

7. INCOME FROM OTHER SOURCES

MODEL WISE ANALYSIS OF PAST EXAM PAPERS OF IPCC & CA INTER

Concept No.	M-11	N-11	M-12	N-12	M-13	N-13	M-14	N-14 TO N-15	M-16	N-16 TO N-17	M-18 (O)	M-18 (N)	N-18 (O)	N-18 (N)	M-19 (O)	M-19 (N)	N-19 (O)	N-19 (N)	N-20(N)	N-20(O)	J-21(N)	J-21(O)
1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3	4	-	-	-	-	-	-	-	4	-	-	3	-	-	-	-	-	-	-	-	-	-
4.1	-	-	-	-	-	-	-	-	2	-	-	-	-	-	-	-	4	-	-	-	-	-
4.2	-	-	-	8	-	-	-	-	4	-	-	-	-	-	-	-	-	-	-	-	-	3
4.3	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
5	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
6	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
7	-	-	-	-	-	4	4	-	-	-	-	-	-	-	-	-	-	-	-	-	2	-
8	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
9	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
10	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
11	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12	-	-	-	-	-	-	-	-	-	-	-	-	2	-	-	-	-	-	-	-	-	-
13.1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4	-	-	-
13.2	-	-	-	-	-	-	-	-	-	-	3	-	-	-	-	-	-	-	-	-	-	-
14	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
15	-	-	-	-	-	-	-	-	-	-	-	-	5	-	-	-	-	-	-	-	-	-

SIGNIFICANCE OF EACH PROBLEM COVERED IN THIS MATERIAL

Problem No. in this material	Problem No. in NEW SM	Problem No. in OLD SM	Problem No. in OLD PM	RTP	MTP	Previous Exams	Remarks
CR 1	ILL 5	ILL 3	-	-	N 17	-	
CR 2	ILL 3	ILL 1	-	N 17	-	-	
CR 3	ILL 4	ILL 2	-	-	-	M18 (N) - 3M	
CR 4	-	-	PQ 5	-	-	-	
CR 5	-	-	PQ 8	-	-	-	
CR 6	ILL 6, PQ 3	ILL 4	PQ 2	M 17	-	-	
CR 7	-	-	PQ 7	-	N18 (N & O)	M 16 - 2M	
CR 8	PQ 6	-	PQ 8	-	-	-	
CR 9	-	-	-	-	-	N 09 - 6M	
CR 10	-	-	-	-	-	-	
CR 11	-	-	-	-	-	N18 (O) - 5M	
AS 1	PQ 4	-	PQ 3	-	-	M 11 - 4M	
AS 2	-	-	-	-	-	-	

AS 3	TYK 12	-	PQ 6	M18 (N & O)	-	-	
AS 4	-	-	-	N 14	-	-	
AS 5	-	-	-	N 14	-	-	
AS 6	-	-	-	M 14	-	-	
AS 7	-	-	-	N 13	-	-	
AS 8	PQ 5	-	PQ 4	-	-	-	
AS 9	PQ 2	-	PQ 1	N 15	-	-	
AS 10	TYK 11	-	EX 11	-	-	-	
AS 11	PQ 7	-	PQ 9	-	-	-	
AS 12	-	-	-	N 16	-	-	

SEC.'S TO BE REMEMBERED:

Sec.56	Charging Sec.
Sec.57	Admissible expenses

CHAPTER OVERVIEW

SECTION	TOPIC	STARTING PAGE NO.
1.	THEORY FOR CLASSROOM DISCUSSION	7.2
2.	PROBLEMS FOR CLASSROOM DISCUSSION	7.13
3.	PRINTED SOLUTIONS TO CLASSROOM DISCUSSION	7.17
4.	ASSIGNMENT PROBLEMS	7.22
5.	ADDITIONAL QUESTIONS FOR STUDENTS SELF STUDY	7.25
6.	PAST EXAM QUESTIONS	7.26

SECTION 1: THEORY FOR CLASSROOM DISCUSSION**1. CHARGING SECTION - Sec.56 (1)**

The Income of every kind which is not exempted, shall be chargeable to tax under the head Income from other sources if it is not chargeable to tax under any of the heads specified in Sec.14 items a to e. In other words, the following conditions must be satisfied before an income can be taxed under the head "Income from Other Sources":

- 1) There must be an income.
- 2) Such income is not exempt under the provisions of this Act.
- 3) Such income is not chargeable to tax under any of the previous heads of income.

2. METHOD OF ACCOUNTING - Sec.145

Income chargeable under this head shall be computed in accordance with cash or mercantile basis as regularly employed by assessee.

3. INCOMES CHARGEABLE UNDER THIS HEAD - Sec.56 (2)

- 1) Dividend (Includes Deemed Dividend)
- 2) Casual Incomes such as income in the nature of winning from lotteries, crossword puzzles, races including horse races, card games and other games of any sort, gambling, betting etc.

- 3) Any Interest on Compensation/Enhanced Compensation received. Taxable in the year of receipt. (Sec.56(2)(viii))
- 4) Gift (Sec.56(2)(x)).
- 5) **Advance forfeited due to failure of negotiations for transfer of a capital asset to be taxable as "Income from other sources" [Section 56(2)(ix)]:** Any sum of money received as an advance or otherwise in the course of negotiations for transfer of capital asset.
 - a) If such sum is forfeited and
 - b) The negotiations do not result in transfer of such capital asset.

NOTE: However, advance received and forfeited prior to 01-04-2014 should be reduced from of cost of acquisition (before indexation) as per section 51 of capital gains. i.e., such amount is taxable under the head capital gains.

4.1. SHARE PREMIUM IN EXCESS OF THE FAIR MARKET VALUE TO BE TREATED AS INCOME [SEC.56(2)(viib) IW.E.F. A.Y. 2013-14]

- 1) **SUBSCRIBER:** Any Person, being resident in India.
- 2) **RECIPIENT:** A Company (Not being a company in which public are substantially Interested).
- 3) **TAXABLE EVENT:** Consideration for issue of shares exceeds the face value of such shares (i.e. shares issued at premium).
- 4) **TAXABLE AMOUNT:** The Aggregate Consideration received as exceeds the FMV of shares.
- 5) **EXEMPTION:** The above provision shall not apply where the consideration for issue of shares is received by a Venture Capital Undertaking from a Venture Capital Company or a Venture Capital Fund or **specified fund** as may be notified by C.G. (or) by a company from a class or classes of persons as notified by the Central Government for this purpose.
- 6) **FAIR MARKET VALUE OF SHARE:** Higher of
 - a) Determined with prescribed method (or)
 - b) Substantiated by the co. to the satisfaction of the Assessing Officer, based on the value of its assets on the date of issue of shares

NOTE: Fair Market Value: value of assets including value of intangible assets (being goodwill, know-how, patents, copyrights etc.)

SPECIFIED FUND: It means a fund established or incorporated in India in the form of a trust or a company or a LLP or body corporate which has been granted a certificate of registration as a Category I or a Category II Alternative Investment Fund and is regulated under the SEBI (Alternative Investment Fund) regulations, 2012.

EXPLANATION WITH AN EXAMPLE:

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

Company	No. of shares	F.V. of shares (Rs.)	FMV of shares (Rs.)	Issue price of shares (Rs.)	Applicability of section 56(2)(viib)
A (P) Ltd.	10,000	100	120	130	The provisions of section 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 would be taxable under section 56(2)(viib). Rs. 1,00,000 [10,000 × Rs. 10 (Rs. 130 - Rs. 120)] shall be treated as income in the hands of A (P) Ltd.
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 would be taxable under section 56(2)(viib). Therefore, Rs. 8,00,000 [40,000 × Rs. 20 (Rs. 110 - Rs. 90)] shall be treated as income in the hands of D (P) Ltd.

4.2. TAXABILITY OF ANY SUM OF MONEY OR VALUE OF PROPERTY RECEIVED WITHOUT CONSIDERATION OR FOR INADEQUATE CONSIDERATION - TAXABLE IN RECIPIENT HANDS

[Sec. 56(2)(x)] (APPLICABLE TO TRANSACTIONS ON OR AFTER 01.04.2017)

Gifts arising out of employment at any case will be taxable under the salaries head. Gifts arising in the course of business/ profession at any case will be taxable under the PGBP head. Gifts other than those mentioned above will be taxable under this head.

- 1) **APPLICABILITY:** Any person being the recipient.
- 2) **TAXABILITY:** Any sum of money or value of property received without consideration or for inadequate consideration to be subject to tax in the hands of **any person** being the recipient of such sum of money or value of property, under the head Income from Other Sources -

Nature of the Asset	Taxable Value
Money (aggregate)	If the aggregate amount received in the year exceeds Rs. 50,000, then the whole amount will be taxable.
Movable Property (aggregate)	Without consideration: The aggregate fair market value of the properties, if it exceeds Rs.50,000. Inadequate consideration: The difference between the aggregate fair market value and the consideration, if such difference exceeds Rs. 50,000.
Immovable Property (Individual/ Single)	Without consideration: The stamp value of a property, if it exceeds Rs. 50,000. Inadequate consideration: The difference between the stamp duty value and the consideration, if such difference is more than the higher of Rs.50,000 and 10% of consideration.

3) **IMMOVABLE PROPERTY:**

- a) If the property received for no consideration or inadequate consideration, Sec.56(2)(x) triggers to tax the difference between the stamp duty value and the consideration so paid in order to curb the transactions where the transfer of property involved at a very nominal consideration or no consideration.
- b) The value of the property as on the date of agreement can be considered, If -
 - i) The value of consideration should be determined as on the date of agreement **and**
 - ii) The date of agreement and the date of registration are different **and**
 - iii) The whole or part of the consideration was received on or before the date of agreement by way of account payee cheque / draft / by use of electronic payment system (ECS)
- c) If the stamp duty value of immovable property was disputed by the assessee, the Assessing Officer may refer the valuation of such property to a Valuation Officer.

