7. INCOME FROM OTHER SOURCES

ASSIGNMENT SOLUTIONS

PROBLEM NO.1

a) Any sum of money received by an individual on the occasion of the marriage of the individual is exempt. This provision is, however, not applicable to a cash gift received during a wedding function celebrated on completion of 60 years of age.

The gift of Rs.51,000 received from a non-relative is, therefore, chargeable to tax under section 56(2)(x) in the hands of Mrs. Hemali.

b) The provisions of section 56(2)(x) are not attracted in respect of any sum of money or property received from a relative. Thus, the gift of diamond necklace received from her sister is not taxable under section 56(2)(x), even though jewellery falls within the definition of "property".

c) To be exempt from applicability of section 56(2)(x), the property should be received on the occasion of the marriage of the individual, not that of the individual's son or daughter. Therefore, this exemption provision is not attracted in this case.

Any sum of money received without consideration by an individual is chargeable to tax under section 56(2)(x), if the aggregate value exceeds Rs.50,000 in a year. "Sum of money" has, however, not been defined under section 56(2)(x).

<u>**Therefore, there are two possible views**</u> in respect of the value of fixed deposit assigned in favour of Mrs. Hemali –

i) The first view is that fixed deposit does not fall within the meaning of "sum of money" and therefore, the provisions of section 56(2)(x) are not attracted. It may be noted that fixed deposit is also not included in the definition of "property".

ii) However, another possible view is that fixed deposit assigned in favour of Mrs. Hemali falls within the meaning of "sum of money" received.

<u>**Income assessable as "Income from other sources":**</u>

1. **If the first view is taken,** the total amount chargeable to tax as "Income from other sources" would be Rs.51,000, being cash gift received from a friend on her Shasti Poorthi.
2. **As per the second view**, the provisions of section 56(2)(x) would be attracted in respect of the fixed deposit assigned and the "Income from other sources" of Mrs. Hemali would be Rs.1,02,000 (Rs.51,000 + Rs.51,000).

PROBLEM NO.2

Computation of total income of Mr. Y for A.Y. 2019-20

Particulars	Rs.	Rs.	Rs.
Capital Gains:			
Short term capital gains (on sale of flat)			
i) Sale consideration	3,60,000		
ii) Stamp duty valuation	3,70,000		
Consideration for the purpose of capital gains as per section 50C (stamp duty value, since it is higher than sale consideration)		3,70,000	
Less: Cost of acquisition [As per section 49(4), cost to be taken into consideration for 56(2)(x) will be the cost of acquisition]		3,40,000	30,000
Long term capital loss on sale of equity shares of X Pvt. Ltd			
Sale consideration		2,80,000	
Less: Indexed cost of acquisition (Rs.3,50,000 X 280/129)		7,59,690	
Long term capital loss to be carried forward (See Note 1 below)		**(4,79,690)**	
Income from other sources:			

Gift from friends by way of immovable property on 30.11.2018 [See Note 3 below].			3,40,000
Gift received from a close friend (unrelated person) [See Note 2 below]			75,000
Total Income			**4,45,000**

Notes:

1. In the given problem, unlisted shares of X Pvt. Ltd. have been held for more than 24 months and hence, constitute a long term capital asset. The loss arising from sale of such shares is, therefore, a long-term capital loss. As per section 70(3), long term capital loss can be set-off only against long-term capital gains. Therefore, long-term capital loss cannot be set-off against short-term capital gains. However, such long-term capital loss can be carried forward to the next year for set-off against long-term capital gains arising in that year.
2. Any sum received from an unrelated person will be deemed as income and taxed as income from other sources if the aggregate sum received exceeds Rs. 50,000 in a year [Section 56(2)(x)].
3. Receipt of immovable property without consideration would attract the provisions of section 56(2)(x).

