

UNIT – 5 : INCOME FROM OTHER SOURCES

LEARNING OUTCOMES

After studying this unit, you would be able to-

- ♦ **identify** the income, which are chargeable to tax under the head "Income from other sources";
- ♦ **examine** the transactions of receipt of money and property without consideration or for inadequate consideration to determine whether such receipts are chargeable to tax under this head;
- ♦ **identify and comprehend** the admissible deductions while computing income under this head;
- ♦ **identify and comprehend** the inadmissible deductions while computing income under this head;
- ♦ **compute** the tax on casual income by applying the rate of tax applicable on such income;
- ♦ **compute** the income chargeable to tax under this head.

Proforma for computation of "Income from Other Sources"

	Particulars	Amt
(i)	Dividend Income [Section 92(2)(a)]	xxx
(ii)	Casual Income (winnings from lotteries, crossword puzzles, races including horse races, card games and other games, gambling, betting etc.) [Section 92(2)(b)]	xxx
(iii)	Advance forfeited due to failure of negotiations for transfer of a capital asset [Section 92(2)(h)]	xxx
(iv)	Interest received on compensation/ enhanced compensation deemed to be income in the year of receipt [Section 92(2)(i)]	xxx
(v)	Compensation or other payment, due to or received by any person, in connection with termination of his employment or the modification of the terms and conditions [Section 92(2)(j)]	xxx
(vi)	Sum, including bonus allocated, received under a LIP other than under a ULIP and keyman insurance policy, which is not excluded from the total income under Schedule II (Table: Sl. No. 2) [Section 92(2)(l)]	xxx
(vii)	Sum of money or property received by any person [Section 92(2)(m)]	xxx
(viii)	The following income, if not chargeable to tax under the head "Profits and gains of business or profession"	
	(a) 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
	(b) Any sum received under a Keyman insurance policy including bonus allocated on such policy (if not chargeable to tax under the head "Salaries" also)	xxx
	(c) Interest on securities	xxx
	(d) Income from letting out on hire of machinery, plant or furniture	xxx
	(e) Where letting out of buildings is inseparable from the letting out of machinery, plant or furniture, the income from such letting	xxx
(ix)	Any income chargeable to tax under the Act, but not falling under any other head of income	xxx

(x)	Deemed income u/s 95 – Remission or cessation of a liability or receipt of any amount in respect of loss or expenditure allowed as deduction in an earlier T.Y.	xxx	
			xxx
Less: Deductions allowable [Section 93]			
(a)	In case of interest on securities ♦ Any reasonable sum paid as commission or remuneration to a banker or any other person	xxx	
(b)	Income consists of recovery from employees as contribution to any PF, superannuation fund etc. ♦ Amount of contribution remitted before the due date of filing of return of income u/s 263(1), as per section 29(1)(e)	xxx	
(c)	Income from letting on hire of machinery, plant and furniture, with or without building ♦ current repairs to the machinery, plant, furniture or building ♦ insurance premium ♦ depreciation/unabsorbed depreciation	xxx	
(d)	Family Pension – 1/3 of such income or ₹ 15,000 (in case of optional tax regime) or ₹ 25,000 (in case of default tax regime u/s 202), whichever is less.	xxx	
(e)	Interest on compensation/enhanced compensation received – 50% of such interest	xxx	
(f)	Any other expenditure not in the nature of capital expenditure incurred wholly and exclusively for earning such income	xxx	
(g)	Commutation of pension received from LIC – the entire amount	xxx	
(h)	Gratuity received under the Pension Code or Regulations applicable to members of the Defence service/ members of the All-India services/ members of civil services/ local authority employee on the death of the employee – the entire amount	xxx	xxx
Income from Other Sources			xxx
Note – No deduction shall be allowed in respect of any dividend, income from units of a mutual fund or income from units of a specified company.			

Deductions not allowable [Section 94]	
(a)	Any personal expense of the assessee.
(b)	Any interest chargeable under the Act which is payable outside India on which tax has not been paid or deducted at source.
(c)	Any payment chargeable under the head "Salaries", if it is payable outside India unless tax has been paid thereon or deducted at source therefrom.
(d)	30% of sum 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 upto the due date of return specified in section 263(1).
(e)	Any expenditure for which a payment is made to a related person, to the extent the same is considered excessive or unreasonable by the Assessing Officer, having regard to the FMV.
(f)	Any expenditure in respect of which a payment or aggregate payments in a day to a person is made exceeding ₹ 10,000 or ₹ 35,000, as the case may be and such payment is not made through specified banking or online mode.

Tax on Income from Other Sources				
Income	Winnings from lotteries, crossword puzzles, races including horse races, card games and other games, gambling, betting etc. (other than winning from any online game)	Unexplained cash credits/ investments/ money, bullion, jewellery etc./ expenditure, etc.	Net winnings from online games	Other Income
Section	Section 194(1) (Table: Sl. No. 1)	Section 195	Section 194(1) (Table: Sl. No. 5)	-

Tax rate	30% of such winnings (further increased by surcharge, if applicable, and health and education cess@4%)	30% of such income <i>plus</i> surcharge @25% of tax (Effective rate of tax is 39%, including health and education cess@4%)	30% of such winnings (further increased by surcharge, if applicable, and health and education cess@4%)	Normal rates of tax
Other conditions	◆ No expenditure or allowance can be allowed from such income. ◆ Deduction under Chapter VIII is not allowable from such income. ◆ Adjustment of unexhausted basic exemption limit is also not permitted against such income. ◆ Set-off of losses is not permissible against such income.			Deductions specified in section 93 allowable, subject to limits mentioned thereunder. Section 94 specifies the deductions not allowable.

5.1 Structured Sectional Learning

Section	Particulars
2(40)	Dividend
7(2)	Dividend deemed to be income in a tax year
92	Income from other sources
93	Deductions
94	Amounts not deductible
95	Profits chargeable to tax
276	Method of accounting

5.2 INTRODUCTION

Any income, profits or gains includible in the total income of an assessee, which cannot be included under any of the preceding heads of income, is chargeable under the head 'Income from other sources'. Thus, this head is the residuary head of income and brings within its scope all the taxable income, profits or gains of an assessee which fall outside the scope of any other head. Therefore, when any income, profit or gain does not fall precisely under any of the other specific heads but is chargeable under the provisions of the Act, it would be charged under this head.

5.3 METHOD OF ACCOUNTING [SECTION 276]

Income chargeable under the head "Income from other sources" has to be computed as per either cash or mercantile system of accounting regularly employed by the assessee.



5.4 INCOMES CHARGEABLE UNDER THIS HEAD [SECTION 92]

The income chargeable only under the head 'Income from other sources'

(1) Dividend income [Section 92(2)(a)]

Dividend income is always taxable under the head "Income from other sources". The term 'dividend' as used in the Act has a wider scope and meaning than under the general law.



Deemed dividend [Sections 2(40)(a) to (e)]:

According to section 2(40), the following receipts are deemed to be dividend:

- (a) Distribution of accumulated profits, entailing the release of company's assets** - Any distribution by a company of accumulated profits, whether capitalised or not, if it entails the release by the company to its shareholders of all or any part of its assets will be deemed as dividend.



If accumulated profits are distributed in cash, cheque, RTGS, NEFT, etc, it is dividend in the hands of the shareholders. Where accumulated profits are distributed in kind, for example by delivery of shares etc. entailing the release of company's assets, the market value of such shares on the date of such distribution is deemed dividend in the hands of the shareholder.

- (b) Distribution of debentures, deposit certificates to shareholders and bonus shares to preference shareholders** - Any distribution to its shareholders by a company of debentures, debenture stock or deposit certificate in any form, with or without interest, and any distribution of bonus shares to preference shareholders to the extent to which the company possesses accumulated profits, whether capitalised or not, will be deemed as dividend.

The market value of such bonus shares is deemed as dividend in the hands of the preference shareholder.

In the case of debentures, debenture stock etc., their value is to be taken at the market rate and if there is no market rate they should be valued according to accepted principles of valuation.



Bonus shares given to equity shareholders are not treated as dividend.

- (c) Distribution on liquidation** - Any distribution made to the shareholders of a company on its liquidation, to the extent to which the distribution is attributable to the accumulated profits of the company immediately before its liquidation, whether capitalised or not, is deemed to be dividend income.



Any distribution made out of the profits of the company after the date of the liquidation cannot amount to dividend. It is a repayment towards capital.

- (d) Distribution on reduction of capital** - Any distribution to its shareholders by a company on the reduction of its capital to the extent to which the company possessed accumulated profits, whether capitalised or not, shall be deemed to be dividend.

(e) **Advance or loan by a closely held company to its shareholder, a specified concern or for benefit of such shareholder** - Any payment by a company in which the public are not substantially interested, of any sum

- ◆ as an advance or loan to a shareholder who is the beneficial owner of shares holding not less than 10% of the voting power; or
- ◆ as an advance or loan to any concern (i.e., HUF/ Firm/ AOP/ BOI/Company) in which such shareholder is a member or a partner and in which he has a substantial interest (i.e., not less than 20% share of the income of the concern); or
- ◆ made on behalf or for the individual benefit of any such shareholder will be deemed to be dividend to the extent of the accumulated profits of company.

