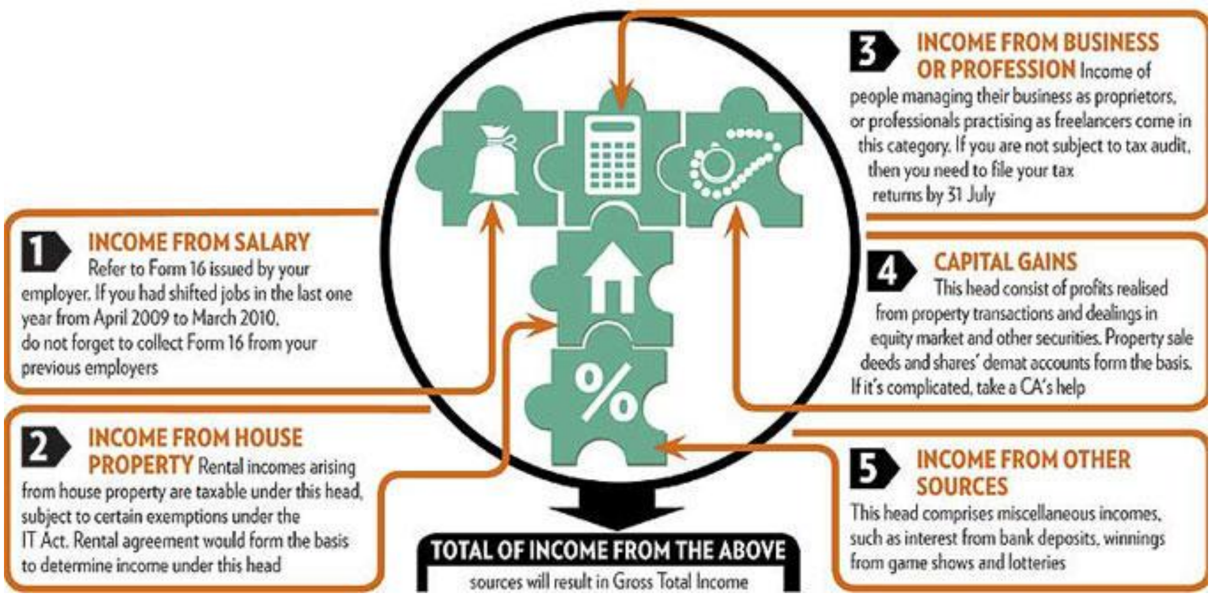
Unit 2

Heads of income

- Income from salaries.
- Income from house property.
- Profits and gains of business or profession.
- Capital gains.
- Income from other sources.

Introduction:

Income is classified under five heads in the Indian Income Tax Act



Income from salary(15-17)

Income can be charged under this head only if there is an employer employee relationship between the payer and payee. Salary includes basic salary or wages, any annuity or pension, gratuity, advance of salary, leave encashment, commission, perquisites in lieu of or in addition to salary and retirement benefits.

Salary is defined to include:

a) Wages

b) Annuity

c) Pension

d) Gratuity

e) Fees, Commission, Perquisites, Profits in lieu of or in addition to Salary or Wages

f) Advance of Salary

g) Leave Encashment

h) Annual accretion to the balance of Recognized Provident Fund

i) Transferred balance in Recognized Provident Fund

j) Contribution by Central Government or any other employer to Employees Pension Account as referred in Sec. 80CCD

Points to consider:

a) Salary income is chargeable to tax on “due basis” or “receipt basis” whichever is earlier.

b) Existence of relationship of employer and employee is must between the payer and payee to tax the income under this head.

c) Income from salary taxable during the year shall consists of following:

i. Salary due from employer (including former employer) to taxpayer during the previous year, whether paid or not;

ii. Salary paid by employer (including former employer) to taxpayer during the previous year before it became due;

iii. Arrear of salary paid by the employer (including former employer) to taxpayer during the previous year, if not charged to tax in any earlier year;

How to compute salary income?

I IMPORTANT POINTS

1. Relationship of employer and employee must exist to create salary income.
2. Only receipts from employer are taxable under this head. Receipt from a person other than employer are taxable under “Other Source”.