4) **EXCEPTIONS:** Gifts received from the following persons / situations are **not taxable**-

- a) From a Relative, or
- b) On the occasion of the marriage of the Individual, or
- c) Under a Will or by way of Inheritance, or
- d) In contemplation of death of the Payer or Donor (applicable only for movable properties), or

- e) From any Local Authority, or
- f) From any Fund / Foundation / University / Educational Institution or Hospital or other Medical Institution or Trust or Institution referred u/s 10(23C), or
- g) From any Trust / Institution registered u/s 12AA.
- h) By any fund or trust or institution or any university or other educational institution or any hospital or other medical institution as referred in Sec.10(23C).
- i) By way of transaction not regarded as transfer under section 47(i)/(iv)/(v)/(vi)/(vib)/(vid)/(vii).

In order to facilitate the transaction of money or property between a wholly owned subsidiary company and its holding company, transfer of money or property between a holding company and its wholly owned Indian subsidiary company or between a subsidiary company and its 100% Indian holding company, shall not be subject to tax by virtue of the provisions contained in section 56(2)(x).

- j) From an individual by a trust created or established solely for the benefit of relative of the individual.

OTHER POINTS:

1) RELATIVE MEANS:

a) In case of an Individual -

- i) Spouse of the Individual,
- ii) Brother or Sister of the Individual,
- iii) Brother or Sister of the Spouse of the Individual,
- iv) Brother or Sister of either of the Parents of the Individual,
- v) Any lineal ascendant or descendant of the Individual,
- vi) Any lineal ascendant or descendant of the Spouse of the Individual,
- vii) Spouse of the Person referred to in clauses (i) to (vi) above.

b) In case of a HUF - Any Member

- 2) It may be remembered the term lineal ascendant or descendant would cover an ascendant or descendant within 3 degrees from the individual the lineal ascendants being the parents, grandparents and great grandparents of the individual and the lineal descendants being the children, grandchildren and great grandchildren of the individual. The definition of the term relative for this purpose is much wider in its scope than the definition as contained in Sec.2 (41). (Beneficial to the assessee)
- 3) "Property" for this purpose means the following capital asset of the assessee (i.e. recipient): (i) Immovable property being land or building or both; (ii) Shares and securities; (iii) Jewellery; (iv) Archaeological collections; (v) Drawings; (vi) Paintings; (vii) Sculptures; (viii) Any work of art, or (ix) With effect from June 1, 2010 it includes bullion.
- 4) It may be noted that the above provision will have application to the 'property' which is in the nature of a capital asset but not being stock in trade of the recipient.

4.3. SECTION 56(2)(XD): COMPENSATION OR ANY OTHER PAYMENT RECEIVED IN CONNECTION WITH TERMINATION OF HIS EMPLOYMENT

Any compensation or any other payment, due to or received by any person, by whatever name called, in connection with the termination of his employment or the modification of the terms and conditions relating thereto shall be chargeable to tax under this head. (From 01/04/2019)

5. INCOME CHARGEABLE ONLY IF IT IS NOT CHARGEABLE U/S 28 (i.e. PGBP)

- 1) INTEREST ON SECURITIES: Interest is computed on due basis but is chargeable to tax as per the method of accounting followed by the assessee.
 - a) Interest on securities falls due on the date specified by the issuing authority. These dates are either quarterly or half yearly or yearly. It means that the amount of interest to be charged to tax does not depend upon the holding period of securities. It depends that, on the date of when interest falls due, whose name appears in the register of security holders kept with the company.

- b) Whole of interest which falls due on the due date is chargeable to tax, to that person, even if the securities are held by him for a day.
- c) Whole of such interest which falls due to an assessee is chargeable to tax in a particular PY as per the method of accounting followed by the assessee.
- d) Interest on securities is chargeable under IFOS even if the person is engaged in business of sale or purchase of securities.

TIT BIT 1:

Mr. Ravan on 11.12.2018 purchases 7% p.a. unlisted debentures of Santosh Ltd. par value Rs.3,00,000. On 25.12.2020 he sells 50% of his debentures. Due date of Interest is Jan.1st of every year. He received his interest income on 31.05.2020 and 31.05.2021 respectively. Compute interest income chargeable to tax for the AY 2020-21, 2021-22 and 2022-23 if

- a) He maintains account on accrual basis.
- b) He maintains account on cash basis.

SOLUTION:**CASE(A): Accrual basis**

Due date	Debentures held on due date	Interest Accrued	Chargeability
01.01.2020	3,00,000	21,000	A.Y. 2020-21
01.01.2021	1,50,000	10,500	A.Y. 2021-22

CASE(B): Cash basis

Due date	Received date	Debentures held on due date	Interest Accrued on due date	Chargeability
01.01.2020	31.05.2020	3,00,000	21,000	A.Y. 2021-22
01.01.2021	31.05.2021	1,50,000	10,500	A.Y. 2022-23

(TEACH PROBLEM NO.12 OF CLASSROOM DISCUSSION)

- 2) Any sum collected by the employer from their employees towards their share of contribution to any welfare fund or scheme.
- 3) Income from letting out on hire of machinery, plant or furniture.
- 4) **INCOME FROM COMPOSITE LETTING OF MACHINERY ETC.:** Income from letting of Plant and Furniture together with building, if the letting of building is inseparable to the letting of other Assets. For e.g. where a cinema building is given on lease under a leased deed which indicates that the lease in respect of theatre as such included furniture and other articles therein, rental income there from is taxable under the head "Income from other sources". Another e.g. letting hotel building and furniture.

6. INCOME CHARGEABLE ONLY IF IT IS NOT CHARGEABLE U/S 15 (i.e. SALARIES)

- 1) Remuneration received by person from a person other than his employer.
E.g. Examination remuneration received by a teacher from a university.
- 2) Directors sitting fees.
- 3) Family pension received by family members of deceased employee.
- 4) Salaries of MP'S & MLA's etc.
- 5) Any sum received under a key man insurance policy including bonus, when it is received by any person other than the employee (E.g. Legal heirs). (If such sum is received by any person other than the employer who took the policy and the employee in whose name the policy was taken.)
- 6) Commission to LIC agents.

Copyrights Reserved To **MASTER MINDS COMMERCE INSTITUTE PVT.LTD.**

7. INCOME CHARGEABLE ONLY IF IT IS NOT CHARGEABLE UNDER OTHER HEADS

- 1) Agricultural income received from outside India.
- 2) Income from sub-letting.
- 3) Interest on bank deposits and loans.
- 4) Income from royalty (for non-professional writers, mines etc.)
- 5) Ground rent / Rent of plot of land.
- 6) Honorarium.
- 7) Interest on contribution to URPF (on employee contribution).

8. EXPENSES DEDUCTIBLE UNDER THIS HEAD (Sec.57)

- 1) In respect of interest income, dividend income any reasonable expenses, incurred by way of commission or remuneration for realisation of such income is deductible. (i.e. Collection charges)
- 2) In respect of any sum collected from employees towards the welfare fund contribution, deduction shall be allowed to the extent the amount is paid within the due date.
- 3) In respect of family pension, 1/3rd of the pension or 15,000 whichever is less, shall be allowed deduction. However, if such family pension was received by the widow or children or nominated heirs of the deceased member of Indian armed forces (includes para-military forces), then 100% pension shall be exempt under Sec. 10(19) and

The family pension received by any member of the family of an individual who had been in the service of CG or SG and had been awarded "Param Vir Chakra" or "Vir Chakra" or "Vir Chakra" or other notified gallantry awards would be exempt under section 10(18)(ii).

- 4) In respect of income earned by way of lease rental or letting of Plant, Furniture with or without building the following shall be deducted.
 - a) Repairs on such buildings, Machinery, furniture etc.
 - b) Insurance and Depreciation on such assets.
- 5) In respect of interest on compensation or enhanced compensation received, a sum equal to 50% of such interest income can be availed as deduction u/s 57(iv). No double deduction is allowed.

DEDUCTIONS FROM DIVIDEND INCOME: Provided that no deduction shall be allowed from the dividend income, or income in respect of units a Mutual fund specified under section 10(23D), other than deduction on account of interest expense, and in any previous year such deduction shall not exceed 20% of the dividend income, or income in respect of such units, included in the total income for that year, without deduction under this section.

Example: Mr. X invested 10,00,000 in shares of Domestic company. Mr. X received Rs 1,50,000 as dividend from Domestic company. Mr. X bought a loan of 10,00,000 from SBI @10% to invest in Domestic company. Compute IFOS in the hands of Mr. X for the A.Y 21-22

SOLUTION:

Computation of IFOS in the hands of Mr. X for the A.Y 21-22

Dividend received		1,50,000
Less: Expenses allowed u/s 57:		
Interest paid to SBI(10,00,000X10%)	1,00,000	
Maximum interest allowed (1,50,000x20%)	30,000	<u>30,000</u>
IFOS		<u>1,20,000</u>

(TEACH PROBLEM NO.6 OF CLASSROOM DISCUSSION)

- 6) Any other expenditure satisfying the following conditions (Sec.57(iii))*:
 - a) It should not be a capital expenditure.

- b) It should be incurred during previous year.
- c) It should not be a personal expenditure.
- d) It should have been expended wholly & exclusively for earning the income.

* Sec.57(iii) is similar to Sec.37(1).

9. INADMISSIBLE EXPENDITURE - SEC.58

- 1) Income tax.
- 2) Any personal expense.
- 3) Interest or salary payable outside India, if tax has not been paid or deducted at source.
- 4) No deduction shall be allowed in respect winnings from lotteries, crossword puzzles, betting, card games, TV shows, gambling & races including horse races etc. (Where a certain % has to be foregone by the winner to the Government/agency conducting the lotteries, it is deductible).
- 5) **Sec. 58(2)** specifically provides that the disallowance of payments to relatives and associate concerns and disallowance of payment or aggregate of payments exceeding **Rs.10,000** made to a person during a day otherwise than by account payee cheque or draft or **ECS through bank account covered by section 40A(3)** will be applicable to the computation of income under the head 'Income from other sources' as well.
- 6) **30% of expenditure shall not be allowed**, in respect of a sum which is payable to a resident and on which tax is deductible at source, if
 - a) such tax has not been deducted or
 - b) Such tax after deduction has not been paid on or before the due date of return specified in section 139(1).