If the loan is not covered by the accumulated profits, it is not deemed to be dividend.



Subsequent repayment of loan or charge of interest at market rate does not make any difference in the applicability of section 2(40)(e).

Exceptions: The following do not constitute "dividend" –

- (i) **Distribution in respect of non-participating shares issued for full cash consideration** – Any distribution made under (c) or (d) in respect of any share issued for full cash consideration and the holder of such share is not entitled in the event of liquidation to participate in the surplus asset.
- (ii) **Loan granted in the ordinary course of business** - If the advance or loan to the shareholder or the said concern by a company is in the ordinary course of its business and lending of money is a substantial part of the company's business.
- (iii) **Dividend paid is set off against the deemed dividend** - Where a loan had been treated as dividend and subsequently, the company declares and distributes dividend to all its shareholders including the borrowing shareholder, and the dividend so paid is set off by the company against

the previous borrowing, the adjusted amount will not be again treated as a dividend.

- (iv) **Distribution of shares to the shareholders on demerger by the resulting company** - Any distribution of shares on demerger by the resulting companies to the shareholders of the demerged company (whether or not there is a reduction of capital in the demerged company).
- (v) **Advance or loan between two group entities** – Any advance or loan between two group entities, where one of the group entity is a Finance company or a Finance Unit, the other group entity to the transaction is located in a country or territory outside India and the parent entity or principal entity of such group is listed on the stock exchange in a country or territory outside India as specified by the Central Government.

Meaning of “accumulated profits”

Accumulated profits in point (a), (b), (d) and (e) above include all profits of the company up to the date of distribution or payment of dividend.

Accumulated profits in point (c) include all profits of the company up to the date of liquidation whether capitalised or not.

In the case of an amalgamated company, the accumulated profits, whether capitalized or not, of the amalgamating company on the date of amalgamation shall be included in the accumulated profits, whether capitalized or not or loss, as the case may be, of the amalgamated company.

Clarification regarding trade advance not to be treated as deemed dividend under 2(40)(e) – [Circular No. 19/2017, dated 12.06.2017]

Section 2(40)(e) provides that "dividend" includes any payment by a company in which public are not substantially interested, of any sum by way of advance or loan to a shareholder who is the beneficial owner of shares holding not less than 10% of the voting power, or to any concern in which such shareholder is a member or a partner and in which he has a substantial interest or any payment by any such company on behalf, or for the individual benefit, of any such shareholder, to the extent to which the company in either case possesses accumulated profits.

The CBDT observed that some Courts in the recent past have held that trade advances in the nature of commercial transactions would not fall within the ambit of the provisions of section 2(40)(e) and such views have attained finality.

In view of the above, the CBDT has, vide this circular, clarified that it is a settled position that trade advances, which are in the nature of commercial transactions, would not fall within the ambit of the word 'advance' in section 2(40)(e) and therefore, the same would not to be treated as deemed dividend.

Dividend deemed to be income in a tax year [Section 7(2)]

Deemed dividend u/s 2(40)(a) to (e) – Any dividend declared by a company or distributed or paid by it which is deemed as dividend u/s 2(40)(a) to (e) would be deemed to be the income of the tax year in which it is so declared, distributed or paid.

Interim dividend – Interim dividend would be deemed to be the income of the tax year in which such dividend is unconditionally made available by the company to the members who is entitled to it.

Tax rate on dividend income

Any income by way of dividends received by a resident from a company, whether domestic or foreign, is taxable in the hands of a resident shareholder at normal rates of tax.



1.	<i>Alpha Pvt. Ltd., a closely held company, advanced ₹ 15 lakhs to Mr. Raj, who holds 14% voting power in the company. The company possesses accumulated profits of ₹ 10 lakhs. How much amount shall be taxable as deemed dividend?</i>	
	(a)	₹ 15 lakhs
	(b)	₹ 14 lakhs
	(c)	₹ 10 lakhs
	(d)	Nil

2.	<i>XYZ Ltd. distributed bonus shares to its equity shareholders out of accumulated profits. What will be the tax treatment in the hands of equity shareholders?</i>	
	(a)	<i>Taxable as dividend</i>
	(b)	<i>Taxable as capital gains</i>
	(c)	<i>Not treated as dividend</i>
	(d)	<i>Taxable as salary</i>
3.	<i>A company distributed accumulated profits by transferring certain assets to shareholders. In such case, the amount taxable as dividend shall be:</i>	
	(a)	<i>Book value of assets</i>
	(b)	<i>Cost of acquisition of assets</i>
	(c)	<i>Market value of assets on date of distribution</i>
	(d)	<i>Stamp duty value on the date of purchase of assets</i>

ILLUSTRATION 1

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

- (i) Is the amount of loan taxable as deemed dividend, if the company is a company in which the public are substantially interested?*
- (ii) What would be your answer if the lending company is a private limited company (i.e., which is not a company in which the public are substantially interested)?*

SOLUTION

Any payment by a company, other than a company in which the public are substantially interested, of any sum by way of advance or loan to an equity shareholder, being a person who is the beneficial owner of shares holding not less than 10% of the voting power, is deemed as dividend under section 2(40)(e), to the extent the company possesses accumulated profits.

- (i) The provisions of section 2(40)(e), however, will not apply where the loan is given by a company in which public are substantially interested. In such a case, the loan would not be taxable as deemed dividend.
- (ii) However, if the loan is taken from a private company (i.e., a company in which the public are not substantially interested), which is a not a company where lending of money is a substantial part of the business of the company, the provisions of section 2(40)(e) would be attracted. In this case, since the company is a manufacturing company and not a lending company and Rahul holds more than 10% of the equity shares in the company, the provisions of section 2(40)(e) would be attracted.

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

(2) Casual Income [Section 92(2)(b)]



Casual income means income in the nature of winnings from lotteries, crossword puzzles, races including horse races, card games and other games of any sort, gambling, betting etc.

Casual income is chargeable to tax under the head "Income from Other Sources".

(3) Advance forfeited due to failure of negotiations for transfer of a capital asset to be taxable as "Income from other sources" [Section 92(2)(h)]

- (i) Prior to 1st April, 2014, any advance retained or received in respect of a negotiation for transfer which failed to materialise is reduced from the cost of acquisition of the asset or the written down value or the fair market value of the asset, at the time of its transfer to compute the capital gains arising therefrom.

- (ii) Section 56(2)(ix) of the Income-tax Act, 1961 provided for the taxability under the head 'Income from other sources' of any sum of money, received as an advance or otherwise in the course of negotiations for transfer of a capital asset, if such sum had been forfeited on or after 1st April 2014.



- (iii) Section 92(2)(h) provides for the taxability of any sum of money received as an advance or otherwise during negotiations for the transfer of a capital asset. As per this section, such sum shall be chargeable to income-tax under the head 'Income from other sources', if such sum is forfeited on or after 1st April 2026 and the negotiations do not result in transfer of such capital asset.
- (iv) It may be noted that advance received and forfeited upto 31.3.2014 has to be reduced from cost of acquisition while computing capital gains, since such advance would not have been subject to tax under section 56(2)(ix) of the Income-tax Act, 1961. The advance received and forfeited on or after 1.4.2026 would be subject to tax under section 92(2)(h). Hence, such advance would not be reduced from the cost of acquisition for computing capital gains.

(4) Interest received on compensation/ enhanced compensation deemed to be income in the year of receipt and taxable under the head "Income from Other Sources" [Sections 92(2)(i)]

- (i) As per section 276(1), income chargeable under the head "Profits and gains of business or profession" or "Income from other sources", shall be computed as per either cash or mercantile system of accounting regularly employed by the assessee.
- (ii) Section 278(1) provides that the interest received by an assessee on any compensation or on enhanced compensation shall be deemed to be his income for the tax year in which it is received, irrespective of the method of accounting followed by the assessee.
- (iii) Section 92(2)(i) provides that income by way of interest received on compensation or on enhanced compensation referred to in section 278(1) shall be assessed as "Income from other sources" in the tax year in which it is received.



(5) Compensation or any other payment received in connection with termination of his employment [Section 92(2)(j)]

Any compensation or 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, shall be chargeable to tax under this head. However, if it is received from employer, then it is taxable u/s 18(1)(a) under the head "Income from Salaries".



4.	Mr. A received an advance of ₹6 lakhs on 20th May 2026 during negotiations for transfer of land. The negotiations failed and the advance was forfeited by Mr. A. What would be the tax treatment of ₹ 6 lakhs in the hands of Mr. A:
(a)	Reduced from cost of acquisition of land
(b)	Exempt from tax
(c)	Taxable under the head "Income from Other Sources"
(d)	Taxable as capital gains
5.	Mr. G received interest on enhanced compensation of ₹ 5,00,000 during the tax year 2026-27. Out of such interest, ₹ 1,50,000 relates to T.Y. 2020-21, ₹ 1,65,000 relates to T.Y. 2021-22 and ₹ 1,85,000 relates to T.Y. 2022-23. In which year the interest on enhanced compensation would be taxable?
(a)	It shall be taxable in the respective years to which it relates.
(b)	Entire interest shall be taxable in T.Y. 2026-27 under the head "Income from Other Sources" after providing 50% deduction
(c)	Only ₹ 1,85,000 shall be taxable in T.Y. 2026-27.
(d)	Interest on enhanced compensation is exempt from tax.