3. In case Salary is received after deduction of following items... these are added back to get fully Salary :
   (i) Own Contribution to Provident Fund.
   (ii) Tax Deducted at Source (TDS)
   (iii) Repayment of Loan etc.
   (iv) LIC Premium, if deducted from salary.
   (v) Group Insurance Scheme.
   (vi) Rent of House provided by employer.

   1. Previous Year in case of Salaries is always Financial Year i.e. for the Assessment Year 2009-2010 it is 1-4-2008 to 31-3-2009.

ii SALARY U/S 17 (1)

II. Salary U/s 17(1)

1.Wages. Fully Taxable.

2.Annuity or Pension. Fully Taxable

3.Gratuity. It has been treated separately.

4. (a) Any Fees -- Fully Taxable

   (b) Commission -- Fully Taxable

   (c) Bonus -- Fully Taxable

   (d) Perquisites -- (Perks) These are treated separately u/s 17(2)

   (e) Profit in lieu of Salary -- These are treated separately u/s17(3)

5.Salary in lieu of Leave / Leave Encashment. Fully Taxable.

6.Advance Salary. Fully Taxable

7.Arrears of Salary. Fully Taxable.

8.Refund of Provident Fund (PF)

iii ALLOWANCES

A. Fully Exempted Allowances:

Foreign Allowance given by Govt. to its employees posted abroad. HRA given to Judges of High Court & Supreme Court.

B. Fully Taxable Allowances:

(i) Dearness Allowance / Additional D.A. / High Cost of Living Allowance -- Fully Taxable.

(ii) City Compensation Allowances (CCA).

(iii) Capital Compensatory Allowance

(iv) Lunch Allowance

(v) Tiffin Allowance

(vi) Marriage / Family Allowance

(vii) Overtime Allowance

(viii) Fixed Medical Allowance.

(ix) Electricity and Water Allowance

(x) Entertainment Allowance. It is fully added in employee's Salary.

In case of Government employees a deduction is allowed u/s 16(ii) at the rate of least of following :

(a) Statutory Limit Rs. 5,000 p.a.

(b) 1/5 (20%) th of Basic Salary ; or

(c) Actual Entertainment Allowance received.

C. Partly Taxable Allowances:

1. House Rent Allowance (HRA)

(a) Fully Exempted, if received by the Judges of High Court and Supreme Court.

(b) Fully Taxable, if received by an employee who is living in his own house or in a house for which no rent is paid.

(c) Exempted upto least of following for those employees who are living in rented houses:

(i) Actual HRA received by the employee.

(ii) Rent paid - 10% of Salary ; or

(iii) 40% of Salary in ordinary town ; 50% of Salary in Mumbai, Kolkata, Chennai or Delhi.

Ø *Taxable HRA = HRA Received - Least of Above.*

Ø *Salary = Pay + D.A. which enters into Pay for Service or Retirement Benefits + Commission on Turnover Achieved by Him.*

Following Allowances are Exempted upto actual expenditure incurred for employment. Excess, if any, shall be taxable...

2. Uniform Allowance

3. Conveyance Allowance

4. Traveling Allowance

Following Allowance are Exempted up to amount so notified..

5. Special Compensatory Allowance

6. Border Area Allowance

7. Tribal Area Allowance -- Exempted upto Rs. 200 p.m. if received in the States of M.P., Tamil Nadu, U.P., Karnataka, Tripura, Assam, West Bengal, Bihar, or Orissa.

8. Children's Education Allowance -- Exempted up to Rs.100 p.m. per child for education in India of own two children only.

9. Hostel Expenditure Allowance -- Exempted up to Rs. 300 p.m. per child for Hostel expenditure on own two children only.

iv Perquisitesisites

A. Exempted Perquisites:

1. Leave Travel Concession subject to conditions & actual spent only for travels.
2. Computer/ Laptop provided for official / personal use.
3. Initial Fees paid for corporate membership of a club.
4. Refreshment provided by the Employer during working hours in office premises.
5. Payment of annual premium on Personal Accident Policy.
6. Subscription to periodicals and journal required for discharge of work.
7. Provision of Medical Facilities.
8. Gift not exceeding Rs. 5,000 p.a.
9. Use of Health Club, Sports facility.
10. Free telephones whether fixed or mobile phones.
11. Interest Free / concessional loan of an amount not exceeding Rs.20,000 (limit not application in the case of medical treatment)
12. Contribution to recognised Provident Fund / approved super annuation fund, pension or deferred annuity scheme & staff group insurance scheme.
13. Free meal provided during working hours or through paid non transferable vouchers not exceeding Rs. 50 per meal or free meal provided during working hours in a remote area.