NOTE: Refer the provisions relating to Sec.40(a)(ia) and Sec.40(a)(i).

10. TAXABILITY ON WINNINGS FROM LOTTERIES ETC. (SEC.115BB)

Incomes covered	Winnings from lotteries, Horse races, Crossword puzzles, etc. (called as special incomes)
Conditions to be fulfilled	<ol style="list-style-type: none"> a) No deduction in respect of any expenditure or allowance in connection with such income shall be allowed (See Note 2). b) No deduction is allowed under Chapter VI A (Sec.80A to 80U) shall be allowed. c) No losses can be set off or carry forward
Applicable tax rate under Sec.115BB	Flat rate of 30% (For all assessee's same rate) + Applicable surcharge + Education cess on the gross winnings)

NOTE:

- 1) Adjustment of **unexhausted basic exemption limit is also not permitted** against the Casual income.
- 2) Expenses incurred in respect of **owing and maintaining of race horses are ALLOWED** as deduction while computing income of the assessee. Resulting **losses** if any can also be set off or carry forward U/S.74A.

TIT BIT 2:

(NEW SM)

Examine under which heads the following incomes are taxable:	Answer
a) Rental income in case property held as stock-in-trade for 3 years	IFHP
b) Dividend on shares in case of a dealer in shares	IFOS
c) Salary received by a partner from his partnership firm	PGBP
d) Rental income of machinery	PGBP/IFOS
e) Winnings from lotteries by a person having the same as business activity	IFOS
f) Salaries payable to a Member of Parliament	IFOS

g) Receipts without consideration	IFOS
h) In case of retirement, interest on employee's contribution if provident fund is unrecognized.	IFOS
i) Rental income in case of a person engaged in the business of letting out of properties.	PGBP

11. DEEMED INCOME - Sec.59

Similar to Sec.41(1).

12. TAXABILITY OF DIVIDEND INCOME IN THE HANDS OF SHAREHOLDER

Applicability	Any dividend within the meaning Sec.2(22) declared by a company or distributed or paid
Year of chargeability	P.Y. in which the dividend declared/ distributed/ paid by a company (Sec.8). However, in the case of interim dividend the year of chargeability is the P.Y. in which the amount of such dividend is unconditionally made available by the company to the member who is entitled to it.

- 1) **TAXABILITY OF DIVIDENDS IN HANDS OF SHAREHOLDERS AT NORMAL RATES:** Prior to the amendments made by Finance Act, 2020, dividend income was chargeable to Dividend Distribution tax(DDT) or more commonly known as Corporate dividend tax(CDT) at a flat rate of 15% plus applicable surcharge and cess. Accordingly, the dividend income was exempt in the hands of the recipient shareholders under section 10(34). However, Finance Act, 2020 has shifted the incidence of charge of tax on dividend income in the hands of recipient shareholders, thereby making the provisions of DDT/CDT redundant w.e.f. 01.04.2020. Therefore, w.e.f. A.Y. 2021-22, dividend income(including deemed dividend) shall be chargeable to tax in the hands of recipient shareholders at the normal rates.
- 2) **SURCHARGE ON DIVIDEND INCOME RESTRICTED TO 15%:** As per Finance Act, 2020, in case of individuals and HUF, the surcharge on dividends and capital gains referred to in section 111A/112A shall not exceed 15%.
 - a) **Sec 115BBDA:** This section will be inactive from the A.Y 21-22, because the domestic dividends are now taxable in the hands of shareholders.
 - b) **Sec 115(O)(DDT):** DDT is removed from the A. Y.21-22, it means, the Domestic companies are not required to pay tax on dividend distributed by them, it will be taxable in the hands of recipient i.e shareholders.
 - c) **Sec 10(34): Exemption of domestic dividends:** From the A.Y 2021-22, dividends declared by Domestic company & Deemed dividends are now taxable in the hands of share holders, because DDT u/s 115O is now removed.
 - d) **Sec 115R:** Tax on distributed income to unit holders is removed from the A.Y 2021-22. It means the specified company/ mutual fund is not required to pay tax on income distributed by them. It will be taxed in the hands of recipient (i. e unit holders).
 - e) **Sec 10(35): (Exemptions of income distributed by specified company/ mutual fund):** From the A.Y 2021-22, This exemptions is not available because the specified company/ mutual fund not liable to pay tax on distributed amount(115R). Now such distributed amount will be taxable in the hands of unit holders.

13.1. DEEMED DIVIDEND - Sec.2 (22)

DEEMED DIVIDENDS: For the purpose of income tax, Dividend is a wider term than what is understood in common parlance. The act provides an inclusive definition of dividend in Sec. 2(22), and covers the following distributions and payments-

- 1) **Distribution of accumulated profits**, whether capitalized or not, when such distribution was made by the company to its shareholders, **entails the release of all or any part of such company's assets (Sec. 2(22)(a)).**

For E.g., If a company distributed its accumulated profits by way of issuing shares (i.e. issue in kind) entailing the release of company's assets, then the Market value of those shares shall be treated as deemed dividend in the hands of the shareholder (i.e. Recipient).

- 2) **Distribution made to its shareholders by a company of debentures, debenture- stock or deposit certificates** in any form, with or without interest and distribution of **bonus shares to preference shareholders**, to the extent the company possesses accumulated profits, whether capitalized or not (**Sec. 2(22)(b)**).

Bonus shares	Market value of such shares shall be taxable in the hands of preference shares. Bonus shares given to equity shareholders are not treated as dividend.
Debentures, debenture stock, etc.	Market rate. If not, it shall be valued according to the accepted principles valuation.

- 3) **Distribution made to its shareholders by a company on liquidation**, to the extent such distribution is attributable to the accumulated profits** of the company immediately **before its liquidation**, whether capitalized or not. Any distribution **after** the date of liquidation cannot amount to dividend. It is a repayment towards capital (**Sec. 2(22)(c)**).

** In the case of compulsory acquisition of an undertaking by the Govt., the accumulated profits do not include any profits of the company prior to the 3 successive previous years immediately preceding the previous year in which such acquisition took place.

- 4) **Distribution made to its shareholders by a company on reduction of capital**, to the extent the company possesses accumulated profits, whether such profits are capitalized or not (**Sec.2(22)(d)**).
- 5) **Sec.2(22)(e): Payment of any sum by a company in which the public are not substantially interested (Closely Held Company)**, by way of advance or loan, **to the extent the company possesses accumulated profits**, to-

- A shareholder, who is the beneficial owner of shares carrying not less than 10% voting power.
- Any concern (i.e. HUF/ Firm/ AOP/ BOI/ Company) in which such shareholder is a member or partner, having beneficial entitlement to not less than 20% of such concern's income.
- Any payment on behalf, or for the individual benefit of such shareholder.

6) **NON APPLICABILITY:**

In the following cases, the concept of deemed dividend will never get activated (i.e. **Exceptions**)

- If the loan is granted in the ordinary course of the assessee's business as a substantial part of its business.
- The deemed dividend taxed earlier shall be deducted from the loan amount of the borrowing shareholder as a part the dividend declaration to all of its shareholders including the borrowing shareholder.
- In the case of Buyback of shares.
- In the case of demerger, distribution of shares by the resulting company to the shareholders of the demerged company irrespective of the fact that there is a reduction of share capital in the demerged company or not.

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

- Is the amount of loan taxable as deemed dividend in the hands of Rahul, if the company is a company in which the public are substantially interested?
- 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)? (**NEW SM, OLD SM, SIMILAR: RTP N18 (N&O)**)

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.

- 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 in the hands of Rahul.

- 2) 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 in the hands of Rahul would be limited to the accumulated profit i.e., Rs.4,00,000 and not the amount of loan which is Rs. 5,00,000.

14. EXEMPTION OF INTEREST INCOME - Sec.10(15)

(FOR STUDENTS SELF STUDY)

Income by way of interest from the following investments is exempt

- 1) *Notified securities, bonds, annuity certificates or other saving certificates (Notified by C.G)*
- 2) *Securities held by the Issue Department of Central Bank of Ceylon constituted under the Ceylon Monetary Law Act, 1949.*
- 3) *12 year National Savings Annuity Certificates.*
- 4) *Treasury savings Deposit Certificates.*
- 5) *Post office Cash Certificates.*
- 6) *National Plan Certificates.*
- 7) *National Plan Saving Certificates.*
- 8) **Post office National Savings Certificates.**
- 9) **Post office Savings Bank Accounts (Exempted up to Rs.3,500 in case of Individual accounts and Rs.7,000 in case of Joint accounts).**
- 10) *Post office Cumulative Time Deposits.*
- 11) *Scheme of Fixed Deposits governed by the Government Savings Certificates (Fixed Deposits) Rules 1968.*
- 12) *Scheme of Fixed Deposits governed by the post Office (Fixed Deposits) Rules 1968.*
- 13) *"NRI Bonds 1998" issued by the State Bank of India.*
- 14) *"NRI Bonds (Second series)" issued by the State Bank of India.*
- 15) *Tax free, secured, redeemable, non-convertible Bonds of the Indian Railway Finance Corporation Ltd. (IRFCL), National Highways Authority of India (NHA), Power Finance Corporation (PFC), Jawaharlal Nehru Port Trust, Dredging Corporation of India Limited, Ennore Port Limited and The Indian Renewable Energy Development Agency Limited, 10.5% Tax free Bonds issued by HUDCL.*
- 16) *Interest payable by a public company which has the main object of providing long term finance for purchase or construction of residential houses & eligible for deduction U/s. 36 (i) (viii) (Special reserve).*
- 17) **Interest on Gold Deposit Bonds issued under the Gold Deposit Scheme, 1999 or deposit certificates issued under the Gold Monetization Scheme, 2015.**
- 18) *Interest on bonds issued by a local authority and specified by the Central Government.*
- 19) *Interest on notified bonds issued by a local authority or by a State Pooled Finance Entity.*
- 20) *Non-Residents or Not Ordinarily Resident in India received Income on deposits made on or after 1.4.2005 in an Offshore Banking Unit (i.e. Branch of a Bank located in a SEZ by obtaining permission)*
- 21) *Interest payable to any bank incorporated in a country outside India and authorised to perform central banking functions in that country on any deposits made by it, with the approval of the RBI, with any scheduled bank.*
- 22) *Interest payable to the Nordic Investment Bank, on a loan advanced by it to a project approved by the Central Government in terms of the Memorandum of Understanding entered into by it.*
- 23) *Interest payable to the European Investment Bank, on a loan granted by it in pursuance of the framework agreement for financial co-operation entered into by the C.G.*

