	Particulars	Head of income
i)	Rental income in case property held as stock-in trade for 3 years	Income from House Property
ii)	Dividend on shares in case of a dealer in shares	Income from Other Sources
iii)	Salary by partner from his partnership firm	Profit and gains of business or profession
iv)	Rental income of machinery **(See Note below)**	Income from other sources/ Profits and gains of business or profession
v)	Winnings from lotteries by a person having the same as business activity	Income from Other Sources
vi)	Salaries payable to a Member of Parliament	Income from Other Sources
vii)	Receipts without consideration	Income from Other Sources
viii)	In case of retirement, interest on employee's contribution if provident fund is unrecognized	Income from Other Sources
ix)	Rental income in case of a person engaged in the business of letting out of properties	Profits and gains from business or profession

Note - As per section 56(2)(ii), rental income of machinery would be chargeable to tax under the head "Income from Other Sources", if the same is not chargeable to income-tax u/h "Profits and Gains of Business/Profession".

Concept Problem 4

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

Nature of receipt
a) A sum of ₹ 1,20,000 was received as gift from non-relatives by Raj on the occasion of the marriage of his son Pravin.
b) Interest on enhanced compensation of ₹ 96,000 received on 12-3-2022 for acquisition of urban land, of which 40% relates to P.Y.2020-21.

c) Rent of 72,000 received for letting out agricultural land for a movie shooting.

Solution

a) Yes, it is chargeable to tax.

The exemption from applicability ofsection 56(2)(x) would be available if,inter alia, gift is received from a relativeor gift is received on the occasion of marriage of the individual himself. In this case, since gift is received by Mr. Raj from a non-relative on the occasion of marriage of his son, it would be taxablein his hands under section 56(2)(x).

b) Yes, it is chargeable to tax.

As per section 145A, interest received by the Assessee on enhanced compensation shall be deemed to be the income of the year in which it is received, irrespective of the method of accounting followed by the Assessee. Interest of INR 96,000 on enhanced compensation is chargeable to tax in the year of receipt i.e. P.Y. 2020-21 under section 56 after providing deduction of 50% under section 57. Therefore, INR 48,000 is chargeable to tax under the head "Income from other sources"

c) Yes, it is chargeable to tax.

Agricultural income is exempt from tax as per section 10(1). Agricultural income means, inter alia, any rent or revenue derived from land which is situated in India and is used for agricultural purposes. In the present case, rent is being derived from letting out of agricultural land for a movie shoot, which is not an agricultural purpose. In effect, the land is not being put to use for agricultural purposes.

Therefore, INR 72,000, being rent received from letting out of agricultural land for movie shooting, is not exempt under section 10(1). The same is chargeable to tax under the head "Income from other sources".

2. ICAI RTPs, MTPs and Past Year Questions

Concept Problem 5

Discuss the taxability or otherwise in the hands of recipient as per provisions of Income tax Act 1961:

i) Mr. A received an advance of INR 50,000 on 1-09-2021 against the sale of his house. However, due to non-payment of instalment in time, the contract has cancelled and the amount of INR 50,000 was forfeited.

ii) Mr. N, a member of his father's HUF, transferred a house property to the HUF without consideration. The value of the house is INR 10 lakhs as per the Registrar of stamp duty.

Solution

S.No.	Taxable/ Not Taxable	Reason
(i)	Taxable	Any sum of money received as an advance or otherwise in the course of negotiations for transfer of a capital asset would be chargeable to tax under the head "Income from other sources" if such amount is forfeited and the negotiations do not result in transfer of such capital asset [Section 56(2)(ix)]. Therefore, the amount of INR 50,000 received as advance would be chargeable to tax in the hands of Mr. A under the head "Income from other sources", since it is forfeited on account of cancellation of contract for transfer of house, being a capital asset, due to non-payment of installment in time.
(ii)	Not Taxable	As per section 56(2)(x), immovable property received without consideration by a HUF from its relative is not taxable. In the present case, since Mr. N is a member of his father's HUF, he is a relative of the HUF. Hence, INR 10 lakhs, being the stamp duty value of house property received by HUF, without consideration, would not be chargeable to tax in the

S.No.	Taxable/ Not Taxable	Reason
		hands of the HUF.