(6) Sum, including bonus allocated, received during a tax year under a LIP other than sum received under a ULIP and keyman insurance policy, which is not excluded from the total income under Schedule II (Table: Sl. No. 2) [Section 92(2)(I)]

Any sum received under a life insurance policy, including the sum allocated by way of bonus on such policy would not be included in the total income of a person [Schedule II (Table: Sl. No. 2)].

The following table summarizes the conditions to be satisfied for exemption specified in Schedule II (Table: S. No. 2) vis-a-vis the date of issue of such policies-

Period of Issue of Policy	Condition for Exemption: Premium to sum assured ratio
In respect of policies issued before 1.4.2003	Any sum received under a LIP including the sum allocated by way of bonus is exempt without any further condition.
In respect of policies issued between 1.4.2003 and 31.3.2012	Exemption would be available only if the premium to sum assured ratio is $\leq 20\%$.
In respect of policies issued between 1.4.2012 and 31.3.2013	Exemption would be available only if the premium to sum assured ratio is $\leq 10\%$.
In respect of policies issued between 1.4.2013 to 31.3.2023	(a) Where the insurance is on the life of a person with disability or severe disability as referred to in section 154 or a person suffering from disease or ailment as specified under section 128.
	Exemption would be available only if the premium to sum assured ratio is $\leq 15\%$ for "special policies". "Special policy" means any policy issued on life of any person, who is - (i) a person with disability or a person with severe disability as referred to in section 154; or (ii) suffering from disease or ailment as specified in the rules made under section 128.

	(b) Where the insurance is on the life of any person, other than mentioned in (a) above Exemption would be available only if the premium to sum assured ratio is $\leq 10\%$ for other policies.
In respect of policies issued on or after 1.4.2023	Exemption would be available if the premium to sum assured ratio is $\leq 15\%$ for "special policies" and $\leq 10\%$ for other policies. Further, the aggregate of premium for all such policies should $\leq ₹ 5,00,000$ in any of the tax years during the term of all such policies.
Any sum is received on the death of a person is exempt irrespective of the annual premium payable on the policy.	
Meaning of premium to sum assured ratio – It means the highest % of annual premium payable to the actual capital sum assured, during the term of the policy.	
The following sums shall not be eligible for exclusion from the total income – (i) any sum received under section 127(4) i.e., In the event of the death of the dependent disabled, in respect of whom an individual or the member of the HUF has paid or deposited any amount in any scheme of LIC or any other insurer, before such individual or member of the HUF, the amount so paid or deposited shall be deemed to be the income of the assessee of the tax year in which such amount is received. (ii) any sum received under a keyman insurance policy	

For removal of difficulties, the CBDT may issue guidelines with the previous approval of the Central Government, which shall be binding on the income-tax authority and the assessee. Accordingly, the CBDT has, with the approval of the Central Government, vide this circular, issued the following guidelines in respect of LIPs (other than ULIPs)–



Guidelines under Schedule II (Table: Sl. No. 2) of the Income-tax Act, 2025 [Circular No. 15/2023 dated 16.08.2023]

Situation 1: No sum of any nature including bonus (such sum hereinafter referred as "consideration") is received by the assessee on any LIPs which are issued on or after 1.4.2023 (such LIPs hereinafter referred as "eligible LIPs") during any tax year preceding the current tax year (being the T.Y. in which

consideration is received and its taxability is being examined) or consideration has been received on such eligible LIPs in an earlier tax year but has not been claimed exempt. In such a situation, the exemption would be determined as under:

I. Where the assessee has received consideration, during the current T.Y., under one eligible LIP only

Circumstance	Eligibility for exemption under schedule II (Table: Sl. No. 2)
If the amount of premium payable on such eligible LIP does not exceed ₹ 5,00,000 in any of the TYs during the term of such eligible LIP and premium to sum assured ratio does not exceed 10%.	Such consideration would be eligible for exemption under schedule II (Table: Sl. No. 2). [Refer Example 1 and 2 given below]
If the amount of premium payable on such eligible LIP > ₹ 5,00,000 for any of the TYs during the term of such eligible LIP	Such consideration would not be eligible for exemption under schedule II (Table: Sl. No. 2). [Refer Example 3 given below]

Example 1:

LIP	A
Date of issue	1.4.2014
Annual premium	6,00,000
Sum assured	60,00,000
Consideration received as on 01.11.2026 on maturity	70,00,000
Note – The assessee did not receive any consideration under any other eligible LIPs in earlier T.Y. preceding the T.Y.2026-27.	

Eligibility for exemption under schedule II (Table: Sl. No. 2) - The consideration received under LIP "A" would be exempt under schedule II (Table: Sl. No. 2) in T.Y. 2026-27 since premium to sum assured does not exceed 10%. Moreover, as the policy has been issued before 1.4.2023, limit of ₹ 5,00,000 of amount of premium payable is not applicable, since it is not an eligible LIP.

Example 2:

LIP	A
Date of issue	1.4.2023
Annual premium	5,00,000
Sum assured	50,00,000
Consideration received as on 01.11.2033 on maturity	52,00,000
Note – The assessee did not receive any consideration under any other eligible LIPs in earlier T.Y. preceding the T.Y.2033-34.	

Eligibility for exemption under schedule II (Table: Sl. No. 2) - The consideration received would be exempt under schedule II (Table: Sl. No. 2) in T.Y. 2033-34, since the annual premium payable on the policy does not exceed ₹ 5,00,000 and also premium to sum assured does not exceed 10%.

Example 3:

LIP	A
Date of issue	1.4.2023
Annual premium	6,00,000
Sum assured	60,00,000
Consideration received as on 01.11.2033 on maturity	70,00,000
Note – The assessee did not receive any consideration under any other eligible LIPs in earlier T.Y. preceding the T.Y.2033-34.	

Eligibility for exemption under schedule II (Table: Sl. No. 2) - The consideration received would **not** be exempt under schedule II (Table: Sl. No. 2) in T.Y. 2033-34 since the annual premium payable on the eligible LIP exceeds ₹ 5,00,000.

II. Where the assessee has received consideration, during the current T.Y., under more than one eligible LIP

Circumstance	Eligibility for exemption under schedule II (Table: Sl. No. 2)
If the aggregate of premium payable on such eligible LIPs does not exceed ₹ 5,00,000 in any of the TYs during the	Such consideration would be eligible for exemption under schedule II (Table: Sl. No. 2).

term of such eligible LIPs and the premium to sum assured is $\leq 10\%$.	[Refer Example 4 given below]
If the aggregate of premium payable on such eligible LIPs > ₹ 5,00,000 in any of the TYs during the term of such eligible LIP	Consideration in respect of any of those eligible LIPs whose aggregate of premium does not exceed ₹ 5,00,000 in any of the TYs during their term would be eligible for exemption under schedule II (Table: Sl. No. 2), provided their premium to sum assured is $\leq 10\%$. [Refer Examples 5, 6 and 7 given below]

Example 4:

LIP	A	B
Date of issue	1.4.2023	1.4.2023
Annual premium	3,00,000	2,00,000
Sum assured	30,00,000	20,00,000
Consideration received as on 01.11.2033 on maturity	32,00,000	21,00,000
Note – The assessee did not receive any consideration under any other eligible LIPs in earlier T.Y. preceding the T.Y.2033-34.		

Eligibility for exemption under schedule II (Table: Sl. No. 2) – In this case, the aggregate of premium payable for LIP "A" and LIP "B" does not exceed ₹ 5,00,000 during the term of these policies.

Further, premium to sum assured in respect of LIP "A" and LIP "B" does not exceed 10%. Therefore, the consideration received under LIP "A" and "B" would be exempt under schedule II (Table: Sl. No. 2) in T.Y. 2033-34.

Example 5:

LIP	A	B
Date of issue	1.4.2023	1.4.2023
Annual premium	4,50,000	5,50,000
Sum assured	45,00,000	55,00,000

Consideration received as on 01.11.2033 on maturity	52,00,000	60,00,000
Note – The assessee did not receive any consideration under any other eligible LIPs in earlier T.Y. preceding the T.Y.2033-34.		

Eligibility for exemption under schedule II (Table: Sl. No. 2) – In this case, the aggregate of premium payable for LIP “A” and LIP “B” exceeds ₹ 5,00,000 during the term of these policies.

However, the consideration received under LIP “A” would be exempt under schedule II (Table: Sl. No. 2) in T.Y. 2033-34, since its annual premium does not exceed ₹ 5,00,000 in any tax year during the term of the policy and also its premium to sum assured does not exceed 10%.

Consequently, the consideration received under LIP “B” alone would **not** be exempt under schedule II (Table: Sl. No. 2) in T.Y. 2033-34.

Example 6:

LIP	A	B	C
Date of issue	1.4.2023	1.4.2023	1.4.2023
Annual premium	1,00,000	3,50,000	6,00,000
Sum assured	10,00,000	35,00,000	60,00,000
Consideration received as on 01.11.2033 on maturity	12,00,000	40,00,000	70,00,000
Note – The assessee did not receive any consideration under any other eligible LIPs in earlier T.Y. preceding the T.Y.2033-34.			