PROBLEM NO.3

Computation of income chargeable to tax under the heads "Income from Other Sources" in hands of Smt. Lakshmi for A.Y. 2019-20

No.	Particulars	Rs.
a)	Cash gifts of Rs.1,20,000 received on the occasion of her marriage is not taxable since gifts received by an individual on the occasion of marriage is excluded under section 56(2)(x), even if the same are from non-relatives.	Nil
b)	Even though mother's maternal uncle does not fall within the definition of "relative" under section 56(2)(x), gift of Rs.40,000 received from him by cheque is not chargeable to tax since the aggregate sum of money received by Smt. Lakshmi without consideration from non-relatives (other than on the occasion of marriage) during the previous year 2018-19 does not exceed Rs.50,000.	Nil
c)	Purchase of land for inadequate consideration on 01.12.2018 would attract the provisions of section 56(2)(x). Where any immovable property is received for an inadequate consideration then gift is equal to difference between Stamp Duty Value and Consideration, If such difference is more than the higher of Rs. 50,000 or 5% of consideration. Therefore, in the given case Rs.75,000 is taxable in the hands of Smt. Lakshmi.	75,000
d)	Since shares are included in the definition of "property" and difference between the purchase value and fair market value of shares is Rs.55,000 (Rs.1,15,000 - 60,000) i.e. it exceeds Rs.50,000, the difference would be taxable under section 56(2)(x).	55,000
	Amount chargeable to tax	**1,30,000**

PROBLEM NO.4

Tax implications under section 56(2)

a) Since paintings are included in the definition of "property", therefore, when paintings are received without consideration, the same is taxable under section 56(2)(x), as the aggregate fair market value of paintings exceed Rs.50,000.

Therefore, Rs. 2,00,000, being the value of painting gifted by his nephew, would be taxable under sec. 56(2)(x) in the hands of Mr. Tejpal, since "nephew" is not included in the definition of "relative" there under.

b) Any property received without consideration by a HUF from its relative is not taxable under section 56(2)(x).

Since Varma's son is a member of Varma HUF, he is a "relative" of the HUF. Therefore, if Varma HUF receives any property (shares, in this case) from its member, i.e., Varma's son, without consideration, then, the fair market value of such shares will not be chargeable to tax in the hands of the HUF, since gift received from a "relative" is excluded from the scope of section 56(2)(x).

c) The difference between the aggregate fair market value of shares of a closely held company and the consideration paid for purchase of such shares is deemed as income in the hands of the purchasing company under section 56(2)(viia), if the difference exceeds Rs. 50,000.

Accordingly, in this case, the difference of Rs.1,80,500 [i.e., (Rs.105 - Rs.86) × 9,500] is taxable under section 56(2)(viia) in the hands of Sunshine (P) Ltd.

d) The provisions of section 56(2)(viib) are attracted in this case since the shares of a closely held company are issued at a premium (i.e., the issue price of Rs. 18 per share exceeds the face value of Rs.10 per share) and the issue price exceeds the fair market value of such shares.

The consideration received by the company in excess of the fair market value of the shares would be taxable under section 56(2)(viib).

Therefore, Rs. 84,000 {i.e., (Rs.18 - Rs. 15) x 28,000 shares} shall be the income chargeable under section 56(2)(viib) in the hands of Bijali (P) Ltd.

e) As per section 145B, interest received on enhanced compensation shall be deemed to be the income of the previous year in which it is received, irrespective of the method of accounting followed by the assessee. Therefore, in this case, interest on enhanced compensation received by Mr. Sharan in January, 2019 shall be deemed to be the income of P.Y.2018-19, i.e., the year of receipt, irrespective of the method of accounting followed by him. Such interest is taxable under section 56(2)(viii).

Interest Income (Rs. 1,20,000 + Rs. 1,60,000 + Rs. 2,00,000 + Rs. 60,000)	Rs. 5,40,000
Less: Deduction under section 57(iv) @ 50% of Rs. 5,40,000	Rs. 2,70,000
	Rs. 2,70,000

PROBLEM NO.5

1. Tax implications on sale of a building representing a capital asset in the hands of Mr. Suraj, a salaried employee:

a) Tax implications in the hands of Mr. Suraj for A.Y.2019-20:

The building represents a capital asset in the hands of Mr. Suraj, a salaried employee. On sale of the building, the provisions of section 50C are attracted and Rs. 89 lakh, being the difference between the stamp duty value on the date of agreement (i.e., Rs. 150 lakh) and the purchase price (i.e., Rs. 61 lakh) would be chargeable as short-term capital gains in the hands of Mr. Suraj.

It may be noted that under section 50C, there is option to adopt the stamp duty value on the date of agreement, if the date of agreement is different from the date of registration and part of the consideration has been received on or before the date of agreement **by way of an account payee cheque or account payee bank draft or use of electronic clearing system through a bank account.**

b) Tax implications in the hands of Mr. Rohan for A.Y.2019-20:

The building purchased would be a capital asset in the hands of Mr. Rohan, who is engaged in the business of artificial jewellery. The provisions of section 56(2)(x) would be attracted in the hands of Mr. Rohan who has received immovable property, being a capital asset, for inadequate consideration. For the purpose of section 56(2)(x), Mr. Rohan can take the stamp duty value on the date of agreement instead of the date of registration since he has paid part of the consideration by a mode other than cash on the date of agreement.