Concept Problem 6

Examine with brief reasons, whether the following are chargeable to income-tax and the amount liable to tax with reference to the provisions of the Income-tax Act, 1961:

i) Allowance of INR 18,000 p.m. received by an employee, Mr. Uttam Prakash, working in a transport system granted to meet his personal expenditure while on duty. He is not in receipt of any daily allowance from his employer.

ii) During the previous year 2021-22, Mrs. Aadhya, a resident in India, received a sum of INR 9,63,000 as dividend from Indian companies and INR 4,34,000 as dividend from units of equity oriented mutual fund.

Solution

S No.	Chargeability	Amount liable to tax	Reason
(i)	Partly taxable	96,000	Any allowance granted to an employee working in a transport system to meet his personal expenditure during his duty is exempt provided he is not in receipt of any daily allowance. The exemption is 70% of such allowance (i.e., INR 12,600 per month being, 70% of INR 18,000, in the present case) or INR 10,000 per month, whichever is less. Hence, INR 1,20,000 (i.e., INR 10,000 x 12) is exempt. Balance INR 96,000 (INR 2,16,000 – INR 1,20,000) is taxable in the hands of Mr. Uttam Prakash.
(ii)	Taxable	13,97,000	Any income by way of dividends received from a company, whether domestic or foreign, is taxable in the hands of shareholder at normal rates of tax. Similarly, any interest or divined income received from units of mutual fund is also taxable in the hands of investor at normal rates of tax. Hence, INR 13,97,000, shall be taxable in hands of Mrs. Aadhya.

Concept Problem 7

Mrs. Ashish is getting family pension of INR 7,000 p.m. She has also received dividend income from domestic company of INR 7,00,000.

Compute her Total Income.

Solution

Particulars	Amount
Family pension (7,000 x 12)	84,000
Less: Deduction u/s 57 1/3 of INR 84,000 or INR 15,000 whichever is less	15,000

Particulars	Amount
Dividend income	7,00,000
Income under the head Other Sources	**7,69,000**
Gross Total Income	**7,69,000**
Less: Deduction u/s 80C to 80U	Nil
Total Income	**7,69,000**

Concept Problem 8

The following are the details of the share issued by the following closely held companies. Discuss the applicability of provisions of section 56(2)(viib) in the hands of these companies.

Co.	No. of shares	Face value of shares	FMV of shares	Issue price of shares	Applicability of Section 56(2)(viib)
A (P) Ltd.	10,000	100	120	130	The provisions of sections 56(2)(viib) are attracted in this case since the shares are issued at a premium (i.e., issue price exceeds the face value of shares). The excess of the issue price of the shares over the FMV i.e., INR 10 (130 – 120) would be taxable under section 56(2)(viib) in the hands of A(P) Ltd. Taxable amount = INR 1,00,000 [10,000 x 10]
B (P) Ltd.	20,000	100	120	110	The provisions of section 56(2)(viib) are attracted since the shares are issued at a premium. However, no sum shall be chargeable to tax in the hands of B (P) Ltd. under the said section as the shares are issued at a price less than the FMV of shares.
C (P) Ltd.	30,000	100	90	98	Section 56(2) (viib) is not attracted since the shares are issued at a discount though the issue price is greater than the FMV.
D (P) Ltd.	40,000	100	90	110	The provisions of section 56(2)(viib) are attracted in this case since the shares are issued at a premium. The excess of the issue price of the shares over the FMV i.e., INR 20 (110 –90)] would be taxable under section 56(2)(viib) in the hands of D (P) Ltd. Taxable amount = INR 8,00,000 [40,000 x20]

Concept Problem 9

MLX Investments (P) Ltd. was incorporated during P.Y. 2019-20 having a paid-up capital of INR 10 lacs. In order to increase its capital, the company further issues, 1,00,000 shares (having face value of INR 100 each) during the year at par as on 01-08-2021. The FMV of such share as on 01-08-2021 was INR 85.

a) Determine the tax implications of the above transaction in the hands of company, assuming it is the only transaction made during the year.

b) Will your answer change, if shares were issued at INR 105 each?

c) What will be your answer, if shares were issued at INR 105 and FMV of the share was INR 120 as on 01-08-2021?

Solution

The provisions of section 56(2) (viib) would be attracted, where consideration is received from a resident person by a company, other than a company in which public are substantially interested, in excess of the face value of shares i.e., where shares are issued at a premium. In such a case, the difference between the consideration received and the fair market value would be chargeable to tax under the head "Income from Other Sources".

a) In this case, since MLX Investments (P) Ltd., a closely held company issued 1,00,000 shares (having face value of INR 100 each) at par i.e., INR 100 each, though issue price is greater than FMV, no amount would be chargeable to tax as income from other sources.

b) In this case, since shares are issued at a premium, the amount by which the issue price of INR 105 each exceeds the FMV of INR 85 each would be chargeable to tax under the head "Income from other sources". Hence, INR 20 lakh, being INR 20 (i.e., INR 105 - INR 85) x 1,00,000 shares, would be chargeable u/s 56(2)(viib).

c) If shares are issued at INR 105 each and FMV of share is INR 120 each, no amount would be chargeable to tax even though the shares were issued at a premium, since shares are issued at a price which is less than the fair market value.