Eligibility for exemption under schedule II (Table: Sl. No. 2) - The aggregate of annual premium payable for LIP “A”, LIP “B” and LIP “C” exceeds ₹ 5,00,000 during the term of these policies.

However, the consideration received under LIPs “A” and “B” would be exempt under schedule II (Table: Sl. No. 2) in T.Y. 2033-34, since aggregate of premium payable for these two policies does not exceed ₹ 5,00,000 in any tax year during the term of these two policies and premium to sum assured in respect of these policies does not exceed 10%.

Consequently, the consideration received under LIP “C” alone would not be exempt under schedule II (Table: Sl. No. 2) in T.Y. 2033-34.

Example 7:

LIP	X	A	B	C
Date of issue	1.4.2022	1.4.2023	1.4.2023	1.4.2023
Annual premium	5,50,000	1,00,000	3,50,000	6,00,000
Sum assured	55,00,000	10,00,000	35,00,000	60,00,000
Consideration received as on 01.11.2032 on maturity	62,00,000			
Consideration received as on 01.11.2033 on maturity		12,00,000	40,00,000	70,00,000

Note – The assessee did not receive any consideration under any other eligible LIPs in earlier T.Y. preceding the T.Y.2033-34, except LIP X in T.Y. 2032-33.

Eligibility for exemption under schedule II (Table: Sl. No. 2) - The consideration received under LIP "X" would be exempt under schedule II (Table: Sl. No. 2) in T.Y. 2032-33, since premium to sum assured does not exceed 10%. Moreover, as the policy has been issued before 1.4.2023, limit of ₹ 5,00,000 on amount of premium payable is not applicable, since LIP "X" is not an eligible LIP.

The aggregate of premium payable for LIP "A", LIP "B" and LIP "C" (being LIPs issued on or after 1.4.2023) exceeds ₹ 5,00,000 during the term of these policies.

However, the consideration received under LIPs "A" and "B" would be exempt under schedule II (Table: Sl. No. 2) in T.Y. 2033-34, since aggregate of premium payable for these two policies does not exceed ₹ 5,00,000 in any tax year during the term of these two policies and premium to sum assured in respect of these policies does not exceed 10%.

Consequently, the consideration received under LIP "C" alone would not be exempt under schedule II (Table: Sl. No. 2) in T.Y. 2033-34.

Situation 2: Consideration has been received by the assessee under any one or more eligible LIPs (i.e., issued on or after 1.4.2023) during any T.Y. preceding the current T.Y. and it has been claimed to be exempt. Such eligible LIPs are referred as "Earlier Exempt Eligible LIPs (EEE LIPs)" in this paragraph and corresponding

examples and reference to eligible LIPs shall not include EEE LIPs. The exemption under schedule II (Table: Sl. No. 2) would be determined as under:

I. Where the assessee has received consideration, during the current T.Y., under one eligible LIP only

Circumstance	Eligibility for exemption under schedule II (Table: Sl. No. 2)
If aggregate of premium payable on such eligible LIP and EEE LIPs does not exceed ₹ 5,00,000 in any of the TYs during the term of such eligible LIP and premium to sum assured in respect of eligible LIP does not exceed 10%.	Consideration under such eligible LIP would be eligible for exemption under schedule II (Table: Sl. No. 2).
If aggregate of premium payable on such eligible LIP and EEE LIPs > ₹ 5,00,000 in any of the TYs during the term of such eligible LIP	Consideration under such eligible LIP would not be eligible for exemption under schedule II (Table: Sl. No. 2).

II. Where the assessee has received consideration, during the current T.Y., under more than one eligible LIP

Circumstance	Eligibility for exemption under schedule II (Table: Sl. No. 2)
If aggregate of premium payable on such eligible LIPs and EEE LIPs does not exceed ₹ 5,00,000 in any of the TYs during the term of such eligible LIPs and premium to sum assured in respect of eligible LIPs also does not exceed 10%.	Consideration received would be eligible for exemption under schedule II (Table: Sl. No. 2).
If aggregate of premium payable on such eligible LIPs and EEE LIPs > ₹ 5,00,000 in any of the TYs during the term of such eligible LIPs	Consideration in respect of any of those eligible LIPs (whose aggregate of premium along with the aggregate of premium of EEE LIPs does not exceed ₹ 5,00,000 in any of the TYs during their term) would be eligible for exemption under schedule II (Table: Sl. No. 2). [Refer Examples 8, 9 and 10 given below]

Example 8:

LIP	X	A	B	C
Date of issue	1.4.2023	1.4.2024	1.4.2024	1.4.2024
Annual premium	4,50,000	1,00,000	1,50,000	6,00,000
Sum assured	45,00,000	10,00,000	15,00,000	60,00,000
Consideration received as on 01.11.2033 on maturity	50,00,000			
Consideration received as on 01.11.2034 on maturity		12,00,000	18,00,000	70,00,000
Note – The assessee did not receive any consideration under any other eligible LIPs in earlier T.Y. preceding the T.Y.2034-35, except LIP X in T.Y. 2033-34.				

Eligibility for exemption under schedule II (Table: Sl. No. 2) - The consideration under LIP "X" would be exempt under schedule II (Table: Sl. No. 2) in T.Y. 2033-34, since the annual premium does not exceed ₹ 5,00,000 and also its premium to sum assured does not exceed 10%.

In this case, the aggregate of the annual premium payable for LIP "A", LIP "B" and LIP "C" along with the premium for LIP "X" exceeds ₹ 5,00,000 during the term of these policies.

The aggregate of the annual premium payable for LIP "A" and the premium for LIP "X" also exceeds ₹ 5,00,000 during the term of these policies.

Consequently, the consideration received under LIP "A", LIP "B" and LIP "C" would not be exempt under schedule II (Table: Sl. No. 2) in T.Y. 2034-35.

Example 9:

LIP	X	A	B	C
Date of issue	1.4.2023	1.4.2024	1.4.2024	1.4.2024
Annual premium	2,50,000	2,00,000	2,50,000	6,00,000
Sum assured	25,00,000	20,00,000	25,00,000	60,00,000
Consideration received as on 01.11.2033 on maturity	30,00,000			
Consideration received as on 01.11.2034 on maturity		24,00,000	38,00,000	70,00,000
Note – The assessee did not receive any consideration under any other eligible LIPs in earlier T.Y. preceding the T.Y.2034-35, except LIP X in T.Y. 2033-34.				

Eligibility for exemption under schedule II (Table: Sl. No. 2) - The consideration under LIP "X" would be exempt under schedule II (Table: Sl. No. 2) in T.Y. 2033-34, since the annual premium does not exceed ₹ 5,00,000 and also its premium to sum assured does not exceed 10%.

In this case, the aggregate of the annual premium payable for LIP "A", LIP "B" and LIP "C" along with the premium for LIP "X" exceeds ₹ 5,00,000 during the term of these policies.

However, the consideration received under LIPs "A" or "B" (any one) can be claimed as exempt under schedule II (Table: Sl. No. 2) in T.Y. 2034-35.

If the consideration received under LIP "A" is claimed to be exempt as aggregate of premium payable for LIP "X" and "A" did not exceed ₹ 5,00,000 in any of the TYs., the consideration received under LIP "B" would not be exempt.

If the consideration received under LIP "B" is claimed to be exempt as aggregate of premium payable for LIP "X" and "B" did not exceed ₹ 5,00,000 in any of the TYs., the consideration received under LIP "A" would not be exempt. Exemption for consideration received under LIP "B" is preferred as it is more beneficial to the assessee.

Alternative treatment: If the consideration under LIP "X" was not claimed to be exempt under schedule II (Table: Sl. No. 2) in T.Y. 2033-34 by the assessee, then, the consideration received under LIP "A" and LIP "B" would be exempt under schedule II (Table: Sl. No. 2) in T.Y. 2034-35 since the aggregate of premium payable for the LIPs "A" and "B" together did not exceed ₹ 5,00,000 in any of the tax years during the term of these two policies. However, the most beneficial treatment is to claim LIP "X" and "B" as exempt.

It may be noted that in every case, the consideration received for LIP "C" would not be exempt under schedule II (Table: Sl. No. 2).

Example 10:

LIP	X	Y	A	B	C
Date of issue	1.4.2023	1.4.2023	1.4.2024	1.4.2024	1.4.2024
Annual premium	2,00,000	2,00,000	2,00,000	3,00,000	6,00,000
Sum assured	20,00,000	20,00,000	20,00,000	30,00,000	60,00,000

Consideration received on surrender as on 1.7.2033	12,00,000				
Consideration received as on 01.11.2034 maturity		24,00,000			
Consideration received as on 01.11.2035 maturity			24,00,000	36,00,000	70,00,000

Note – The assessee did not receive any consideration under any other eligible LIPs in earlier T.Y. preceding the T.Y.2035-36, except LIP "X" and "Y".

Eligibility for exemption under schedule II (Table: Sl. No. 2) - The consideration under LIP "X" would be exempt under schedule II (Table: Sl. No. 2) in T.Y.2033-34, since the annual premium does not exceed ₹ 5,00,000 and also its premium to sum assured does not exceed 10%.