Therefore, Rs.70 lakh, being the difference between the stamp duty value of the property on the date of agreement (i.e., Rs.150 lakh) and the actual consideration (i.e., Rs.80 lakh) would be taxable as per section 56(2)(x) under the head "Income from other sources" in the hands of Mr. Rohan.

Where any immovable property is received for an inadequate consideration then gift is equal to difference between Stamp Duty Value and Consideration, If such difference is more than the higher of Rs. 50,000 or 5% of consideration.

2. Tax implications if Mr. Suraj is a property dealer:

a) Tax implications in the hands of Mr. Suraj for A.Y.2019-20:

If Mr. Suraj is a property dealer who has sold the building in the course of his business, 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. For the purpose of section 43CA, Mr. Suraj can take the stamp duty value on the date of agreement instead of the date of registration since he has received part of the consideration by a mode other than cash on the date of agreement.

Therefore, Rs.89 lakh, being the difference between the stamp duty value on the date of agreement (i.e., Rs. 150 lakh) and the purchase price (i.e., Rs. 61 lakh), would be chargeable as business income in the hands of Mr. Suraj.

b) Tax implications in the hands of Mr. Rohan for A.Y.2019-20:

There would be no difference in the taxability in the hands of Mr. Rohan, whether Mr. Suraj is a property dealer or a salaried employee. Therefore, the provisions of section 56(2)(x) would be attracted in the hands of Mr. Rohan who has received immovable property, being a capital asset, for inadequate consideration. Consequently, Rs. 70 lakh, being the difference between the stamp duty value of the property on the date of agreement (i.e., Rs. 150 lakh) and the actual consideration (i.e., Rs. 80 lakh) would be taxable as per section 56(2)(x) under the head "Income from other sources" in the hands of Mr. Rohan.

Note: Rectify date in the problem 20^{th} October, 2017 as 20^{th} October 2018 to obtain above solution.

PROBLEM NO.6

Tax implications on sale of house property and rural agricultural land at a price lower than the stamp duty value:

1. Tax implications in the hands of Mr. Sunil:

As per section 50C, the stamp duty value of house property (i.e. Rs.78 lakh) would be deemed to be the full value of consideration arising on transfer of property. Therefore, Rs. 33 lakh (i.e. Rs. 78 lakh - Rs.45 lakh, being the purchase price) would be taxable as short-term capital gains in the A.Y.2019-20.

Since rural agricultural land is not a capital asset, the gains arising on sale of such land is not taxable in the hands of Mr. Sunil.

2. Tax implications in the hands of Mr. Ravi:

In case immovable property is received for inadequate consideration, the difference between the stamp value and actual consideration would be taxable under sec. 56(2)(x), if difference is more than the higher of Rs. 50,000 or 5% of consideration.

Therefore, in this case Rs. 8 lakh (Rs. 78 lakh - Rs. 70 lakh) would be taxable in the hands of Mr. Ravi under section 56(2)(x) as an income from other source.

Since rural agricultural land is not a capital asset, the provisions of section 56(2)(x) are not attracted in respect of receipt of rural agricultural land for inadequate consideration, since the definition of "property" under section 56(2)(x) includes only the capital assets specified there under.

3. TDS implications in the hands of Mr. Ravi:

Since the sale consideration of house property exceeds Rs. 50 lakh, Mr. Ravi is required to deduct tax at source under section 194-IA. The tax to be deducted under section 194-IA would be Rs. 70,000, being 1% of Rs.70 lakh. TDS provisions under section 194-IA are not attracted in respect of transfer of rural agricultural land.

PROBLEM NO.7

Taxability of certain transactions under section 56(2)(x)

	Taxable/ Non-taxable	Amount liable to tax (Rs.)	Reason
a)	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.
b)	Taxable	65,000	As per the provisions of section 56(2)(x), in case the aggregate fair market value of property, other than immovable property, received without consideration exceeds Rs.50,000, the whole of the aggregate value shall be taxable. In this case, the aggregate fair market value of shares (Rs.30,000) and jewellery (Rs.35,000) exceeds Rs.50,000. Niece is not covered within the definition of relative, hence, the entire amount of Rs.65,000 shall be taxable.
c)	Taxable	55,000	Sum of money exceeding Rs. 50,000 received without consideration from a non relative is taxable under section 56(2)(x). Son of Mr. Manish's sister is not a relative of Manish HUF, since he is not a member of Manish HUF.
d)	Non-taxable	Nil	Immovable property received without consideration by a HUF from its relative is not taxable under section 56(2)(x). Since Shivang is a member of the HUF, he is a relative of the HUF.