The value of any benefit provided free or at a concessional rate (including goods sold at concessional rate) by a company to the Employees by way of allotment of shares etc., under the Employees stock option plan as per Central Government Guidelines.

B. Taxable Perquisites:

1. Rent Free Accommodation
2. Provision of Motor Car or any other Conveyance for personal use of Employee.
3. Provision of Free or Concessional Education Facilities.
4. Reimbursement of Medical Expenditure.
5. Expenditure on Foreign Travel and stay during medical expenditure.
6. Supply of Gas, Electricity & Water.
7. Sale of an Asset to the Employee at concessioanal price including sale of Share in the Employer Company.

C. Perks Exempted for Employees but Taxable for Employer under Fringe Benefit Tax. Value of the following benefits is not taxable in the hands of an employee. The employer has to pay tax on deemed income calculated as percentage of expenditure incurred.

1. Any free or concessional ticket provided by the employer for private journeys of his employee or their family members
2. Any contribution by the employer to an approved superannuation fund for employees;
3.
    1. Expenditure incurred on entertainment ;
    2. Expenditure incurred on provision of hospitality of every kind by the employer to any person.
    3. Expenditure incurred on conference like conveyance, tour & travel (including foreign travel) , on hotel, or boarding and lodging in connection with any conference shall be deemed to be expenditure incurred for the purposes of conference.
    4. Expenditure incurred on sales promotions including publicity ;
    5. Expenditure incurred on employee’s welfare ;
    6. Expenditure incurred on conveyance
    7. Expenditure incurred on Hotel, Boarding & Lodging facilities ;
    8. Expenditure incurred on Repair, Maintenance of Motor Cars and the amount of Depreciation there on.
    9. Expenditure incurred on use of telephone and Mobile Phones.
    10. Expenditure incurred on maintenance of any accommodation in the nature of Guest House other than used for Training purpose.
    11. Expenditure incurred on Festival Celebrations.
    12. Expenditure incurred on use of Health Club and similar facilities.
    13. Expenditure incurred on gifts ;

Fringe Benefit Tax (FBT) is not applicable in case of following type of employers.

1. An Individual or a sole Proprietor
2. A Hindu Undivided Family
3. Government
4. A Political Party
5. A person whose income is exempt u/s 10(23c)

6. A Charitable Institution registered u/s 12AA.
7. RBI
8. SEBI

V Profits in lieu of salary:

Receipts which are included under the head 'Salary' but Exempted u/s 10.

1. Leave Travel Concession (LTC) - Exempt upto rules.

2. Any Foreign Allowance or perks - If given by Govt. to its employees posted abroad are fully exempted.

3. Gratuity : A Govt. Employee or semi-Govt. employee where Govt. rules are applicable -- Fully Exempted.

A. *For employees covered under Payment of Gratuity Act.*--

Exempt up to least of following :

(a) Notified limit = Rs. 10,00,000

(b) 15 days Average Salary for every one completed year of service (period exceeding 6 months =1 year)

1/2 month's salary = (Average monthly salary or wages x 15/26

(c) Actual amount received.

B. *Other Employees* -- Exempted up to least of following provided service is more than 5 years or employee has not left service of his own :

(a) Notified limit = Rs. 10,00,000

(b) 1/2 month's average salary for every one year of completed service (months to be ignored.)

(c) Actual amount received

υ Average Salary = Salary for 10 months preceding the month of retirement divided by 10.

4. Commutation of Pension :

In case commuted value of pension is received --

(a) If Govt. employee -- is Fully Exempted.

(b) *If other employee who receive gratuity also* -Lump sum amount is exempted upto commuted value of 1/3rd of Pension.

If other employee who does not get gratuity -- Lump sum amount is exempted upto commuted value of 1/2 of pension.