The consideration received under LIP "Y" would be exempt under schedule II (Table: Sl. No. 2) in T.Y. 2034-35, since the aggregate of premium payable for LIP "X" and "Y" does not exceed ₹ 5,00,000 and premium to sum assured payable for LIP "Y" does not exceed 10%.

The consideration received under LIPs "A", LIP "B" and LIP "C" would not be exempt under schedule II (Table: Sl. No. 2) in T.Y. 2035-36, since aggregate of premium payable for these three policies and LIP "X" and "Y" exceeds ₹ 5,00,000.

Alternative treatment: If the consideration on surrender under LIP "X" was not claimed to be exempt under schedule II (Table: Sl. No. 2) in T.Y. 2033-34 by the assessee, then the consideration received under LIP "Y" would be exempt and the consideration received under LIP "A" or LIP "B" (any one) can be exempt under schedule II (Table: Sl. No. 2) in T.Y. 2035-36. If the consideration received under LIP "A" is claimed to be exempt, as aggregate of premium payable for LIP "Y" and "A" did not exceed ₹ 5,00,000 in any of the TYs., the consideration received under LIP "B" would not be exempt.

If the consideration received under LIP "B" is claimed to be exempt as aggregate of premium payable for LIP "Y" and "B" did not exceed ₹ 5,00,000 in any of the TYs., the consideration received under LIP "A" would not be exempt. Exemption for consideration received under LIP "B" is preferred as it is more beneficial to the assessee.

If the consideration on surrender of LIP "X" and on maturity of LIP "Y" were not claimed to be exempt under schedule II (Table: Sl. No. 2) in T.Y.2033-34 and T.Y.2034-35, respectively, then consideration received under both LIP "A" and LIP "B" would be exempt in T.Y.2035-36 (being LIPs issued on or after 1.4.2023, whose aggregate premium does not exceed ₹ 5,00,000).

It may be noted that, in every case, consideration received under LIP "C" would not be exempt under schedule II (Table: Sl. No. 2).

Clarification on GST Component: It is also clarified by the CBDT that the premium payable/ aggregate premium payable for a life insurance policy/policies, other than a ULIP, issued on or after 1.4.2023, for any tax year, would be exclusive of the amount of GST payable on such premium.

Clarification on premium of Term life insurance policy: It is further clarified by the CBDT that the limit of ₹ 5,00,000 of amount of premium payable would not be applicable in case of a term life insurance policy i.e. where sum under a life insurance policy is only paid to the nominee in case of the death of the person insured during the term of the policy and no amount is paid to anyone if the insured person survives the policy tenure.

Hence, any sum received under a term insurance policy shall continue to be exempt under schedule II (Table: Sl. No. 2), irrespective of the amount of the premium payable in respect of such policy. Further the premium paid for such policies would not be counted for checking the limit of ₹ 5,00,000 of amount of premium payable.

Taxability of sum received under a LIP which is not exempt under schedule II (Table: Sl. No. 2)

Where any sum, including bonus allocated, is received, during a tax year, under a life insurance policy, other than

- (i) the sum received under a ULIP
- (ii) income received under a Keyman insurance policy

which is not excluded from the total income of that tax year under schedule II (Table: Sl. No. 2), the sum so received exceeding the aggregate of the premium paid, during the term of such life insurance policy, and not claimed as deduction under the Act, computed in the prescribed manner, would be chargeable to tax under the head "Income from other sources".

Accordingly, Rule 59 prescribed that if any person receives any sum, including the amount allocated by way of bonus, during a tax year under a LIP, then, the income chargeable to tax under section 92(2)(l) has to be computed in the following manner –

	Situation	Income chargeable to tax in the tax year
(i)	where the sum is received for the first time under the LIP during the tax year (first tax year)	A-B, where A = the sum or aggregate of sum received under the LIP during the first tax year; and B = the aggregate of the premium paid during the term of the LIP till the date of receipt of the sum in the first tax year that has not been claimed as deduction under any other provision of the Act.
(ii)	where the sum is received under the LIP during the tax year subsequent to the first tax year (subsequent tax year)	C-D, where C = the sum or aggregate of sum received under the LIP during the subsequent tax year; and D = the aggregate of the premium paid during the term of the LIP till the date of receipt of the sum in the subsequent tax year not being premium which – (a) has been claimed as deduction under any other provision of the Act; or (b) is included in "B" or "D" in any of the year(s) preceding the tax year.

"Sum received under a LIP" means any amount, by whatever name called, received under such policy which is not excluded from the total income of the tax year in accordance with the provisions of Schedule II [Table: Sl.No.2], other than the sum –

- (a) received under a ULIP; or
- (b) received under a Keyman insurance policy

(7) Any sum of money or value of property received without consideration or for inadequate consideration to be subject to tax in the hands of the recipient [Section 92(2)(m)]

(i) In order to prevent the practice of receiving sum of money or the property without consideration or for inadequate consideration, section 92(2)(m) brings to tax any sum of money or the value of any property received by any person without consideration or the value of any property received for inadequate consideration.

(ii) **Sum of Money:** If any sum of money is received without consideration and the total of which exceeds ₹ 50,000, the whole of such sum is chargeable to tax.

(iii) **Immovable property [Land or building or both]:**

I. If an immovable property is received -

(a) **Without consideration:** The stamp duty value of such property would be taxed as the income of the recipient if it exceeds ₹ 50,000.

(b) **For Inadequate consideration:** If stamp duty value of the property exceeds consideration and the difference between the stamp duty value and consideration is more than the higher of –

(i) ₹ 50,000 or

(ii) 10% of consideration,

the difference between the stamp duty value and the consideration shall be chargeable to tax in the hands of the assessee as "Income from other sources".

It may be noted that the above limit shall be considered for **each property separately**.

- II. Value to be considered where the date of agreement is different from date of registration:** If the date of agreement fixing the amount of consideration and the date of registration are not same, the stamp duty value on the date of agreement shall apply, if the consideration, in whole or in part, has been paid in specified banking or online mode on or before the date of agreement for transfer.

Meaning of “Specified Banking or Online Mode” [Section 66(32)] - Specified Banking or Online Mode mean transaction by

- ◆ an account payee cheque or
- ◆ an account payee bank draft or
- ◆ use of electronic clearing system through a bank account or
- ◆ through such other electronic mode, as may be prescribed.

As per Rule 48 of the Income-tax Rules, 2026, “other electronic modes of payment” are the following:

- Credit Card;
- Debit Card;
- Net Banking;
- IMPS (Immediate Payment Service);
- UPI (Unified Payment Interface);
- RTGS (Real Time Gross Settlement);
- NEFT (National Electronic Funds Transfer);
- BHIM (Bharat Interface for Money) Aadhaar Pay, and
- Tier-III: Full KYC Central Bank Digital Currency wallets, P-CBDC, Wholesale/Cross-border CBDC.

- III. If the stamp duty value of immovable property is disputed by the assessee,** the Assessing Officer may refer the valuation of such property to a Valuation Officer. If such value is less than the stamp duty value, the same would be taken for determining the value of such property, for computation of income under this head in the hands of the buyer.

(iv) Movable Property [Property, other than immovable property]:

If movable property is received -

- (a) **Without consideration:** The whole of the aggregate fair market value of such property on the date of receipt would be taxed as the income of the recipient, if aggregate fair market of movable property exceeds ₹ 50,000.
- (b) **For inadequate consideration:** If the difference between the aggregate fair market value and such consideration exceeds ₹ 50,000, such difference would be taxed as the income of the recipient.

(v) Applicability of section 92(2)(m):

The provisions of section 92(2)(m) would apply only to property which is the nature of a capital asset of the recipient and not stock-in-trade, raw material or consumable stores of any business of the recipient. Therefore, only transfer of a capital asset, without consideration or for inadequate consideration would attract the provisions of section 92(2)(m).

**(vi) The table below summarizes the scheme of taxability of gifts –**

	Nature of asset	Taxable value
1	Money	The whole amount, if the same exceeds ₹ 50,000.
2	Movable property	(i) Without consideration: The aggregate fair market value of the property, if it exceeds ₹ 50,000. (ii) Inadequate consideration: The difference between the aggregate fair market value and the consideration, if such difference exceeds ₹ 50,000.

3	Immovable property	(i) Without consideration: The stamp value of the property, if it exceeds ₹ 50,000.
		(ii) Inadequate consideration: The difference between the stamp duty value and the consideration, if such difference is more than the higher of ₹ 50,000 or 10% of consideration.

(vii) Non-applicability of section 92(2)(m): However, any sum of money or value of property received, in the following circumstances would be outside the ambit of section 92(2)(m) -

- (a) from any 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; or
- (e) from any local authority¹; or
- (f) from or by any registered non-profit organization² except when received by any person³; or
- (g) by way of transaction not regarded as transfer⁴ under section 70(1)(a)/(c)/(d)/(e)/(f)/(j)/(k).
- (h) from an individual by a trust created or established solely for the benefit of relative of the individual.
- (i) from such class of persons and subject to such conditions, as may be prescribed.