- 24) Interest on securities held by the Welfare Commissioner, Bhopal Gas Victims, Bhopal, in the Reserve Bank's Account.
- 25) Interest Payable by the Government of India on deposit made by an employee of the Central or State Government or a public sector company in accordance with the scheme **as may be notified** of the moneys due to him on account of his retirement while on superannuation or otherwise. It is significant that this scheme is not applicable to non-Government employees.
- For this purpose, interest shall not include interest paid on delay payment of loan or default which is more than 2% of the agreed Interest rate of loan.
- 26) Interest payable by a Scheduled Bank to a non-resident or to a not-ordinarily resident in India on deposits in foreign currency where the acceptance of such deposits by the bank is approved by RBI.
- 27) Interest Payable to Non- Resident by a Unit located in IFSC in respect of monies borrowed by it on or after 01.09.2019 is exempt from tax.

15. EXEMPTION OF ALLOWANCES TO MPS AND MLA'S - 10(17)

In the case of Members of Parliament and State Legislature, any income by way of Daily allowance & any other allowances received is totally exempt.

(TEACH PROBLEM NO.8, 9, 10, 11 as comprehensive problems)

Proforma for Computation of "Income from Other Sources"

S.No	Particulars	Amount
(i)	Dividend Income	xxx
(ii)	Casual Income (winnings from lotteries, crossword puzzles, races including horse races, card games and other games, gambling, betting etc.)	xxx
(iii)	Sum of money or property received by any person [Section 56(2)(x)]	xxx
(iv)	Interest received on compensation/enhanced compensation deemed to be income in the year of receipt [Section 56(2)(viii)]	xxx
(v)	Advance forfeited due to failure of negotiations for transfer of a capital asset [Section 56(2)(ix)]	xxx
(vi)	The following income, if not chargeable under the head "Profits and gains of business or profession"	
	Any sum received by an employer from his employees as contributions to any provident fund, superannuation fund or any other fund for the welfare of the employees	xxx
	Interest on securities	xxx
	Income from letting out on hire of machinery, plant or furniture	xxx
	Where letting out of buildings is inseparable from the letting out of machinery, plant or furniture, the income from such letting	xxx
	Any sum received under a Keyman insurance policy including the sum allocated by way of bonus on such policy	xxx
	Any income chargeable to tax under the Act, but not falling under any other head of income	xxx
		xxx
	Less: Deductions allowable [Section 57]	xxx
	In case of dividends or interest on securities - Any reasonable sum paid by way of commission or remuneration to a banker/ any other person.	
	Family Pension - Sum equal to 33.33 % of such income or Rs. 15,000 whichever is less	
	Interest on compensation/enhanced compensation received - 50% of such interest income	
	Interest expenses allowed and that too up to 20% of such dividend or income from UTI/MF.	

	Deductions not allowable [Section 58]	xxx
	<p>a) Any personal expense of the assessee</p> <p>b) Any interest chargeable to tax under the Act which is payable outside India on which tax has not been paid or deducted at source.</p> <p>c) Any payment taxable in India as salaries, if it is payable outside India unless tax has been paid thereon or deducted at source.</p> <p>d) Any payment to a relative or associate concern and payment or aggregate payments exceeding Rs. 10,000 made to a person in a day otherwise than by account payee cheque or draft or ECS through bank account covered under section 40A(3)</p> <p>e) deduction of 30% of expenditure in respect of which sum is payable to a resident on which tax is deductible at source, if such tax has not been deducted or after deduction has not been paid on or before the due date of return specified in section 139(1)</p>	
	Income from other Sources	xxx

SECTION 2: PROBLEMS FOR CLASSROOM DISCUSSION

PROBLEM NO.1: Mr. Hari, a property dealer, sold a building in the course of his business to his friend Rajesh, who is a dealer in automobile spare parts, for ₹ 90 lakh on 1.1.2021, when the stamp duty value was ₹ 150 lakh. The agreement was, however, entered into on 1.9.2020 when the stamp duty value was ₹140 lakh. Mr. Hari had received a down payment of ₹ 15 lakh by a crossed cheque from Rajesh on the date of agreement. Discuss the tax implications in the hands of Hari and Rajesh, assuming that Mr. Hari has purchased the building for ₹75 lakh on 12th July, 2019.

Would your answer be different if Hari was a share broker instead of a property dealer?

(NEW SM, OLD SM, MTP M17) (ANS.: I) IF HARI IS PROPERTY DEALER PGBP INCOME - 75 LAKHS AND RAJESH INCOME IS 60 LAKHS II) IF HARI IS SHARE BROKER STCG: 75 LAKHS AND RAJESH INCOME IS 60 LAKHS).

(SOLVE PROBLEM NO. 5 OF ASSIGNMENT PROBLEMS AS REWORK)

Note: _____

PROBLEM NO.2: Mr. A, a dealer in shares, received the following without consideration during the P.Y. 2020-21 from his friend Mr. B, -

- a) Cash gift of ₹ 75,000 on his anniversary, 15th April, 2020.
- b) Bullion, the fair market value of which was ₹ 60,000, on his birthday, 19th June, 2020.
- c) A plot of land at Faridabad on 1st July, 2020, the stamp value of which is ₹ 5 lakh on that date. Mr. B had purchased the land in April, 2009.

Mr. A purchased from his friend Mr. C, who is also a dealer in shares, 1000 shares of X Ltd. @ ₹400 each on 19th June, 2020, the fair market value of which was ₹ 600 each on that date. Mr. A sold these shares in the course of his business on 23rd June, 2020.

Further, on 1st November, 2020, Mr. A took possession of property (building) booked by him two years back at ₹ 20 lakh. The stamp duty value of the property as on 1st November, 2020 was ₹32 lakh and on the date of booking was ₹ 23 lakh. He had paid ₹ 1 lakh by account payee cheque as down payment on the date of booking.

On 1st March, 2021, he sold the plot of land at Faridabad for ₹ 7 lakh.

Compute the income of Mr. A chargeable under the head "Income from other sources" and "Capital Gains" for A.Y. 2021-22.

(NEW SM, OLD SM, RTP N17) (ANS.: INCOME FROM OTHER SOURCES 9,35,000, SHORT-TERM CAPITAL GAINS 2,00,000)

(SOLVE PROBLEM NO. 6 OF ASSIGNMENT PROBLEMS AS REWORK)

Note: _____

PROBLEM NO.3: Discuss the taxability or otherwise of the following in the hands of the recipient under section 56(2)(x) the Income-tax Act, 1961 -

- Akhil HUF received Rs. 75,000 in cash from niece of Akhil (i.e., daughter of Akhil's sister). Akhil is the Karta of the HUF.
- Nitisha, a member of her father's HUF, transferred a house property to the HUF without consideration. The stamp duty value of the house property is Rs. 9,00,000
- Mr. Akshat received 100 shares of A Ltd. from his friend as a gift on occasion of his 25th marriage anniversary. The fair market value on that date was Rs. 100 per share. He also received jewellery worth Rs. 45,000 (FMV) from his nephew on the same day.
- Kishan HUF gifted a car to son of Karta for achieving good marks in XII board examination. The fair market value of the car is Rs. 5,25,000.

(NEW SM, OLD SM, SIMILAR M18 (N) - 3M)

(ANS: (I) TAXABLE (II) NOT TAXABLE (III) TAXABLE (IV) NOT TAXABLE)

(SOLVE PROBLEM NO. 7 OF ASSIGNMENT PROBLEMS AS REWORK)

Note: _____

PROBLEM NO.4: Check the taxability of the following gift received by Mrs. Rashmi during the previous year 2020 - 21 and compute the taxable income from gifts for Assessment Year 2021-22.

- On the occasion of her marriage on 14.08.2020, she has received Rs.90,000 as gift out of which Rs.70,000 are from relatives and balance from friends.
- On 12.09.2020, she has received gift of Rs.18,000 from cousin of her mother.
- A cell phone worth Rs.21,000 is gifted by her friend on 15.08.2020.
- She gets a cash gift of Rs.25,000 from the elder brother of her husband's grandfather on 25.10.2020.
- She has received a cash gift of Rs 12,000 from her friend on 14.04.2020.

(OLD SM, OLD PM)

(ANS.: TAXABLE VALUE U/S 56(2)(X) IS 55,000) (SOLVE PROBLEM NO. 1, 2, 3, OF ASSIGNMENT PROBLEMS AS REWORK)

Note: _____

PROBLEM NO.5: Ms. Chhaya transferred a vacant site to Ms. Dayama for Rs.4,25,000. The stamp valuation authority fixed the value of vacant site for stamp duty purpose at Rs.6,00,000. The total income of Chhaya and Dayama before considering the transfer of vacant site are Rs.50,000 and Rs.2,05,000, respectively. The indexed cost of acquisition for Ms. Chhaya in respect of vacant site is Rs.4,00,000 (computed).