5. Leave Encashment u/s 10(10AA)

(a) If received at the time of retirement by a Govt. employee---Fully Exempted

(b) If received during service---Fully taxable for all employees

(c) If received by a private sector employee at the time of retirement exempted upto :

(i) Notified limit Rs. 3,00,000

(ii) Average salary x 10 months

(iii) Actual amount received.

(iv) Average Salary x No. of months leave due.

6. Any Tax on perks paid by employer. It is fully Exempted.

7. Any payment received out of SPF . Any payment received out of SPF is Fully Exempted.

8. Any payment received out of RPF . Any payment received out of RPF is Fully Exempted, If service exceeds 5 years.

9. Any payment received out of an approved superannuation fund . is Fully Exempted

VI deductions on gross salary vv t Of Gross Salary [Sec. 16]

1. Entertainment Allowance [U/s 16(ii)]

Deduction u/s 16(ii) admission to govt. employee shall be an amount equal to least of following :

1. Statutory Limit of Rs.5,000 p.a.
2. 1/5 th of Basic Salary
3. Actual amount of entertainment allowance received during the previous year.

2. Tax on Employment u/s 16(iii

In case any amount of professional tax is paid by the employee or by his employer on his behalf it is fully allowed as deduction.

vii Deduction u/s 80 out of gross total income   Deduction U/S 80C Out Of Gross Total Inco (GTI)

The following are the main provisions of the newly inserted Section 80C. :

1. Under Section 80C , deduction would be available from Gross Total Income.
2. Deduction under section 80C is available only to individual or HUF.
3. Deduction is available on the basis of specified qualifying investments / contributions / deposits / payments made by the taxpayer during the previous year.
4. The maximum amount deduction under section 80C , 80CCC, and 80CCD can not exceed Rs.1 lakh.

Deduction u/s 80C shall be allowed only to the following assessee :

1. An Individual
2. A Hindu Undivided Family (HUF)

Refer to Case laws:

The Commissioner Of Income-Tax vs A.K.Khosla on 27 April, 2010 madras h/c

Profits and gains of business or profession(28-44D)

Under the Income Tax Act, 'Profits and Gains of Business or Profession' are also subjected to taxation. The term "business" includes any (a) trade, (b)commerce, (c)manufacture, or (d) any adventure or concern in the nature of trade, commerce or manufacture. The term "profession" implies professed attainments in special knowledge as distinguished from mere skill; "special knowledge" which is "to be acquired only after patient study and application". The words 'profits and gains' are defined as the surplus by which the receipts from the business or profession exceed the expenditure necessary for the purpose of earning those receipts. These words should be understood to include losses also, so that in one sense 'profit and gains' represent plus income while 'losses' represent minus income.

The following types of income are chargeable to tax under the heads profits and gains of business or profession:-

- Profits and gains of any business or profession

- Any compensation or other payments due to or received by any person specified in section 28 of the Act

- Income derived by a trade, profession or similar association from specific services performed for its members

- Profit on sale of import entitlement licences, incentives by way of cash compensatory support and drawback of duty

- The value of any benefit or perquisite, whether converted into money or not, arising from business

- Any interest, salary, bonus, commission, or remuneration received by a partner of a firm, from such a firm

- Any sum whether received or receivable in cash or kind, under an agreement for not carrying out any activity in relation to any business or not to share any know-how, patent, copyright, franchise, or any other business or commercial right of similar nature or technique likely to assist in the manufacture or processing of good

- Any sum received under a keyman insurance policy

- Income from speculative transactions.

In the following cases, income from trading or business is not taxable under the head "profits and gains of business or profession":-

- Rent of house property is taxable under the head " Income from house property". Even if the property constitutes stock in trade of recipient of rent or the recipient of rent is engaged in the business of letting properties on rent.

- Deemed dividends on shares are taxable under the head "Income from other sources".

- Winnings from lotteries, races etc. are taxable under the head "Income from other sources".

Profits and gains of any other business are taxable, unless such profits are subjected to exemption.

General principals governing the computation of taxable income under the head "profits and gains of business or profession:-

- Business or profession should be carried on by the assessee. It is not the ownership of business which is important , but it is the person carrying on a business or profession, who is chargeable to tax.