¹as defined in Schedule III (Note 6)

² as defined in section 355(g)

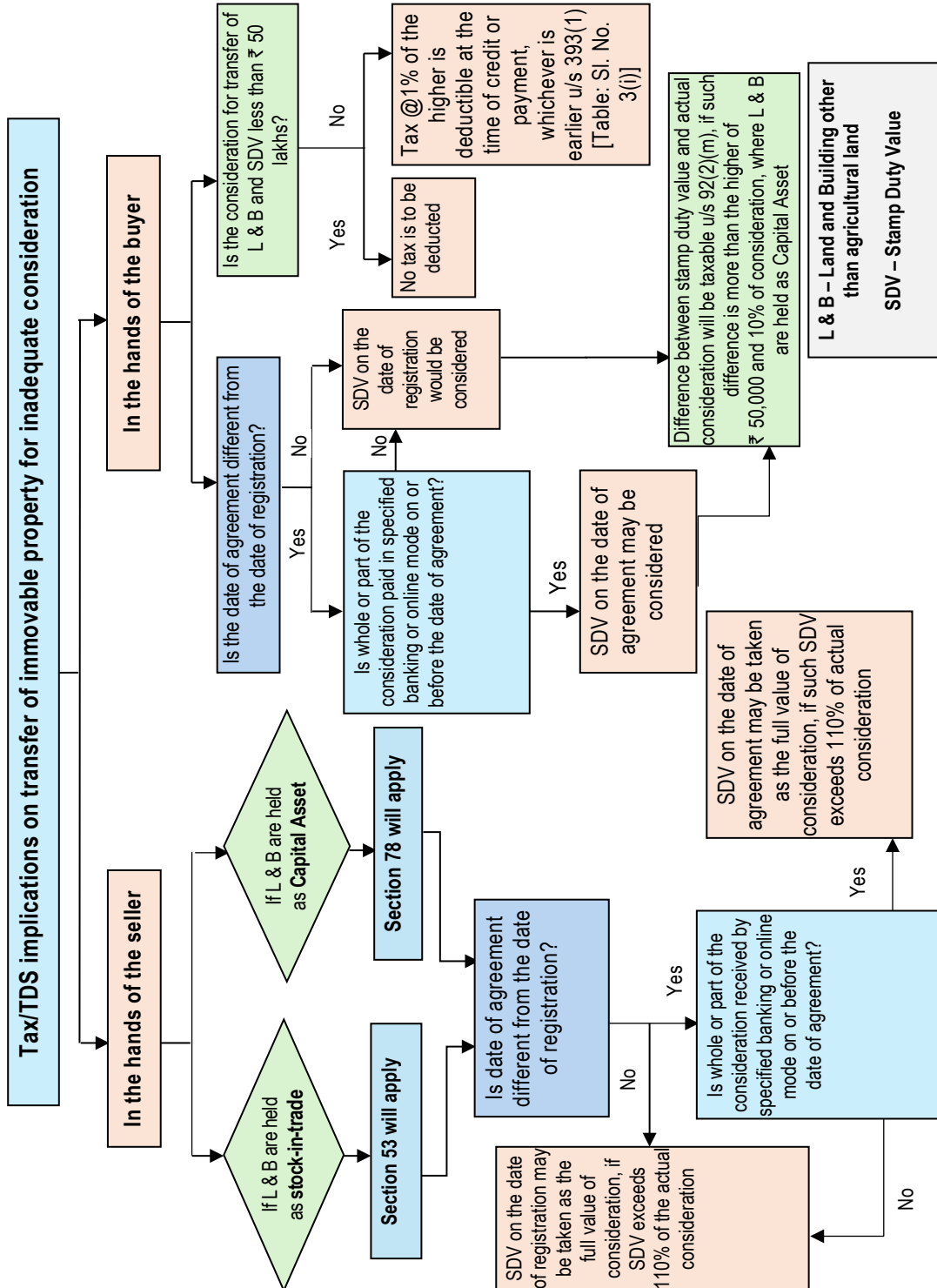
³referred to in section 355(h)

⁴under section 70(1)(g)/(i)/(l)/(n)/(o)/(t)/(u)/(v)/(w)

(viii) Meaning of certain terms:

Term	Meaning
Property	A capital asset of the assessee, namely,- (a) immovable property being land or building or both, (b) shares and securities, (c) jewellery, (d) archaeological collections, (e) drawings, (f) paintings, (g) sculptures, (h) any work of art or (i) bullion (j) virtual digital asset⁵.
Relative	(a) In case of an individual – (i) spouse; (ii) brother or sister; (iii) brother or sister of the spouse; (iv) brother or sister of either of the parents; (v) any lineal ascendant (maternal as well as paternal) or descendant; (vi) any lineal ascendant (maternal as well as paternal) or descendant of the spouse; (vii) spouse of the person referred in (i) to (vi) above. (b) In case of Hindu Undivided Family, any member thereof.

⁵ The provisions relating to Virtual digital asset will be dealt with at Final level.





6.	Ms. Riya received ₹48,000 from one of her friends and ₹10,000 from another friend during the tax year 2026-27 without consideration. What amount shall be taxable under the head "Income from Other Sources"?
(a)	Nil
(b)	₹8,000
(c)	₹10,000
(d)	₹58,000
7.	Mrs. X purchased a building for ₹30 lakhs on 12.6.2026. The stamp duty value of the building on that date was ₹32 lakhs. What amount shall be taxable under section 92(2)(m) in the hands of Mrs. X?
(a)	₹2 lakhs
(b)	Nil
(c)	₹50,000
(d)	Entire stamp duty value of ₹32 lakhs
8.	Mr. K received a residential plot without consideration from his colleague in June 2026. The stamp duty value of the property on the date of transfer was ₹12 lakhs. He also purchased a land for ₹20 lakhs in November 2026. The stamp duty value of the land on that date was ₹21 lakhs. What amount shall be taxable under section 92(2)(m)?
(a)	₹13 lakhs
(b)	Nil
(c)	₹1 lakh
(d)	₹12 lakhs
9.	Mrs. A received jewellery worth ₹35,000 on his birthday from her office colleague. He also received a painting worth ₹20,000 from his boss. What amount shall be taxable under section 92(2)(m) in her hands?
(a)	Nil
(b)	₹35,000
(c)	₹20,000
(d)	₹55,000

ILLUSTRATION 2

Mr. A, a dealer in shares, received the following without consideration during the T.Y. 2026-27 from his friend Mr. B, -

- (1) Cash gift of ₹ 75,000 on his anniversary, 15th April, 2026.
- (2) Bullion, the fair market value of which was ₹ 60,000, on his birthday, 19th June, 2026.
- (3) A plot of land at Faridabad on 1st July, 2026, the stamp value of which is ₹ 5 lakh on that date. Mr. B 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, 2026, 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, 2026.

Further, on 1st November, 2026, Mr. A took possession of property (office building) booked by him two years back at ₹ 20 lakh. The stamp duty value of the property as on 1st November, 2026 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, 2027, 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 T.Y. 2026-27.

SOLUTION**Computation of "Income from other sources" of Mr. A for the T.Y. 2026-27**

Particulars	₹
(1) Cash gift is taxable under section 92(2)(m), since it exceeds ₹ 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 ₹ 50,000	60,000
(3) Stamp value of plot of land at Faridabad, received without consideration, is taxable under section 92(2)(m)	5,00,000
(4) Difference of ₹ 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 and the profit on sale of such shares would be taxable under the head "Profits and gains of business or profession".	
(5) Difference between the stamp duty value of ₹ 23 lakh on the date of booking and the actual consideration of ₹ 20 lakh paid is taxable under section 92(2)(m) since the difference exceeds ₹ 2,00,000, being the higher of ₹ 50,000 or 10% of consideration	3,00,000
Income from Other Sources	9,35,000

Computation of "Capital Gains" of Mr. A for the T.Y.2026-27

Particulars	₹
Sale Consideration	7,00,000
Less: Cost of acquisition [deemed to be the stamp value charged to tax under section 92(2)(m) as per section 73(1) (Table: Sl. No. 17)]	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.

ILLUSTRATION 3

Discuss the taxability or otherwise of the following in the hands of the recipient under section 92(2)(m) of the Income-tax Act, 2025 -

- (i) Akhil HUF received ₹75,000 in cash from niece of Akhil (i.e., daughter of Akhil's sister). Akhil is the Karta of the HUF.
- (ii) 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 ₹9,00,000.
- (iii) 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 ₹ 100 per share. He also received jewellery worth ₹ 45,000 (FMV) from his nephew on the same day.

- (iv) 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 ₹ 5,25,000.

SOLUTION

	Taxable/ Non-taxable	Amount liable to tax (₹)	Reason
(i)	Taxable	75,000	Sum of money exceeding ₹ 50,000 received without consideration from a non-relative is taxable under section 92(2)(m). Daughter of Mr. Akhil's sister is not a relative of Akhil HUF, since she is not a member of Akhil HUF.
(ii)	Non-taxable	Nil	Immovable property received without consideration by a HUF from its relative is not taxable under section 92(2)(m). 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 99(3).
(iii)	Taxable	55,000	As per provisions of section 92(2)(m), in case the aggregate fair market value of property, other than immovable property, received without consideration exceeds ₹ 50,000, the whole of the aggregate value shall be taxable. In this case, the aggregate fair market value of shares (₹ 10,000) and jewellery (₹ 45,000) exceeds ₹ 50,000. Hence, the entire amount of ₹ 55,000 shall be taxable.
(iv)	Non-taxable	Nil	Car is not included in the definition of property for the purpose of section 92(2)(m), therefore, the same shall not be taxable.