Determine the total income of both Ms. Chhaya and Ms. Dayama taking into account the above said transaction.

(OLD PM)(ANS.: TOTAL INCOME OF MS. CHHAYA AND MS. DAYAMA IS 2,50,000 AND 3,80,000)

(SOLVE PROBLEM NO. 12 OF ASSIGNMENT PROBLEMS AS REWORK)

Note: _____

PROBLEM NO.6: On 10.10.2020, Mr. Govind (a bank employee) received ₹ 5,00,000 towards interest on enhanced compensation from State Government in respect of compulsory acquisition of his land effected during the financial year 2014-15.

Out of this interest, ₹1,50,000 relates to the financial year 2015-16; ₹ 1,65,000 to the financial year 2016-17; and ₹ 1,85,000 to the financial year 2017-18. He incurred ₹ 50,000 by way of legal expenses to receive the interest on such enhanced compensation.

How much of interest on enhanced compensation would be chargeable to tax for the assessment year 2021-22? (NEW SM, OLD SM, OLD PM, RTP M17) (ANS.: TAXABLE INTEREST ON ENHANCED COMPENSATION IS 2,50,000)

(SOLVE PROBLEM NO. 9 OF ASSIGNMENT PROBLEMS AS REWORK)

Note: _____

PROBLEM NO.7: Discuss the taxability or otherwise in the hands of the recipients, as per the provisions of the Income-tax Act, 1961:

- i) ABC Private Limited, a closely held company, issued 10,000 shares at Rs. 130 per share. (The face value of the share is Rs. 100 per share and the fair market value of the share is Rs. 120 per share).
- ii) Mr. A received an advance of Rs. 50,000 on 01-09-2020 against the sale of his house. However, due to non-payment of installment in time, the contract has cancelled and the amount of Rs. 50,000 was forfeited.
- iii) Mr. N, a member of his father's HUF, transferred a house property to the HUF without consideration. The value of the house is Rs. 10 lakhs as per the Registrar of stamp duty.
- iv) Mr. Kumar gifted a car to his sister's son (Sunil) for achieving good marks in CA Final exam. The fair market value of the car is Rs. 5,00,000.

(OLD PM, M 16 - 2M, SIMILAR: RTP N18 (N&O), MTP N18 (N&O))

(ANS.: (I) TAXABLE (II) TAXABLE (III) NOT TAXABLE (IV) NOT TAXABLE)

(SOLVE PROBLEM NO. 8 OF ASSIGNMENT PROBLEMS AS REWORK)

Note: _____

PROBLEM NO.8: State with proper reasons whether the following statements are True/False with regard to provisions of Income-tax Act, 1961:

- i) "A" receives Rs. 2 lakh from his friends on the occasion of his marriage on 22.04.2020 and Rs. 1 lakh from the brother of his father-in-law on 31.12.2020. A's income includible under "other sources" for the previous year 2020 - 21 would be Rs. 3 lakh.
- ii) Dividend received by a dealer in shares or one engaged in buying/selling of shares, is chargeable under the head "Income from other sources".

(NEW SM, OLD PM) (ANS.: (I) FALSE (II) TRUE.)

(SOLVE PROBLEM NO. 4 OF ASSIGNMENT PROBLEMS AS REWORK)

Note: _____

PROBLEM NO.9: The following incomes are received by Mr. M during financial year 2020 - 21.

Director's fees	2,000
Income from agricultural land in Pakistan	5,000
Ground rent from land in Guntur	10,000
Interest on deposits with Industrial Finance Corporation of India	500
Dividend from a foreign company	700
Rent from sub-letting a house	26,250
Rent payable by Mr. M for the sub-let house	12,000
Other expenses on sub-let-house	1,000
Winnings from horse-races (Gross)	12,300
Interest on Securities	4,000
Family pension received	24,600
Royalty from coal mine	20,000
Daily allowance as M.P.	5,000
Salary as M.P.	36,000
Dividend from A Ltd. Declared	36,000
Lottery prize received after T.D.S.	8,000
Interest:	
(a) From bank on F.D.R.	10,776
(b) On post office saving account	600
(c) On Govt. securities	1,200
(d) On Public Provident Fund a/c	4,000
(e) On National Savings Certificate VIII issue	3,000

M spent Rs.600 for realising the rent. He had also spent Rs.10,000 for the purchase of lottery tickets and received the prize on one ticket. Calculate Income from Other Sources. (N 09 - 6M)

(ANS.: NET INCOME FROM OTHER SOURCES IS RS.1,81,954) (SOLVE PROBLEM NO.10 OF ASSIGNMENT PROBLEMS AS REWORK)

Note: _____

PROBLEM NO.10: Dr. Kallam is the Reader of the Dept. of Commerce in Osmania University. His computed salary from university is Rs.1,30,000. His other incomes are as under:

- 1) He is the author of a textbook which fetched him a gross royalty of Rs.15,000. He claims the following deductions from the amount:
 - a) Salary to a clerk who collects for him necessary data - Rs.2,400.
 - b) Purchased books worth Rs.400 in connection with the revision of the book.
 - c) Telephone expenses of Rs.800 attributed to the publication.
 - d) Income from lecture delivered in Nagarjuna University Rs.1,500.
 - e) He runs a Commerce coaching institute. Gross receipts from it amounted to Rs.20,000; Rs.8,000 were spent as running expenses of the coaching institute.
 - f) He got Rs.2,500 from Nagarjuna University for working as examiner.
 - g) Income from articles which were published in T.O.I. Rs.3,000.
 - h) He has sub-let 1/3rd of portion of the rented house @ Rs.500 p.m. He pays Rs.900 p.m. as rent of the house. Municipal taxes and repairs of this house are borne by Kallam. He spent Rs.600 on repairs and Rs.900 on municipal taxes.
 - i) Dividend from units of Unit Trust of India amounted to Rs.500.
- 2) His other incomes were (All are gross):
 - a) Winnings from card games and betting Rs.6,500.
 - b) Winning from chess Rs.1,000.
 - c) Received interest on Govt. of England bonds Rs.500.
 - d) He won Rs.6,500 in a lottery.

You are required to compute Dr. Kallam's taxable income.

(SIMILAR: N18 (O) - 5M) (ANS.: NET TAXABLE INCOME OF DR. KALLAM'S IS 1,77,300)

(SOLVE PROBLEM NO. 11 OF ASSIGNMENT PROBLEMS AS REWORK)

Note: _____

PROBLEM NO.11: X holds the following securities on April 1st, 2020:

- a) 5% Uttar Pradesh government loan (Date of payment of interest - Jan 1st) - Rs.10,00,000.
- b) 6% Non listed debentures of A Ltd. (Payment of interest - June 11th & Dec. 11th) - Rs.40,000.
- c) 8% debentures of PQR Ltd. (Payment of interest - June 15th and Dec.15th) - Rs.25,000.

On December 1, 2020, X sells Rs.25,000 8% debentures of PQR Ltd. Calculate the taxable income of X for the assessment year 2021-22. His business income is Rs.5,64,000, post office savings bank interest is Rs.4,300, SBI savings bank interest is Rs.9,500 and he has received a gift of Rs.1 lakh in foreign currency from a friend on December 1, 2020 on his marriage anniversary.

(ANS.: TAXABLE IFOS OF MR. X IS 1,63,700 NET INCOME IS 7,17,700)

(SOLVE PROBLEM NO. 13 OF ASSIGNMENT PROBLEMS AS REWORK)

SECTION 3: PRINTED SOLUTIONS FOR CLASSROOM DISCUSSION

PROBLEM NO. 1

SOLUTION: Case 1: Tax implications if Mr. Hari is a property dealer

In the hands of Mr. Hari	In the hands of Mr. Rajesh
<p>In the hands of Hari, 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; and the stamp duty value exceeds 110% of consideration.</p> <p>Under section 43CA, the option to adopt the stamp duty value on the date of agreement can be exercised only if whole or part of the consideration has been received on or before the date of agreement by way of account payee cheque or draft or by use of ECS through a bank account or through credit card, debit card, net banking, IMPS (Immediate payment Service), UPI (Unified Payment Interface), RTGS (Real Time Gross Settlement), NEFT (National Electronic Funds Transfer), and BHIM (Bharat Interface for Money) Aadhar Pay on or before the date of agreement. In this case, since the down payment of ₹ 15 lakh is received on the date of agreement by crossed cheque and not account payee cheque, the option cannot be exercised.</p> <p>Therefore, ₹ 75 lakh, being the difference between the stamp duty value on the date of transfer, i.e., ₹ 150 lakh, and the purchase price i.e., ₹ 75 lakh, would be chargeable as business income in the hands of Mr. Hari, since stamp duty value exceeds 110% of the consideration</p>	<p>Since Mr. Rajesh is a dealer in automobile spare parts, the building purchased would be a capital asset in his hands. The provisions of section 56(2)(x) would be attracted in the hands of Mr. Rajesh who has received immovable property, being a capital asset, for inadequate consideration and the difference between the consideration and stamp duty value exceeds ₹ 9,00,000, being the higher of ₹50,000 and 10% of consideration.</p> <p>Therefore, ₹ 60 lakh, being the difference between the stamp duty value of the property on the date of registration (i.e., ₹ 150 lakh) and the actual consideration (i.e., ₹ 90 lakh) would be taxable under section 56(2)(x) in the hands of Mr. Rajesh, since the payment on the date of agreement is made by crossed cheque and not account payee cheque/draft or ECS or through credit card, debit card, net banking, IMPS (Immediate payment Service), UPI (Unified Payment Interface), RTGS (Real Time Gross Settlement), NEFT (National Electronic Funds Transfer), and BHIM (Bharat Interface for Money) Aadhar Pay.</p>