- Income from business or profession is chargeable to tax under this head only if the business or profession is carried on by the assessee at any time during the previous year. This income is taxable during the following assessment year.

- Profits and gains of different business or profession carried on by the assessee are not separately chargeable to tax i.e. tax incidence arises on aggregate income from all businesses or professions carried on by the assessee. But, profits and loss of a speculative business are kept separately.

- It is not only the legal ownership but also the beneficial ownership that has to be considered.

- Profits made by an assessee in winding up of a business or profession are not taxable, as no business is carried on in that case. However, such profits may be taxable as capital gains or as business income, if the process of winding up is such as to involve the carrying on of a trade.

- Taxable profit is the profit accrued or arising in the accounting year. Anticipated or potential profits or losses, which may occur in future, are not considered for arriving at taxable income. Also, the profits, which are taxable, are the real profits and not notional profits. Real profits from the commercial point of view, mean a gain to the person carrying on the business and not profits from narrow, technical or legalistic point of view.

- The yield of income by a commercial asset is the profit of the business irrespective of the manner in which that asset is exploited by the owner of the business.

- Any sum recovered by the assessee during the previous year, in respect of an amount or expenditure which was earlier allowed as deduction, is taxable as business income of the year in which it is recovered.

- Modes of book entries are generally not determinative of the question whether the assessee has earned any profit or loss.

- The Income tax act is not concerned with the legality or illegality of business or profession. Hence, income of illegal business or profession is not exempt from tax.

lakshminarayan ram gopal v. govt. of hyderabad 1954

s/c held that activities which constitute carrying of business need not necessary carry activities by way of trade or professionor vocation . they may even consist of rendering services to others of a variegated character.

CIT v/s Dharma Reddy1969

Held definition of business being an inclusive ,so subject of expansion and not restriction.

Commissioner of Income Tax 4, Mumbai Versus Prime Broking Company (I) Ltd. 2016 (11) TMI 371 - BOMBAY HIGH COURT: Payment on account of service tax - allowable as business expenses - Held that:- It is undisputed that the obligation under the Finance Act, 1994 to pay the service tax is on the Respondent-Assessee being the service provider. This obligation has to be fulfilled by the service provider whether or not it receives the service tax from its clients/customers. Non payment of such service tax into the treasury would normally result in demand and penalty.

Soham Trading and Investments Private Limited Versus Assistant Commissioner of Income Tax-7 (2) , Mumbai 2016 (11) TMI 1248 - ITAT MUMBAI Held that:- The assessee in our considered view is involved in a systematic activity of exploiting its asset, which in turn it had taken on lease , is thus involved in carrying on business activity. Thus, the income arising there from such business activity is to be assessed to tax in the hands of the assessee under the head income from business and profession

Income from house property(22-27):

Income from house property is defined as the income earned from a property by the assessee.

House property includes the building itself and any land attached to the building. Property refers to any building (house, office building, warehouse, factory, hall, shop, auditorium, etc.) and/or any land attached to the building (compound, garage, garden, car parking space, playground, gymkhana, etc.). There are many intricacies and types of house property which is calculated in different ways. Taxability may not necessarily be on actual rent or income received. If the property is not let out, the tax will be charged on the potential income the property is capable of yielding.

Important points to understand:

- **Annual Value:** This is the capacity of a property to earn income is its annual value.
- **Municipal Value:** This is the value of your property as evaluated by municipal authorities on which they charge municipal tax. Municipal authorities have a host of factors that they consider before assigning a municipal value.
- **Fair Rental Value:** The rent which a similar property with similar features in the same (or similar) area would fetch is the fair rental value.
- **Standard Rent:** Under the Rent Control Act, a standard rent is fixed and owners cannot receive rent higher than that specified in the Rent Control Act. This Act ensures that owners are paid fair rent, tenants are not exploited and are protected from eviction.
- **Actual Rent received/receivable:** This is the actual amount received by the owner from the tenant as rent, depending on who pays the water, electricity and other utility bills.