Concept Problem 10

From the following particulars of Pankaj for the previous year ended 31st March, 2022, compute the income chargeable under the head "Income from Other Sources":

S. No	Particulars	Amount
i)	Directors fee from a company	10,000
ii)	Interest on bank deposits	3,000
iii)	Income from undisclosed source	12,000
iv)	Royalty on a book written by him	9,000
v)	Lectures in seminars	5,000
vi)	Interest on loan given to a relative	7,000
vii)	Interest on debentures of a company (listed in a recognized stock exchange) net of taxes	3,600
viii)	Interest on Post Office Savings Bank Account	500
ix)	Interest on Government Securities	2,200
x)	Interest on Monthly Income Scheme of Post Office	33,000

Solution

Computation of income chargeable under the head "Income from Other Sources" for AY 2022-23

Particulars	Amount
Directors' fees	10,000
Interest on bank deposit	3,000
Income from undisclosed source (taxable @ 60% plus Surcharge @ 25% u/s 115BBE)	12,000
Royalty on books written (See Note below)	9,000
Lectures in seminars	5,000
Interest on loan given to a relative	7,000
Interest on listed debentures (36,000 x 100/90)	40,000

Interest on Post Office Savings Bank [exempt under section 10(15)]	-
Interest on Government securities	2,200
Interest on Post Office Monthly Income Scheme	33,000
Income from Other Sources	**1,21,200**

Concept Problem 11

Mrs. Ram has received incomes as given below during the previous year 2021-22:

a) Interest on saving bank account with State Bank of India INR 50,000 (gross).

b) Interest from Govt. securities INR 1,00,000 on 01.06.2021 (collection charge paid to the bank @ 1.5%).

c) Interest from Tax Ltd. on non-listed debentures INR 3,60,000 (after TDS) on 01.09.2021 (collection charge paid to bank INR 30).

d) Interest credited to post office saving bank account during the year INR 10,000.

e) Interest credited to public provident fund during the year INR 10,000

f) Interest received from ABC Ltd. on listed debentures INR 1,35,000 (Net). Collection charges INR 30. The amount was invested by taking a loan of INR 15,00,000 @ 12% p.a.

g) Mrs. Ram has income from house property INR 4,00,000.

h) Winnings from a lottery INR 70,000 (after TDS)

i) Loan of INR 3,00,000 taken from XYZ Pvt. Ltd., a closely held company and Mrs. Ram is holding 10% equity shares of this company.

j) Honorarium of INR 10,000 received for delivering lecture in a seminar.

k) Interest of INR 5,000 received from a loan given to a relative.

l) Royalty of INR 20,000 received on a book written by him. He paid INR 1,000 for typing the manuscript.

Compute her Total Income for AY 2022-23 assuming provisions of section 115BAC has not been opted.

Solution

Computation of Total Income for AY 2022-23

Income under the head Other Sources	Amount
Gross interest from State Bank of India	50,000
Interest from Government securities (1,00,000 – 1,500)	98,500
Interest from Tax Ltd [(3,60,000/90 x 100) - INR 30)]	3,99,970
Interest on Post office saving account (3,500 exempt u/s 10(15)	6,500
Interest on PPF (exempt u/s 10(15))	Nil
Interest from ABC Ltd. Gross interest =INR 1,35,000 / 90 x 100= 1,50,000 Less: Collection charges = 30 Less: Interest paid on loan = 1,80,000 (15,00,000*12%)	(30,030)
Winning from lottery (70,000 / 70 x 100)	1,00,000
Loan taken from XYZ Pvt. Ltd. [taxable u/s 2(22)(e)]	3,00,000
Honorarium	10,000
Interest on loan received from a relative	5,000
Net Royalty income	19,000

Income under the head Other Sources	Amount
Income under the head Other Sources	**9,58,940**
Income under the head House Property	4,00,000
Gross Total Income	**13,58,940**
Less: Deduction u/s 80TTA	10,000
Total Income	**13,48,940**