Case 2: Tax implications if Mr. Hari is a stock broker

In the hands of Mr. Hari	In the hands of Mr. Rajesh
<p>In case Mr. Hari is a share broker and not a property dealer, the building would represent his capital asset and not stock-in-trade. In such a case, the provisions of section 50C would be attracted in the hands of Mr. Hari, since building is transferred for a consideration less than the stamp duty value; and the stamp duty value exceeds 110% of consideration.</p> <p>Thus, ₹ 75 lakh, being the difference between the stamp duty value on the date of registration (i.e., ₹150 lakh) and the purchase price (i.e., ₹ 75 lakh) would be chargeable as short-term capital gains.</p> <p>It may be noted that under section 50C, the option to adopt the stamp duty value on the date of agreement can be exercised only if whole or part of the consideration has been received on or before the date of agreement by way of account payee cheque or draft or by use of ECS through a bank account or through credit card, debit card, net banking, IMPS (Immediate payment Service), UPI (Unified Payment Interface), RTGS (Real Time Gross Settlement), NEFT (National Electronic</p>	<p>There would be no difference in the taxability in the hands of Mr. Rajesh, whether Mr. Hari is a property dealer or a stock broker.</p> <p>Therefore, the provisions of section 56(2)(x) would be attracted in the hands of Mr. Rajesh who has received immovable property, being a capital asset, for inadequate consideration and the difference between the consideration and stamp duty value exceeds ₹9,00,000, being the higher of ₹ 50,000 and 10% of consideration.</p> <p>Therefore, ₹ 60 lakh, being the difference between the stamp duty value of the property on the date of registration (i.e., ₹ 150 lakh) and the actual consideration (i.e., ₹90 lakh) would be taxable under section 56(2)(x) in the hands of Mr. Rajesh, since the payment on the date of agreement is made by crossed cheque and not account payee cheque/draft or ECS or through credit card,</p>

Funds Transfer), and BHIM (Bharat Interface for Money) Aadhar Pay on or before the date of agreement. In this case, since the down payment of ₹15 lakhs has been received on the date of agreement by crossed cheque and not account payee cheque, the option cannot be exercised.	debit card, net banking, IMPS (Immediate payment Service), UPI (Unified Payment Interface), RTGS (Real Time Gross Settlement), NEFT (National Electronic Funds Transfer), and BHIM (Bharat Interface for Money) Aadhar Pay.
--	---

PROBLEM NO. 2

Computation of "Income from other sources" of Mr. A for the A.Y. 2021-22

	Particulars	Rs.
1.	Cash gift is taxable under section 56(2)(x), since it exceeds Rs. 50,000	75,000
2.	Since bullion is included in the definition of property, therefore, when bullion is received without consideration, the same is taxable, since the aggregate fair market value exceeds Rs. 50,000	60,000
3.	Stamp value of plot of land at Faridabad, received without consideration, is taxable under section 56(2)(x)	5,00,000
4.	Difference of Rs. 2 lakh in the value of shares of X Ltd. purchased from Mr. C, a dealer in shares, is not taxable as it represents the stock-in-trade of Mr. A. Since Mr. A is a dealer in shares and it has been mentioned that the shares were subsequently sold in the course of his business, such shares represent the stock-in-trade of Mr. A.	-
5.	Difference between the stamp duty value of Rs. 23 lakh on the date of booking and the actual consideration of Rs. 20 lakh paid is taxable under section 56(2)(x) since the difference exceeds Rs. 2,00,000 being, the higher of Rs. 50,000 and 10% of consideration	3,00,000
	Income from Other Sources	9,35,000

Computation of "Capital Gains" of Mr. A for the A.Y. 2021-22

Particulars	Amount (Rs.)
Sale Consideration	7,00,000
Less: Cost of acquisition [deemed to be the stamp value charged to tax under section 56(2)(x) as per section 49(4)]	5,00,000
Short-term capital gains	2,00,000

NOTE: The resultant capital gains will be short-term capital gains since for calculating the period of holding, the period of holding of previous owner is not to be considered.

PROBLEM NO. 3

	Taxable/ Not taxable	Amount liable to tax (Rs.)	Reason
(i)	Taxable	75,000	Sum of money exceeding Rs.50,000 received without consideration from a non-relative is taxable under section 56(2)(x). Daughter of Mr. Akhil's sister is not a relative of Akhil HUF, since she is not a member of Akhil HUF.
(ii)	Not taxable	Nil	Immovable property received without consideration by a HUF from its relative is not taxable under section 56(2)(x). Since Nitisha is a member of the HUF, she is a relative of the HUF. However, income from such asset would be included in the hands of Nitisha under 64(2).
(iii)	Taxable	55,000	As per 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. 10,000) and Jewellery (Rs. 45,000) exceeds Rs. 50,000. Hence, the entire amount of Rs. 55,000 shall be taxable.
(iv)	Not 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.

PROBLEM NO. 4

Computation of taxable income of Mrs. Rashmi from gifts for A.Y. 2021-22

S.No.	Particulars	Taxable amount	Reason for taxability or otherwise of each gift
1.	Relatives and friends	Nil	Gifts received on the occasion of marriage are not taxable
2.	Cousin of Mrs. Rashmi's mother	18,000	Cousin of Mrs. Rashmi's mother is not a relative. Hence, the cash gift is taxable
3.	Friend	Nil	Cell phone is not included in the definition of property. Hence, it is not taxable
4.	Elder brother of husband's grandfather	25,000	Brother of husband's grandfather is not a relative. Hence, the cash gift is Taxable
5.	Friend	12,000	Cash gift from friend is taxable.
	Aggregate value of gifts	55,000	

Since the sum of money received by Mrs. Rashmi without consideration during the previous year 2020-21 exceeds Rs. 50,000, the whole of the amount is chargeable to tax under section 56(2)(x) of the Income-tax Act, 1961.

PROBLEM NO. 5

Section 56(2)(x) would get attracted in case of transfer of immovable property for inadequate consideration, since the difference between the stamp duty value and sale consideration is more than Rs. 50,000 & 10% of actual consideration and therefore Rs. 1,75,000 (i.e. Rs. 6,00,000 - Rs. 4,25,000) will be taxed under the head "income from other sources" in the hands of transferee, i.e., Ms. Dayama. Further, for the transferor, Ms. Chhaya, the value adopted for stamp duty purpose will be taken as the deemed sale consideration under section 50C for computation of capital gains.

Particulars	Chhaya (Transferor)	Dayama (Transferee)
Capital gains		
Deemed sale consideration under section 50C	6,00,000	
Less: Indexed cost of acquisition	4,00,000	
Income from other sources	2,00,000	
Difference between stamp duty value and sale consideration of immovable property, taxable under section 56(2)(x)		1,75,000
Other income (computed)	50,000	2,05,000
Total income	2,50,000	3,80,000

PROBLEM NO. 6

INTEREST ON ENHANCED COMPENSATION: 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.

Computation of interest on enhanced compensation taxable as "Income from other sources for the A.Y 2021 - 22:

Particulars	Amount (Rs.)
Interest on enhanced compensation taxable under section 56(2)(viii)	5,00,000
Less: Deduction under section 57(iv) (50% x 5,00,000)	2,50,000
Taxable interest on enhanced compensation	2,50,000

PROBLEM NO. 7

S.No.	Taxable / Not Taxable	Reason
i)	Taxable	Since ABC Private Limited, a closely held company, issued 10,000 shares at a premium (i.e., issue price exceeds the face value of shares), the excess of the issue price of the shares over the fair market value would be taxable under section 56(2)(viib) in its hands under the head "Income from other sources". Therefore, Rs. 1,00,000 [10,000 × Rs. 10 (Rs. 130 - Rs. 120)] shall be taxable as income in the hands of ABC Private Limited under the head "Income from other sources".
ii)	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 Rs. 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.
iii)	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, Rs.10 lakhs, being the stamp duty value of house property received by HUF, without consideration, would not be chargeable to tax in the hands of the HUF. Note: However, income from such asset would be included in the hands of Mr. N under section 64(2).
iv)	Not Taxable	Car is not included in the definition of "property", for the purpose of taxability under section 56(2)(x), in the hands of the recipient under the head "Income from other sources". Further, the same has been received by Sunil from his mother's brother, who falls within the definition of "relative". Hence, Rs.5,00,000, being the fair market value of car received without consideration from a relative is not taxable in the hands of Sunil, even though its value exceeds Rs.50,000.

PROBLEM NO. 8

- i) **False:** As per section 56(2)(x), where any sum of money is received without consideration by an individual or a Hindu undivided family from any person or persons and the aggregate value of all such sums received during the previous year exceeds Rs. 50,000, the whole of the aggregate value of such sum shall be included in the total income of such individual or Hindu Undivided Family under the head "Income from other sources".

However, in order to avoid hardship in genuine cases, certain sums of money received have been exempted, which includes, inter-alia, any sum received on the occasion of the marriage of the individual and any sum received from any relative. As such, Rs. 2 lakhs received from friends on the occasion of marriage is exempt.

However, brother of father-in-law is not included in the definition of relative. Hence, Rs. 1 lakh is taxable under the head "Income from other sources".

The statement that Rs. 3 lakh is includible in A's income is, therefore, false.

- ii) **True:** Dividend is received by a dealer in shares or one engaged in buying/selling of shares, the same would be taxable under the head "Income from other sources".