PROBLEM NO.8

i) Any movable property received for inadequate consideration by any person is chargeable to tax under section 56(2)(x), if the difference between aggregate Fair Market Value of the property and consideration exceeds Rs. 50,000.

Thus, share received by M/s B. Co. (P) Ltd. from Mr. B for inadequate consideration is chargeable to tax under section 56(2)(x) to the extent of Rs. 2,00,000.

As per section 50CA, since, the consideration is less than the fair market value of unquoted shares of R (P) Ltd., fair market value of shares of the company would be deemed to be the full value of consideration. It is presumed that the shares of R (P) Ltd are unquoted shares.

The full value of consideration (Rs. 5,00,000) less the indexed cost of acquisition (Rs. 4,55,000) would result in a long term capital gains of Rs. 55,000 in the hands of Mr. B.

ii) The provisions of section 56(2)(x) would not apply to any sum of money or any property received from any trust or institution registered under section 12AA. Therefore, the cash gift of Rs. 1 lakh received from Atma Charitable Trust, being a trust registered under section 12AA, for meeting medical expenses would not be chargeable to tax under section 56(2)(x) in the hands of Mr. Chezian.

PROBLEM NO.9

S.No.	Taxable / Not Taxable	Amount liable to tax (Rs.)	Reason
a)	Taxable	1,20,000	The exemption from applicability of section 56(2)(x) would be available if, inter alia, gift is received from a relative or 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 taxable in his hands under section 56(2)(x).
b)	Taxable	25,000	As per section 56(2)(viii), interest on enhanced compensation is taxable in the year in which it is received. Deduction of 50% in respect of the said income is allowed under section 57(iv). Therefore, Rs. 25,000 (i.e., Rs. 50,000 - Rs. 25,000) is taxable in the hands of Mr. Yogesh in the F.Y.2018-19.
c)	Taxable	48,000	As per section 145B(1), 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 Rs.96,000 on enhanced compensation is chargeable to tax in the year of receipt i.e. P.Y. 2018-19 under section 56(2)(viii) after providing deduction of 50% under section 57(iv). Therefore, 48,000 is chargeable to tax under the head "Income from other sources".

PROBLEM NO.10

Computation of Mr. Karan's Total Income for the Assessment Year 2019-20

Particulars	Amount (Rs.)	Amount (Rs.)
Income from House Property (Computed)		62,000
Income from Other Sources:		
Gift from his sister in Amsterdam	Nil	
Gift from his friend on his birthday	10,000	
Dividend from shares of various Indian Companies u/s 10 (34)	Nil	
Gift from Mother's Friend	25,000	
Gift from fiancée	75,000	
Interest on Bank Deposits (Fixed deposits)	25,000	1,35,000
Gross Total Income / Total Income		**1,97,000**

PROBLEM NO.11

Computation of income of Pankaj chargeable under the head "Income from other sources" for the A.Y. 2019-20

Particulars	Rs.	Rs.
1. Directors' fees		10,000
2. Interest on bank deposit		3,000
3. Income from undisclosed source (taxable @ 60% plus surcharge of 25% u/s 115BBE)		12,000
4. Royalty on books written **(See Note below)**	9,000	
Less: expenses	1,000	8,000
5. Lectures in seminars		5,000
6. Interest on loan given to a relative		7,000
7. Interest on listed debentures		
Net Received	3,600	
Add: T.D.S. @ 10% $\left(\frac{3,600 \times 10}{100-10}\right)$	400	4,000
8. Interest on Post Office Savings Bank [exempt under section 10(15)]		-
9. Interest on Government securities		2,200
10. Interest on Post Office Monthly Income Scheme		33,000
11. Winnings from lotteries (taxable @ 30% u/s 115BB) (Net)	35,000	
Add: T.D.S. @ 30% $\left(\frac{35,000 \times 30}{100-30}\right)$	15,000	50,000
Income from Other Sources		**1,34,200**

Note: Royalty income would be chargeable to tax under the head "Income from Other Sources", only if it is not chargeable to tax under the head "Profits and gains of business or profession". This problem has been solved assuming that the same is not taxable under the head "Profits and gains of business or profession" and hence, is chargeable to tax under the head "Income from other sources".