ILLUSTRATION 4

Mr. Hari, a property dealer, sold a building in the course of his business to his friend Mr. Rajesh, who is a dealer in automobile spare parts, for ₹ 90 lakh on 1.1.2027 when the stamp duty value was ₹ 150 lakh. The agreement was, however, entered into on 1.9.2026 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, 2025.

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

SOLUTION

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

In the hands of the seller, Mr. Hari	In the hands of the buyer, Mr. Rajesh
In the hands of Hari, the provisions of section 53 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. Under section 53, 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 by specified banking or online mode on or before the date of agreement. In this case, since the down payment of ₹ 15 lakh is received by a crossed cheque on the date of agreement which is not a specified banking or online mode, the option cannot be exercised. 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	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 92(2)(m) 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 or 10% of consideration. 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 92(2)(m) in the hands of Mr. Rajesh, since the payment on the date of agreement is made by crossed cheque which is not a specified banking or online mode.

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

In the hands of the seller, Mr. Hari	In the hands of the buyer, Mr. Rajesh
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 78 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. 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. It may be noted that under section 78, the option to adopt the stamp duty value on the date of agreement can be exercised only if part of full consideration has been received on or before the date of agreement in specified banking or online mode. In this case, since the down payment of ₹ 15 lakhs has been received by cross cheque which is not a specified banking or online mode, the option cannot be exercised.	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. Therefore, the provisions of section 92(2)(m) 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 or 10% of consideration. 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 92(2)(m) in the hands of Mr. Rajesh, since the payment on the date of agreement is made by crossed cheque which is not a specified banking or online mode.

**Income chargeable under the head "Income from other sources" only,
if not chargeable under the head "Profits and gains of business or
profession"**

- (1) Any sum received by an employer-assessee from his employees as contributions to any provident fund, superannuation fund, any fund under the ESI Act, 1948 or any other fund for the welfare of the employees
- (2) Income from letting out on hire machinery, plant or furniture.
- (3) Where letting out of buildings is inseparable from the letting out of machinery, plant or furniture, the income from such letting.
- (4) Interest on securities

However, certain interest income arising to certain persons would be exempt under schedule II:

Sl. No.	Income not to be included in total income	Conditions
11	Income by way of interest, premium on redemption or other payment on such securities, bonds, annuity certificates, savings certificates, other savings certificates issued by the Central Government and deposits	Such certificates and deposits are notified by the Central Government, subject to such conditions and limits as specified in the notification.
	It may be noted that interest on Post Office Savings Bank Account which was so far fully exempt would henceforth be exempt from tax for any tax year only to the extent of: (1) ₹ 3,500 in case of an individual account. (2) ₹ 7,000 in case of a joint account.	
12	Interest on Gold Deposit Bonds issued under the Gold Deposit Scheme, 1999 or deposit certificates issued under the Gold Monetization Scheme, 2015 notified by the Central Government	-

13	Interest on bonds, issued by – (a) a local authority; or (b) a State Pooled Finance Entity. “State Pooled Finance Entity” means such entity which is set up as per the guidelines for the Pooled Finance Development Scheme notified by the Central Government in the Ministry of Housing and Urban affairs.	As specified by the Central Government by notification
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Keyman Insurance Policy

Any sum received under a Keyman insurance policy including the bonus allocated on such policy is chargeable under the head “Income from other sources” if such income is not chargeable under the head “Profits and gains if business or profession” or under the head “Salaries” i.e. 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.

Residual Income

Any income chargeable to tax under the Act, but not falling under any other head of income shall be chargeable to tax under the head “Income from other sources”.

Salary received by an MPs/MLAs will not be chargeable to income-tax under the head ‘Salary’ but will be chargeable as “Income from other sources” under section 92.

However, the following incomes of Members of Parliament or State Legislatures will be exempt under **schedule III** if they opt out of the default tax regime:

Sl. No.	Income not to be included in total income	Eligible persons
5	Daily Allowance received	Any person by reason of his membership of Parliament or of any State Legislature or of any Committee thereof

6	Any allowance received	Any person by reason of his membership of Parliament under the Members of Parliament (Constituency Allowance) Rules, 1986 made under the Salary, Allowances and Pension of Members of Parliament Act, 1954
7	Any constituency allowance received	Any person by reason of his membership of any State Legislature under any State Act or rules made thereunder

There are other exemptions also in respect of certain incomes which are as follows:

Schedule II

Sl. No.	Income not to be included in total income	Conditions
9	Scholarships	Such scholarship is granted to meet the cost of education.
10	Any payment made, whether in cash or in kind for any award or reward.	Such payment is made – (a) in pursuance of any award instituted in the public interest by the Central/State Government or instituted by any other body and approved by the Central Government (b) as a reward by the Central/State Government for such purposes as may be approved by the Central Government in public interest.

Schedule III

Sl. No.	Income not to be included in total income	Eligible persons	Conditions
3	Any amount received or receivable from the Central/ State Government or a local authority by way of compensation on account of any disaster	Any individual or his legal heir	No deduction of this amount was allowed earlier on account of any loss or damage caused by such disaster to such individual or his legal heir.

15	Family pension received	Any member of the family of an individual who had been in the service of Central/ State Government and had been awarded "Param Vir Chakra" or "Maha Vir Chakra" or "Vir Chakra" or other notified gallantry awards	-
16	Family pension received	Widow or children or nominated heirs of a member of the armed forces (including para-military forces) of the Union	The death of such member has occurred in the course of operational duties, in specified circumstances and conditions.
38	Any gratuity commuted as per the provisions of section 19(1) (Table: Sl. No. 3C) to (Table: Sl. No. 6C)	Any widow, children or dependents on death of an employee	-
38B	Any interest on compensation amount awarded by Motor Accident Claims Tribunal	An individual or his legal heir.	Such interest is received under the Motor Vehicles Act, 1988

Schedule IV

Sl. No.	Income not to be included in total income	Eligible persons	Conditions
1	Any income by way of interest	(a) An individual, who is a resident outside India, as defined in FEMA, 1999, or (b) an individual who has been permitted	Such interest is on moneys standing to the credit of such person in a Non-resident (External) Account (NRE A/c) in any bank in India as per the

		by the RBI to maintain such account.	said Act and rules made thereunder.
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It may be noted that the joint holders of the NRE Account do not constitute an AOP by merely having these accounts in joint names. The benefit of exemption under schedule IV will be available to such joint account holders, subject to fulfillment of other conditions contained in that section by each of the individual joint account holders.

ILLUSTRATION 5

Compensation on account of disaster received from a local authority by an individual or his/her legal heir is taxable. Examine the correctness of the statement with reference to the provisions of the Income-tax Act, 2025.

SOLUTION

The statement is **not** correct. As per schedule III (Table: Sl. No. 3), any amount received or receivable by an individual or his/her legal heir from the Central Government, State Government or a local authority by way of compensation on account of any disaster is exempt from tax. However, the exemption is not available to the extent such individual or legal heirs have already been allowed a deduction under this Act on account of such loss or damage caused by such disaster.

Interest from non-SLR Securities of Banks: Whether chargeable under the head "Profits and gains of business or profession" or "Income from other sources"? [Circular No. 18, dated 2.11.2015]

The issue addressed by this circular is whether in the case of banks, expenses relating to investment in non-SLR securities need to be disallowed under section 93(1)(a), by considering interest on non-SLR securities as "Income from other sources."

Section 92(2)(e) provides that income by way of interest on securities shall be chargeable to income-tax under the head "Income from Other Sources", if the income is not chargeable to income-tax under the head "Profits and Gains of Business and Profession".

The CBDT clarified that the investments made by a banking concern are part of the business of banking. Therefore, the income arising from such investments is attributable to the business of banking falling under the head "Profits and Gains of Business and Profession".

5.5 APPLICABLE RATE OF TAX IN RESPECT OF CASUAL INCOME OTHER THAN WINNINGS FROM ANY ONLINE GAME [SECTION 194(1) (TABLE: SL. NO. 1)]

- (i) This section provides that income by way of winnings from lotteries, crossword puzzles, races including horse races (not being income from the activity of owning and maintain race horses) or card games and other games of any sort or from gambling or betting of any form would be taxed at a flat rate of **30% plus surcharge, if applicable, plus health and education cess@4%.**



However, income by way of winnings from any online game would not be taxed under this section.

- (ii) No expenditure or allowance can be allowed from such income.
- (iii) Deduction under Chapter VIII is not allowable from such income.
- (iv) Adjustment of unexhausted basic exemption limit is also not permitted against such income.