- **Gross Annual Value (GAV):** This is the highest among:
- Rent received or receivable
- Fair Market Value
- Municipal Valuation

If the Rent Control Act is applicable, the GAV is highest among:

- **Standard Rent**
- **Rent Received**

- **Net Annual Value (NAV): NAV = GAV – Municipal Taxes Paid**
- **Deductions:** To arrive at the actual taxable income from house property, two deductions are allowed, under Section 24 of the Income Tax Act :
- **Statutory Deduction:** 30% of the **NAV** is allowed as a deduction towards repairs, rent collection, etc. irrespective of the actual expenditure incurred. This deduction is not allowed if the Annual Value is nil.
- **Interest on borrowed capital:** is allowed as a deduction on accrual basis if the money was borrowed to buy/construct the house. Deduction is allowed on whichever is lesser between **Rs.1,50,000** or the **actual interest amount** (in case the construction was completed within 3 years of taking the loan, on or after 1-April-1999.) In other cases, it's between **Rs.30,000,** and the **actual interest,** whichever is less.
- **Annual Value:** Annual Value = NAV – Deductions.
- **Owner/deemed owner:** Income from house property is taxable to the owner of the property. The owner is the person who is entitled to **receive income from property.** This means that income is chargeable to the person who receives financial benefit from the property, even if the property is not registered to him, i.e. **deemed owner.** A deemed owner is an owner by implication and not necessarily documented registration.

How to compute your income from house property.

Income from house property contains the income generated by the owned property of an individual.

Let's assume you have a property and are charging Rs. 15,000 per month as rent. Let's also assume that you have paid Rs. 10,000 in municipal taxes for that year, and have Rs. 50,000 as interest on borrowed capital.

Income of House Property	**Amounts (in Rs.)**
Total annual rental income value	15,000 x 12 = 1,80,000
Less: Municipal Taxes	10,000
Net Annual Value (NAV)	**1,70,000**
Deductions under Section 24	
Standard deduction (30% of **NAV**)	1,70,000 – 51,000 = 1,19,000
Interest on borrowed capital (if applicable)	50,000
Income from House Property	**69,000**

The annual value can be considered to be nil if the owner is residing in his property **(Self-occupied property or SOP)** and does not derive financial benefit from the same. It will be nil if the owner of the property has to move out of the city his property is in to another city for work and resides in a rented property not owned by him.

Example: Mr. Babu, who bought a house in Bangalore has to move into a rented place in Pune for his job. The annual value on Mr. Babu's Bangalore property will be nil, and he will get a tax deduction for interest paid on borrowed capital.

Capital gains(45-55A)

Capital gains is the profit that the investor realizes when he sells the capital asset for a price higher than its purchase price. The transfer of capital asset must be made in the previous year. This is taxable under the head 'Capital Gains' and there must exist a capital asset, transfer of the capital asset and profit or gains arising from the transfer.

Capital Gains include any property held by the assesse except the following:

- Stock in trade.
- Consumable stores or raw materials held for the purpose of business or profession.
- Personal effects that are movable except jewellery, archaeological collections, drawings, paintings, sculptures or any art work held for personal use.
- Agricultural land. The land must not be located within 8kms from a municipality, Municipal Corporation, notified area committee, town committee or a cantonment board with a minimum population of 10,000.
- 6.5 percent Gold Bonds, National Defence Gold Bonds and Special Bearer Bonds.
- Gold Deposit bonds under Gold Deposit Scheme.

What is Capital Gains Tax?

Capital gains tax is a tax that is charged on the profits that he has made by selling his capital asset. For making it easy for taxation, the capital assets are classified to 'Short-Term Capital Asset; and 'Long-Term Capital Asset'.

- **Short-Term Capital Asset:**

  If the shares and securities are held by the taxpayer for a period not more than 36 months preceding the date of its transfer will be treated as a short-term capital asset.

- **Long- Term Capital Asset:**

  If the taxpayer holds the shares and securities for a period exceeding 36 months before the transfer will be treated as a long-term capital asset.