PROBLEM NO. 9

Computation of Net total income of Mr. M for the AY 2021-22:

Particulars	Rs.	Rs.
Director's fees		2,000
Income from agricultural land in Pakistan		5,000

Ground rent from land in guntur		10,000
Interest on deposits with Industrial Finance Corporation of India		500
Dividend from a foreign company		700
Rent from sub-letting a house	26,250	
Less: Rent Payable	(12,000)	
Other Expenses	(1,000)	
Realisation expenses	(600)	12,650
Winnings from horse-races (Gross)		12,300
Interest on Securities		4,000
Family pension received	24,600	
Less: Deduction U/S.57 (1/3 rd of Rs.24,600 or Rs.15,000 whichever is lower)	(8,200)	16,400
Royalty from coal mine		20,000
Daily allowance as M.P. (Exempt U/S.10(17))		-
Salary as M.P.		36,000
Dividend from A Ltd. Declared		36,000
Lottery prize received after T.D.S. (Rs.8,000 / 70%)		11,428
Interest from bank on F.D.R.		10,776
Interest on post office saving account (Exempt U/S.10(15) up to Rs.3,500)		-
Interest on Govt. securities		1,200
Interest on Public Provident Fund a/c (Exempt U/S.10(11))		-
Interest on National Savings Certificate VIII issue		3,000
Income from other Sources		1,81,954

PROBLEM NO. 10

Computation of Net total income of Dr. Kallam for the AY 2021-22:

Particulars	Rs.	Rs.
Income from salary		1,30,000
Income from other sources:		
Gross royalty		15,000
Add: Income from Nagarjuna university	1,500	
Gross receipts from coaching Institutes	20,000	
Examiner fees	2,500	
Income from Articles	3,000	
Income from sub-letting [(Rs.500 p.m. x 12 months) - {(Rs.900 p.m.x12 months + Rs.600 + Rs.900)/3} (Since 1/3 rd portion has been let out)]	1,900	
Winnings from card games	6,500	
Winning from chess	1,000	
Lottery	6,500	
Interest from Govt. of England bonds	500	43,900
Dividend from units of Unit Trust of India	500	
Less: Salary to clerk	2,400	
Purchase Book	400	
Telephone Expenses	800	
Running Expenses	8,000	(11,600)
Total Income		1,77,300

Copyrights Reserved To **MASTER MINDS COMMERCE INSTITUTE PVT.LTD.**

PROBLEM NO. 11

Computation of net income of Mr. X for the AY 2021-22:

Particulars	Rs.
UP Government loan (Rs.10,00,000 x 5/100)	50,000
Debentures of ABC Ltd. (40,000 x 6/100)	2,400
Debentures of PQR Ltd. [interest accrued on June 15, 2020 (Rs.25,000 x 8/100 x 6/12)]	1,000
Post office savings bank interest (up to Rs.3,500 is exempt and balance is chargeable to tax) (4,300 - 3,500)	800
SBI savings account interest	9,500
Gift	1,00,000
Amount taxable under the head "Income from other sources"	1,63,700
Business income	<u>5,64,000</u>
Gross total income	7,27,700
Less: Deduction under section 80TTA (i.e., savings account interest)	
Post office: Rs.800 + SBI: Rs.9,500, subject to a maximum of Rs.10,000	<u>10,000</u>
Net income	7,17,700

SECTION 4: ASSIGNMENT PROBLEMS

PROBLEM NO.1: The following details have been furnished by Mrs. Hemali pertaining to the year ended 31-03-2021.

- Cash gift Rs.51,000 received from her friend on the occasion of her "Shasti poorthi", a wedding function celebrated on her husband completing 60 years of age. This was also her 25th wedding anniversary.
- On the above occasion, a diamond necklace worth Rs. 2 lakhs was presented by her sister living in Dubai.
- When she celebrated her daughter's wedding on 21.03.2021, her friend assigned in Mrs. Hemali's favour, a fixed deposit held by the said friend in a scheduled bank; the value of the fixed deposit and the accrued interest on the said date was Rs.52,000.

Compute the income, if any, assessable as income from other sources.

(NEW SM, OLD PM, M 11 - 4M) (ANS.: TWO VIEWS: FIRST VIEW - IFOS IS 51,000 AND SECOND VIEW - IFOS IS 1,03,000)

PROBLEM NO.2: Mr. Y submits the following information pertaining to the year ended 31st March, 2021:

- On 30.11.2020, when he attained the age of 60, his friends in India gave a flat at Surat as a gift, each contributing a sum of Rs.20,000 in cash. The cost of the flat purchased using the various gifts was Rs.3.40 lakhs.
- His close friend abroad sent him a cash gift of Rs.75,000 through his relative for the above occasion.
- Mr. Y sold the above flat on 30.01.2021 for 3.6 lakhs. The Registrar's valuation for stamp duty purposes was Rs.3.7 lakhs. Neither Mr. Y nor the buyer, questioned the value fixed by the Registrar.
- He had purchased some unlisted equity shares in X Pvt. Ltd., on 05.02.2010 for Rs. 3.5 lakhs. These shares were sold on 15.03.2021 for Rs. 2.8 lakhs.

You are requested to calculate the total income of Mr. Y for the assessment year 2021-22.

(OLD PM) (ANS.: TOTAL INCOME: RS. 4,45,000)

PROBLEM NO.3: Smt. Lakshmi reports the following transactions to you:

- Received cash gifts on the occasion of her marriage on 18-07-2020 of Rs. 1,20,000. It includes gift of Rs.20,000 received from non-relatives.
- On 01-08-2020, being her birthday, she received a gift by means of cheque from her mother's maternal uncle, the amount being Rs.40,000.
- On 01-12-2020, she acquired a vacant site from her friend for Rs.1,05,000. The State stamp valuation authority fixed the value of site at Rs.1,80,000 for stamp duty purpose.

- d) She bought 100 equity shares of a listed company from another friend for Rs. 60,000. The value of shares in the stock exchange on the date of purchase was Rs.1,15,000.

Determine the income chargeable to tax under the head "Income from Other Sources" in the hands of Smt. Lakshmi for the **A.Y. 2021-22**. Your answer should be supported by reasons.

(NEW SM, OLD PM, SIMILAR: RTP M18 (N&O)) (ANS: RS.1,30,000)

PROBLEM NO.4: Discuss the tax implications under section 56(2) in respect of each of the following transactions

- Mr. Tejpal received a painting by M.F. Hussain worth Rs. 2 lakhs from his nephew on his 10th wedding anniversary.
- Varma's son transferred shares of D Ltd. to Varma HUF without any consideration. The fair market value of the shares is Rs. 2.5 lakhs.
- Sunshine (P) Ltd. purchased 9,500 equity shares of Saturn (P) Ltd. at Rs. 86 per share. The fair market value of the share on the date of transaction is Rs. 105.
- Bijali (P) Ltd. issued 28,000 equity shares of Rs. 10 each at a premium of Rs. 8. The fair market value of each share on the date of issue is Rs.15.
- Mr. Sharan's land was acquired by the Government in August 2014. He received interest of Rs.5,40,000 on enhanced compensation in January, 2021, out of which Rs.1,20,000 related to the year 2017-18, Rs.1,60,000 related to the year 2018-19, Rs. 2,00,000 related to the year 2019-20 and 60,000 related to the year 2020-21.

(RTP N14) (ANS: A) TAXABLE B) NOT TAXABLE C) RS.1,80,500 D) RS.84,000 E) RS.2,70,000

PROBLEM NO.5: Mr. Suraj, a Sales Manager with Moon Ltd., sold a building to his friend Mr. Rohan, who is engaged in the business of artificial jewellery, for Rs.80 lakh on 01.01.2021, when the stamp duty value was Rs.220 lakh. The agreement was, however, entered into on 04.06.2020 when the stamp duty value was Rs.150 lakh. Mr. Suraj had received a down payment of Rs. 30 lakh by account payee cheque from Mr. Rohan on the date of agreement. Discuss the tax implications in the hands of Mr. Suraj and Mr. Rohan for the PY 2020-21, assuming that Mr. Suraj had purchased the building for Rs. 64 lakh on 20th October, 2020.

Would your answer be different if Mr. Suraj was a property dealer and he sold the building to Mr. Rohan in the course of his business?

(RTP N14)

(ANS: IF SURAJ IS SALES MANAGER STCG IS 89 LAKHS AND ROHAN INCOME 70 LAKHS, IF SURAJ IS PROPERTY DEALER PGBP IS 89 LAKHS AND ROHAN INCOME 70 LAKHS)

PROBLEM NO.6: Mr. Sunil sold his house property in Hyderabad as well as his rural agricultural land for a consideration of Rs. 70 lakh and Rs. 20 lakh, respectively, to his friend Mr. Ravi on 01.10.2020. He has purchased the house property and the land in the year 2017 for Rs. 45 lakh and Rs. 12 lakh, respectively. The stamp duty value on the date of transfer, i.e., 01.10.2020, is Rs. 78 lakh and Rs. 22 lakh for the house property and rural agricultural land, respectively. Determine the tax implications in the hands of Mr. Sunil for the P.Y 2020 - 21.

(RTP M14) (ANS: SUNIL: STCG: RS. 33,00,000, RAVI: RURAL AGRICULTURAL LAND IS NOT A CAPITAL ASSET)

PROBLEM NO.7: Discuss the taxability or otherwise of the following in the hands of the recipient under section 56(2)(x) the Income-tax Act, 1961:

- Shivam HUF gifted a car to daughter s of Karta for winning the first prize in all India music competition.
- Mrs. Parth received 200 shares of ABC Ltd. from her friend as a gift on occasion of her 50th marriage anniversary. The fair market value on that date was Rs. 150 per share. She also received jewellery worth Rs. 35,000 (FMV) from her niece on the same day.
- Manish HUF received Rs. 55,000 in cash from nephew of Manish (i.e., son of Manish's sister). Manish is the Karta of Manish HUF.
- Shivang, a member of his father's HUF, transferred a house property to the HUF without consideration. The stamp duty value of the house property is Rs.12,00,000.

(RTP N13) (ANS: I) NOT TAXABLE II) TAXABLE III) TAXABLE IV) NOT TAXABLE)

PROBLEM NO.8: Examine the following transactions in the context of Income-tax Act, 1961:

- Mr. B transferred 500 shares of R (P) Ltd. to M/s. B Co. (P) Ltd. on 10.10.2020 for Rs. 3,00,000 when the market price was Rs. 5,00,000. The indexed cost of acquisition of shares for Mr. B was computed at Rs. 4,45,000. The transfer was not subjected to securities transaction tax.