PROBLEM NO.12

Computation of amount chargeable to tax under the head "Income from other sources" in the hands of Mrs. Rupali for A.Y. 2019-20

	Particulars	Amount
(i)	Since shares are included in the definition of "property" and difference between the purchase value and fair market value of shares exceeds Rs.50,000 i.e., Rs.75,000 (Rs.1,55,000 - Rs.80,000), the difference would be chargeable to tax under sec. 56(2)(x)	75,000
(ii)	Any sum of money received by an individual on the occasion of the marriage of the individual is exempt. This provision is, however, not applicable to a cash gift received on the occasion of wedding anniversary. The gift of Rs.1,01,000 received from a non-relative is, therefore, chargeable to tax under section 56(2)(x) in the hands of Mrs. Rupali.	1,01,000
(iii)	The provisions of section 56(2)(x) are not attracted in respect of any sum of money or property received from a relative. Thus, the gift of platinum ring received from her brother (relative) is not taxable under section 56(2)(x), even though jewellery falls within the definition of "property".	NIL
(iv)	To be exempt from applicability of section 56(2)(x), the property should be received on the occasion of the marriage of the individual, not that of the individual's son or daughter. Therefore, this exemption provision is not attracted in this case. Any sum of money received without consideration by an individual is chargeable to tax under section 56(2)(x), if the aggregate value exceeds Rs.50,000 in a year. Since, the aggregate value of cash gifts received by Mrs. Rupali exceeds Rs. 50,000 during the	25,000

	previous year 2017-18, the cash gifts aggregating Rs. 25,000 received from her four friends would be chargeable to tax in her hands.	
(v)	The provisions of section 56(2)(x) are not attracted in respect of any sum of money or property received from a relative. Since maternal uncle is a relative, the amount of Rs. 49,000 received by way of cheque from him would not be chargeable to tax in her hands.	NIL
	Amount chargeable to tax under the head "Income from other Sources"	**2,01,000**

PROBLEM NO.13

Solution:

Income under the head 'Income from Other Sources' (For the assessment year 2019-20)

	Particulars	Amount (Rs.)
a)	12% IDBI debentures purchased directly from IDBI for 6 months	14,400
b)	12% IDBI debentures bought from market	28,800
c)	10% debentures of A Ltd. for 6 months	500
d)	10% debentures of B Ltd. for 1 month	100
e)	Dividend from Y Ltd.	Exempt
	Income under the head 'Income from Other Sources'	43,800
	TDS on item No. 1 will amount to Rs.1,440 TDS on item No. 2 will amount to Rs.2,880 TDS on item No. 3 and 4 will be Nil TDS on item No. 5 will be Nil	

SOLUTIONS TO ADDITIONAL PROBLEMS

PROBLEM NO.1

Solution:

Computation of total income of X for assessment year 2019-20

Particulars	Amount (Rs.)	Amount (Rs.)
Income from other sources (See note below)		26,08,500
Gross total income		26,08,500
Less: Deductions		
Under section 80C (Contribution to PPF account of mother not eligible)		-
Total Income		26,08,500
Note: Treatment of gifts received shall be as under:		
I. Immovable property received without consideration		
i) Gift of house A from friend (Stamp duty value)	6,00,000	
ii) Gift of house B (Stamp duty value Rs. 40,000 being less than Rs.50,000) (Value of each property should be taken separately)	Not taxable	6,00,000
II. Immovable property acquired for inadequate consideration		
Purchase of commercial property for inadequate consideration (Rs.90,00,000 - Rs.72,00,000)		18,00,000
III. Movable property received without consideration		
Gift of preference shares (market value Rs.4,500) (Aggregate value of gift of movable property does not exceed 50,000)		Not taxable
IV. Movable property acquired for inadequate consideration		
(Taxable if aggregate value exceeds Rs.50,000)		
i) Purchase of car (not a property within the meaning of section 56(2)(x)	Not taxable	

ii) Purchase of work of art (Rs.5,30,000 FMV - Rs.5,00,000 purchase price)	30,000	
iii) Purchase of jewellery (Rs.7,25,000 - Rs.7,00,000)	25,000	
iv) Purchase of painting (not taxable as brother of wife is a relative)	-	55,000
V. Gift of sum of money		
i) Gift from friend	1,00,000	
ii) Gift received by minor son (Rs.55,000 less exempt Rs.1,500)	53,500	1,53,000
Income from other sources		26,08,500