Computation of Capital Gains:

The computations for the capital gains are as follows:

Short-term capital gain = Full value consideration- (cost of acquisition + cost of improvement + cost of transfer)

Long-term capital gain = Full value of consideration received or accruing – (indexed cost of acquisition + indexed cost of improvement + cost of transfer). Where;

Indexed cost of acquisition = Cost of acquisition **X** cost inflation index of the year of transfer/ cost inflation index of the year of acquisition

Indexed cost of improvement = cost of improvement **X** cost inflation index of the year of transfer **/** cost inflation index of the year of improvement

Cost of transfer is a brokerage paid for arranging the deal, legal expenses incurred, cost of advertising, etc.

For Example:

Mr. Sharma is a resident individual and he sells a residential house on 12/4/2013 for Rs.25,00,000. He had purchased the house on 5/7/2011 for Rs.5,00,000 and spent Rs.1,00,000 on its improvement during May 2012. During the previous year, 2013-2014, his income under all heads excluding capital gains was NIL.

Since the asset was held for less than 36 months, it is a short term capital asset and the

Short-term capital gain = 25,00,000 – 5,00,000 – 1,00,000

= 19,00,000

In case Mr. Sharma is selling the house on 12.3.2015 for the same price, then he would've had the asset for over 36 months.

The indexed cost of acquisition will be 5,00,000 X 852/711 = 5,99,156

The indexed cost of improvement will be 1,00,000 X 852/785 = 1,08,535

The long-term capital gain = 25,00,000 – (5,99,156 + 1,08,535) 707691 = 17,92,309

Case laws:

I.T.O., Ward-1 (4) Kolkata Versus M/s. Orchid Griha Nirman Pvt. Ltd. - 2016 (11) TMI 247 - ITAT KOLKATA Reopening of assessment - whether there was short term capital gain? - Held that - The reasons recorded by the AO before issuing notice u/s.148 of the Act for making reassessment u/s.147 of the Act, shows that the AO had information that the Partnership Firm had revalued its assets. If at all any income accrues or arises owing to such revaluation, it was an issue which had to be dealt with in the assessment of the firm, which is a separate taxable entity.

ITO Ward-23 (3) , Kolkata Versus Sudip Roy 2016 (11) TMI 246 - ITAT KOLKATA

Capital gain computation - taking the cost inflation index factor of 1981 i.e. 100 - disregarding the valuation report made by DVO u/s 55A - Held that:- Considering the totality of the facts and the scheme of the Act relating to taxation of capital gains, we are of the considered opinion that as per the schematic interpretation the cost of inflation index should be made applied with reference to the year in which the capital asset was first acquired

Exide Industries Limited Versus Deputy Commissioner of Income Tax - 2016 (10) TMI 926 - ITAT KOLKATA
Allowability of expenditure for routine maintenance and for procuring license for SAP and M.S. Office - revenue v/s capital expenditure - Held that - The expenditure incurred towards for routine maintenance and for procuring license of software cannot be treated as capital in nature as it would not create a new asset and accordingly, we hold the assessee is entitled to claim such expenditure as revenue in nature.

Income from other sources (56-59).

income from other sources is a residuary head of **income** i.e. **income** not chargeable under any **other** head is chargeable to tax under this head. All **income other** than **income** from salary, house property, business and profession or capital gains is covered under '**Income from other sources**'. All taxable income under this head is calculated according to the accounting method the assessee follows viz. accrual or cash basis. The exceptions to this are dividend and interest income

The nature of income earned will decide whether income has to be shown under this head. However, there are some standard inclusions as outlined below.

1. **Dividends:** Income by way of dividend is shown under this head. Deemed dividend as under section 2(22)(e) is fully taxable as is dividend from co-operative societies and foreign companies.
   Dividend not chargeable to tax includes dividends exempt U/S 10(34) i.e. dividend from Indian companies, dividend liable to corporate dividend tax, income on mutual fund units or income from UTI unit holder.
2. **Winnings:** This includes winnings over Rs.10,000 from lotteries, puzzles, races, games and all forms of gambling and betting. E.g. card games, horse races, game shows etc.
3. **Interest received:** All interest income earned in the previous year (on compensation/enhanced compensation) is taxable. However, 50% of this income can be claimed as deduction.
4. **Incomes not declared under the head 'Profits and Gains of Business or Profession':** This includes contributions made to an employer's employee welfare fund, interest earned on securities, rental income from furniture, plant and machinery (including building where it cannot be let out separately), keyman insurance policy proceeds.
5. **Gifts:** Taxable gifts are declared under this head by individuals and HUFs. This includes monetary or non-monetary items received without any consideration or without adequate consideration. Non-monetary gifts include all immovable property and certain movable property.