Determine the income chargeable to tax in the hands of Mr. B and M/s. B Co. (P) Ltd. because of the above said transaction.

- ii) Mr. Chezian is employed in a company with taxable salary income of Rs. 5,00,000. He received a cash gift of Rs. 1,00,000 from Atma Charitable Trust (registered under section 12AA) in December 2020 for meeting his medical expenses.

Is the cash gift so received from the trust chargeable to tax in the hands of Mr. Chezian? (NEW SM)

(ANS.: i) TAXABLE FOR M/S B CO. UNDER IFOS: RS. 2,00,000, FOR MR. B UNDER CAPITAL GAINS: RS. 55,000; ii) NOT CHARGEABLE TO TAX U/S 56(2)(x) OF INCOME TAX ACT, 1961)

PROBLEM NO.9: State whether the following are chargeable to tax and the amount liable to tax:

- a) A sum of Rs. 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 Rs. 50,000 was received as per court decree in December 2020 by Mr. Yogesh. Out of the said amount, a sum of Rs. 35,000, relates to preceding financial years.
- c) Interest on enhanced compensation of Rs. 96,000 received on 12-03-2021 for acquisition of urban land, of which 40% relates to the earlier year.

(NEW SM, OLD PM, RTP N15) (ANS: (I) TAXABLE RS.1,20,000, (II) TAXABLE RS.25,000, (III) TAXABLE RS.48,000.)

PROBLEM NO.10: Karan's bank account shows the following deposits during the financial year 2020-21. Compute Karan's (aged 45 years) total income for the A.Y. 2021-22, assuming that his income from house property (computed) is Rs. 62,000.

i)	Gift from his sister in Amsterdam	Rs. 2,30,000
ii)	Gift from his friend on his birthday	Rs. 10,000
iii)	Dividend from shares of various Indian companies	Rs. 12,600
iv)	Gift from his mother's friend on his engagement	Rs. 25,000
v)	Gift from his fiancée	Rs. 75,000
vi)	Interest on bank deposits (Fixed Deposit) (Gross)	Rs. 25,000

(NEW SM) (ANS.: RS. 2,09,600)

PROBLEM NO.11: From the following particulars of Pankaj for the previous year ended 31st March, 2021, Compute the income chargeable under the head "Income from other sources":

S.No	Particulars	Amount (Rs.)
i)	Directors fee from a company	10,000
ii)	Interest on bank deposits	3,000
iii)	Income from undisclosed source	12,000
iv)	Winnings from lotteries (Net)	35,000
v)	Royalty on a book written by him	9,000
vi)	Lectures in seminars	5,000
vii)	Interest on loan given to a relative	7,000
viii)	Interest on debentures of a company (listed in a recognised stock exchange) net of taxes	3,600
ix)	Interest on Post Office Savings Bank Account	500
x)	Interest on Government Securities	2,200
xi)	Interest on Monthly Income Scheme of Post Office	33,000

He paid Rs.1,000 for typing the manuscript of book written by him.

(NEW SM, OLD PM) (ANS: INCOME FROM OTHER SOURCES RS.1,34,200.)

PROBLEM NO.12: Mrs. Rupali, has furnished the following information pertaining to the year ended 31.03.2020:

- i) She bought 100 equity shares of a listed company from a friend for Rs. 80,000. The value of shares in the stock exchange on the date of purchase was Rs. 1,55,000.

- ii) On her 25th wedding anniversary, she received cash gift of Rs. 1,01,000 from her friend Ms. Anjali.
- iii) On the above occasion, she also received a platinum ring worth Rs. 2,50,000 from her brother living in Singapore.
- iv) She got cash gifts in aggregate of Rs. 25,000 from her four friends on the occasion of her daughter's wedding on 11.11.2020.
- v) She also received Rs. 49,000 as gift by way of cheque from her maternal uncle, on her daughter's wedding.

Determine the amount chargeable to tax in the hands of Mr. Rupali under the head "Income from other Sources" for the A.Y. 2021 - 22.

(RTP N16) (ANS: MRS. RUPALI INCOME IS RS. 2,01,000)

PROBLEM NO.13:

- a) Purchase of 12% IDBI debentures of Rs.2,40,000 on 01.10.2020 directly from IDBI. Due date of interest is 31st of March every year.
- b) Purchased 240, 12% IDBI debentures on 04.03.2020 from market @ Rs.1,050 per debenture. Face value of debenture is Rs.1,000. Due date of interest is 31st of March every year. IDBI had issued these debentures in 2018.
- c) Purchased 100, 10% debentures of A Ltd. listed on stock exchange from a broker at Rs.100 each on 01.12.2020. Due dates of interest are 30th of June and 31st of December every year.
- d) Purchased 100, 10% debentures of B Ltd. @ Rs.100 each by subscribing to the company directly. Date of issue was 30.11.2020. Interest due on 30th June and 31st of December of every year.
- e) Purchased 2,400 shares of Rs.10 each of Y Ltd. Rs.60 per share from market on 17.06.2020. The company declared a dividend 20% on 30.09.2020

(ANS: INCOME UNDER THE HEAD 'INCOME FROM OTHER SOURCES:- 48,600)

SECTION 5: ADDITIONAL PROBLEMS FOR STUDENTS SELF PRACTICE

- 1) X (42 years) gives the following information for the previous year 2020-21:
 - a) On 01-12-2020, he gets gift of House A from his friend B (stamp duty value is determined at Rs.6,00,000).
 - b) On 03-12-2020, he gets gift of House B from C (who is father-in-law of his elder brother) (stamp duty value is Rs.40,000, however, current market value is Rs.65,000).
 - c) On 07-12-2020, X purchases a second hand car for Rs.70,000 from D (market value is, however, Rs.3,00,000).
 - d) On 14-12-2020, X purchases a work of art for Rs.5,00,000 from E (fair market value is Rs.5,30,000).
 - e) On 20-12-2020, X purchases jewellery for Rs.7,00,000 from F (fair market value is Rs.7,25,000). F is not a registered dealer.
 - f) On 21-12-2020, X purchases a painting for 4,00,000 from G (who is brother of Mrs. X) (fair market value is Rs.7,00,000).
 - g) is Rs.90,00,000).
 - h) On 25-12-2020. On 24-12-2020, X purchase a commercial property for Rs.72,00,000 from H (fair market value
 - i) , X gets a gift of 100 preference shares in A Ltd. from J (on 25-12-2020, stock exchanges are closed, the lowest quotation on the immediate preceding working day in National Stock Exchange is Rs.45).
 - j) On 25-01-2021, X gets a gift cheque of Rs.1,00,000 from his friend L on his birthday.
 - k) On 28-01-2021, minor son of X gets the gift of Rs.55,000 from elder brother of X's grandfather.
 - l) X contributes Rs.10,000 in the public provident fund account of his dependent mother.

Determine the amount of net income of X for the assessment year 2021-22.

- 2) R submits you the following particulars of his income for the previous year 2020-21.

Particulars	Amount (Rs.)
Income under the head salary (computed)	8,00,000
Income under the head house property (computed)	4,00,000
Dividends from domestic company	16,00,000
Income from winnings of lottery	80,000

- 3) Find out the income chargeable to tax in the following cases for the assessment years 2021-22 and 2022-23:
- On May 5, 2020, X borrows Rs. 1,00,000 at the rate of 9 per cent per annum from a bank to invest in public issue of 10 per cent debentures of A Ltd. A Ltd. allots debentures on May 10, 2020 (as per terms of allotment, interest is payable every year on November 30. However, the first interest on November 30, 2020 would be for the period commencing May 10, 2020 to November 30, 2020).
 - On April 18, 2020, Y borrows Rs. 2,00,000 at the rate of 8 per cent per annum from a bank to invest in public issue of 9.5 per cent debentures of B Ltd. B Ltd. allots debentures on April 30, 2020 (as per terms of allotment, interest is payable every year on May 15; however, the first interest would be payable only on May 15, 2021 for the period commencing April 30, 2020 to May 15, 2021).
 - On June 6, 2020, Z borrows Rs. 4,00,000 at the rate of 10 per cent per annum from a bank to purchase (ex-interest) 11 per cent debentures of C Ltd. from B (purchase consideration being Rs. 4,00,000 + interest payable by C Ltd. on June 30, 2020). Interest is payable by C Ltd. every year on June 30. However, at the time of purchase of debentures from B, Z has agreed that interest received by him on June 30, 2020 would be given to B. Cost of acquisition of these debentures in the hands of B was Rs. 3,80,000 (date of acquisition being June 17, 1987).

SECTION 6: PAST EXAM QUESTIONS

Q.No.1. Raman received Rs.5 lakhs from his relatives and the parents of his wife on the occasion of their marriage. He also receives one car, some jewellery and a sum of Rs.1,50,000 from persons, other than relatives on the said occasion. His grand father registers in his favour land worth Rs.10 Lakhs after a month, as his gift. Discuss the taxability?

Q.No.2. M/s. Rama Infotech Ltd. has taken a keyman insurance policy for a sum of Rs.25 lakhs in the name of Mr. Rakesh, who is heading the software division of the company. The annual premium paid by the company towards the policy is Rs.2 lakhs. Examine the tax consequence assuming that the maturity proceeds are received by-(i) Mr. Rakesh; (ii) Company; (iii) assigned to Mrs. Rakesh?

THE END

COPYRIGHTS RESERVED TO MASTERMINDS COMMERCE
INSTITUTE PVT. LTD., GUNTUR. UNAUTHORISED COPYING
OF ANY PORTION OF THIS MATERIAL BY USING
PHOTOCOPYING OR ANY OTHER MEANS OR UNAUTHORISED
USAGE OF THIS MATERIAL IS A PUNISHABLE OFFENSE (MAY
ATTRACT IMPRISONMENT OR PENALTY OR BOTH)