PROBLEM NO.2

Solution:

Computation of total income of R for the assessment year 2019-20

Particulars	Amount (Rs.)	Amount (Rs.)
Income under the head salary (computed)		8,00,000
Income under the head house property		4,00,000
Income from other sources	16,00,000	
Less: Exemption u/s 10(34)	10,00,000	
Balance taxable	6,00,000	
Income from winnings of lottery	80,000	6,80,000
Gross total income		18,80,000
Less: Deductions u/s 80C to 80U		Nil
Total Income		18,80,000
Tax payable		
Tax on dividends exceeding Rs.10,00,000 (Rs.6,00,000 x 10%) u/s 115BBDA		60,000
Tax on lottery Income (Rs.80,000 x 30%)		24,000
Tax on balance total income of Rs.12,00,000		
Upto Rs. 2,50,000	Nil	
Tax on Next Rs.2,50,000 @ 5%	12,500	
Tax on Next Rs.5,00,000 @ 20%	1,00,000	
Tax on balance income 2.00,000 @ 30%	60,000	1,72,500
Tax		2,56,500
Add: Health and Education Cess @ 4%		10,260
Total Tax Payable		2,66,760

PROBLEM NO.3

Solution:

Computation of income for the assessment year 2019-20

Particulars	X (Rs.)	Y (Rs.)	Z (Rs.)
Due date of interest falling in the previous year 2018-19	November 30, 2018	May 15, 2018	June 30, 2018
Amount of interest income [see Notes 1, 2 and 3]	5,589	Nil	44,000
Less: Interest on borrowed capital [see Note 4]	(8,137)	(15,210)	(32,758)
Income from other sources	(2,548)	(15,210)	11,242

Computation of income for the assessment year 2020-21

Due date of interest falling in the previous year 2019-20	November 30, 2019	May 15, 2019	June 30, 2019
Amount of interest income [see Note 1]	10,000	19,781	44,000
Less: Interest on borrowed capital	(9,000)	(16,000)	(40,000)
Income from other sources	1,000	3,781	4,000

Notes:

1. Normally, interest is payable on the due date specified in terms of allotment for the full period. For instance, if interest is payable once in a year, then interest of the full year is payable to the person who is the owner of debentures on that date. Likewise, if interest is payable twice in a year, then whosoever is the registered holder of these debentures will get half yearly interest on each of the due dates. However, in the case of public issue, the first interest is payable from the date of allotment till the first due date as per the terms of allotment. X has been allotted debentures of A Ltd. at the time of public issue. According to the terms of allotment, he has been paid interest by A Ltd. on November 30, 2018 for the broken period commencing on May 10, 2018 to November 30, 2018 (204 days ÷ 365 days x Rs. 10,000).

2. Y has also acquired debentures at the time of public issue of B Ltd. As per terms of allotment, no interest is paid by B Ltd. on May 15, 2018. Consequently, nothing is taxable in the hands of Y for the previous year 2018-19. For the next year, income of Y will include interest for the period commencing from April 30, 2018 to May 15, 2019.

3. Z has purchased debentures from B on ex-interest basis. In simple words, the term "ex-interest" means the next interest immediately after this transaction will be given to the seller. Consequently, the interest received by Z on June 30, 2018 is given to the seller B. However, under the Income-tax Act, Z is chargeable to tax in respect of interest of Rs. 44,000 received by him on June30, 2018, since he is the registered owner of the debentures on the said date. The cost of acquisition of these debentures in the hands of Z would be Rs. 4,44,000 (i.e., Rs. 4,00,000 + Rs. 44,000). To put it differently, B, the seller, is not chargeable to tax in respect of interest of Rs. 44,000, since he is not the registered holder of these debentures on June 30, 2018. Rs. 44,000 received by B would be part of sale consideration. The capital gain in the hands of B would be calculated as follows:

Particulars	Amount (Rs.)
Sale consideration (Rs. 4,00,000 + Rs. 44,000)	4,44,000
Less: Cost of acquisition (indexation benefit is not available in case of debentures)	(3,80,000)
Long-term capital gains	64,000

4. Interest on borrowed capital is calculated from the date of borrowing till the end of the previous year.

THE END