Gifts are taxed only if the total amount received during the previous year is more than Rs.50,000 and applies only to those gifts individuals or HUFs received after Oct.1st 2009. **This doesn't apply** if the assessee receives money

- from relatives or a local authority or a trust, fund, educational/medical institution, body or any such institution outlined under section 10(23C) and section 12AA
- as a wedding gift
- by way of being named in a Will or as inheritance
- from a dying donor

Gifts include monetary gifts, immovable property and specified property.

Monetary gifts - sums of money received without any consideration or without adequate consideration.

Immovable property as gifts - Property value will be the stamp duty value. Inadequate consideration will be if the property value is lower than stamp duty value.

Specific movable property - Property here are shares, jewellery, securities, paintings, archaeological collections, sculptures and drawings and other artwork. As of 1st June 2010, bullion also forms a part of this list. Property value will be the fair market value. Inadequate consideration is when property value is below fair market value.

Gifts from relatives means gifts from the assessee's

- parents, parents' brothers or sisters (i.e. aunts, uncles)
- any lineal predecessor/successor
- brother, sister; brothers' or sisters' spouses (i.e. brothers or sisters- in-law)
- spouse, spouse's parents (i.e. in-laws), spouse's brothers or sisters (i.e. brothers or sisters- in-law), spouse's lineal predecessor/successor and their brothers or sisters.

INCOME FROM OTHER SOURCES – IN NUTSHELL				
Income u/s 56(1)	***Income u/s 56(2)***	***Expenses u/s 57***	***Exempted Incomes***	***No TDS***
1. Agricultural Income from outside India 2. Receipt from Person other than employer 3. Income from sub-letting or rent of vacant land. 4. Director's fee/sitting fee. 5. Remuneration of delivering	1. Dividend from companies, and foreign co-operative society. 2. Interest on Securities. 3. Winning from lotteries, races, puzzles, game shows, card games, gambling, and betting. 4. Income from letting of Plant and Machinery where it is	1. No deduction of any expenditure of casual incomes, races, puzzles etc. 2. Bank commission, collection charges. 3. Interest on loan taken to acquire an asset whose income is taxable under this head. 4. Depreciation and expenses on repairs, fire insurance premium, local taxes etc.	1. Interest on certain notified securities. **2. Rate of TDS for Individual, HUF, AOP [No surcharge]** 3. Interest on Security issued by statutory bodies or local authority– 10.5% 4. Listed	1. Interest on Govt. Securities. 2. In case of winning from betting. 3. Deemed dividend u/s 2(22)© 4. Interest on any security notified u/s 193 5. Interest paid to an individual in a/c payee cheque for an amount not exceeding Rs.2,500 by certain

lectures or writing articles 6. Withdrawal from NSS u/s 80CCA – Principal amount + interest 7. Repurchase of units u/s 80CCB— principal amount. 8. Casual incomes other than those taxable u/s56(2) 9. All types of interest except taxable u/s 56(2).	not regular business. 5. Income from letting of Building, along with Furniture and Plant and Machinery and rent is inseparable. 6. Any amount deducted by employer out of employee's salary as their contribution towards Provident Fund or ESI fund. 7. Any amount of gift or gifts received during 2008-09 which is not exempted u/s56(v).	relating to letout period. 5. Amount paid by employer to provident fund or ESI authorities by appropriate date. 6. Any other expenditure which is not a personal or a capital expenditure and is incurred to earn an income taxable under this head.	Debentures– 10.5% 5. Unlisted Debentures– 21% 6. Bank Interest –10.5% 7. Casual Incomes – 31.5% Card Games and T.V. game shows –31.5%	companies. 6. Dividend paid by an Indian Company if it does not exceed Rs. 2,500. 7. Bank Interest credited or paid upto Rs.5,000. 8. Race winning if it upto Rs.2,500. 9. Winning from lotteries and puzzle amount if upto Rs. 5,000 10. In case of card games and games of other soft if uptp Rs.5,000