5.6 APPLICABLE RATE OF TAX IN RESPECT OF WINNINGS FROM ONLINE GAMES [SECTION 194(1) (TABLE: SL. NO. 5)]

- (i) This section provides that net winnings from any online game would be taxed at a flat rate of **30% plus surcharge, if applicable, plus health and education cess@4%.**
- (ii) **Meaning of online games:** A game that is offered on the internet and is accessible by a user through a computer resource including any telecommunication device.
- (iii) No expenditure or allowance can be allowed from such income.



- (iv) Deduction under Chapter VIII is not allowable from such income.
- (v) Adjustment of unexhausted basic exemption limit is also not permitted against such income.

5.7 DEDUCTIONS ALLOWABLE [SECTION 93]

The income chargeable under the head "Income from other sources" shall be computed after making the following deductions:

- (i) **In the case of interest on securities:** Any reasonable sum paid by way of commission or remuneration to a banker or any other person for the purpose of realising such interest on behalf of the assessee.
- (ii) **Income consists of recovery from employees as contribution to any provident fund etc.:** A deduction will be allowed as per the provisions of section 29(1)(e) i.e., to the extent the contribution is remitted before the due date of filing of return of income u/s 263(1).
- (iii) **Where the income to be charged under this head is from letting on hire of machinery, plant and furniture, with or without building:** The following items of deductions are allowable in the computation of such income:
 - (a) the amount paid on account of any current repairs to the machinery, plant, furniture or building.
 - (b) land revenue, local rates or municipal taxes paid
 - (c) the amount of any premium paid in respect of insurance against risk of damage or destruction of the machinery or plant, furniture or building.
 - (d) the normal depreciation allowance in respect of the machinery, plant, furniture or building, due thereon.
- (iv) **In the case of income in the nature of family pension (a regular monthly amount payable by the employer to a family member of an employee upon the death of such employee):** A deduction of a amount equal to $\frac{1}{3}$ rd of such income or ₹ 15,000 (in case of option regime) or ₹ 25,000 (in case of default regime), whichever is less, is allowable.
- (v) **Any other expenditure not being in the nature of capital expenditure** laid out or expended wholly and exclusively for making or earning such income.

- (vi) **In case of income by way of interest on compensation/ enhanced compensation received chargeable to tax under section 92(2)(i):** Deduction of 50% of such income. No deduction would be allowable under any other clause of section 93 in respect of such income.
- (vii) **In case of income in the nature of commutation of pension received from LIC –** Deduction of the entire amount would be allowed.
- (viii) **In case of gratuity received under the Pension Code or Regulations applicable to members of the Defence service/ members of the All-India services/ members of civil services/ local authority employee on the death of the employee –** the entire amount would be allowed as deduction.

However, in respect of any dividend income or income from units of a Mutual Fund or income from units of a specified company, no deduction shall be allowed.

ILLUSTRATION 6

Interest on enhanced compensation received by Mr. G during the tax year 2026-27 is ₹5,00,000. Out of this interest, ₹1,50,000 relates to the tax year 2020-21, ₹1,65,000 relates to tax year 2021-22 and ₹1,85,000 relates to tax year 2022-23. Discuss the tax implication, if any, of such interest income for T.Y.2026-27.

SOLUTION

The entire interest of ₹ 5,00,000 would be taxable in the year of receipt, namely, T.Y. 2026-27.

Particulars	₹
Interest on enhanced compensation taxable u/s 92(2)(i)	5,00,000
Less: Deduction under section 93(1)(f) @50%	2,50,000
Interest chargeable under the head "Income from other sources"	2,50,000

5.8 DEDUCTIONS NOT ALLOWABLE [SECTION 94]

No deduction shall be made in computing the "Income from other sources" of an assessee in respect of the following items of expenses:

(i) In the case of any assessee:

- (1) any personal expense of the assessee;

- (2) any interest chargeable to tax under the Act which is payable outside India on which tax has not been paid or deducted at source.
 - (3) any payment chargeable to tax under the head "Salaries", if it is payable outside India unless tax has been paid or deducted at source.
- (ii) **Any expenditure in respect of which a payment is made to a related person or made exceeding ₹ 10,000/₹ 35,000 in a mode other than through specified banking or online mode:** In addition to these disallowances, section 94(2) specifically provides that the disallowance of any expenditure in respect of which a payment is made to a related person, to the extent the same is considered excessive or unreasonable by the Assessing Officer, having regard to the FMV and disallowance of payment or aggregate of payments in a day to a person exceeding ₹ 10,000/ ₹ 35,000 when such payment is not made through specified banking or online mode.
- (iii) **Disallowance of 30% of expenditure:** 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
- ◆ such tax has not been deducted or;
 - ◆ such tax after deduction has not been paid upto the due date of return specified in section 263(1).
- In case, assessee fails to deduct the tax on any such sum but is not deemed as assessee in default under section 398(2) by reason that such payee –
- (i) has furnished his return of income under section 263;
 - (ii) has taken into account such sum for computing income in such return of income; and
 - (iii) has paid the tax due on the income declared by him in such return of income, and the payer furnishes a certificate to this effect from an accountant in such form as may be prescribed,
- it would be deemed that the assessee has deducted and paid the tax on such sum.
- The date of deduction and payment of taxes by the payer shall be deemed to be the date on which return of income has been filed by the payee.
- (iv) **No deduction in respect of any expenditure incurred in connection with casual income:** No deduction in respect of any expenditure or allowance in

related to such income by way of earnings from lotteries, cross word puzzles, races including horse races, card games and other games of any sort or from gambling or betting of any form or nature whatsoever shall be allowed in computing the said income.

The prohibition will not, however, apply in respect of the income of an assessee, being the owner of horses maintained for running in horse races, from the activity of owning and maintaining such horses. In respect of the activity of owning and maintaining race horses, expenses incurred shall be allowed even in the absence of any stake money earned. Such loss shall be allowed to be carried forward in accordance with the provisions of section 115.



5.9 DEEMED INCOME CHARGEABLE TO TAX [SECTION 95]

The provisions of section 38(1), (2), (3) and (4) are made applicable in computing the income under this head. Accordingly, where a deduction has been made in respect of a loss, expenditure or liability and subsequently any amount is received or benefit is derived in respect of such expenditure incurred or loss or liability allowed as deduction, then, it shall be deemed as income in the year in which the amount is received or the benefit is accrued.



LET US RECAPITULATE

Where any income, profits or gains includible in the total income of an assessee, cannot be included under any of the other heads, it would be chargeable under the head 'Income from other sources'. Hence, this head is the residuary head of income [Section 92(1)]

Specific Incomes Chargeable under this head [Section 92(2)]

- (1) Dividend Income
- (2) Casual income (winnings from lotteries, crossword puzzles, races including horse races, card games and other games, gambling, betting etc.). Such winnings are chargeable to tax at a flat rate of 30% under section 194(1) (Table: Sl. No. 1) and in case of online games, net winnings therefrom is chargeable to tax @30% u/s 194(1) (Table: Sl. No. 5) and no expenditure or deduction under Chapter VIII can be allowed from such income. No loss can be set-off against such income and even the unexhausted basic exemption limit cannot be exhausted against such income.
- (3) **Sum of money or property received by any person [Section 92(2)(m)]**

	Nature of asset	Particulars	Taxable value
1	Money	Without consideration	The whole amount, if the same exceeds ₹ 50,000.
2	Movable property	Without consideration	The aggregate fair market value of the property, if it exceeds ₹ 50,000.
3	Movable property	Inadequate consideration	The difference between the aggregate fair market value and the consideration, if such difference exceeds ₹ 50,000.
4	Immovable property	Without consideration	The stamp value of the property, if it exceeds ₹ 50,000.
5	Immovable property	Inadequate consideration	The difference between the stamp duty value and the consideration, if such difference exceeds the higher of ₹ 50,000 or 10% of consideration.

Receipts exempted from the applicability of section 92(2)(m)

Any sum of money or any property received -

- (a) from any 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; or
- (e) from any local authority; or
- (f) from or by any registered non-profit organization except when received by any person specified in section 355(h); or.
- (g) by way of transaction not regarded as transfer under specified clauses of section 70(1)
- (h) from an individual by a trust created or established solely for the benefit of relative of the individual.
- (i) from such class of persons and subject to such conditions, as may be prescribed.

(4) Other receipts chargeable under this head

Section	Provision
92(2)(h)	Any sum of money received as an advance or otherwise during negotiations for transfer of a capital asset, if such sum is forfeited and the negotiations do not result in transfer of such asset.
92(2)(i)	Interest received on compensation/enhanced compensation deemed to be income in the year of receipt and taxable under the head "Income from Other Sources".
92(2)(j)	Compensation or other payment, due to or received by any person, by whatever name called, in connection with termination of his employment or the modification of the terms and conditions.
92(2)(l)	Sum, including bonus allocated, received, during a tax year, under a LIP other than under a ULIP and keyman insurance policy, which is not excluded from the total income of that tax year under schedule II (Table: Sl. No. 2).

Exemptions [Schedule II]

Sl. No.	Income not to be included in total income	Conditions
9	Scholarships	Such scholarship is granted to meet the cost of education.
10	Any payment made, whether in cash or in kind for any award or reward.	Such payment is made – (a) in pursuance of any award instituted in the public interest by the Central/State Government or instituted by any other body and approved by the Central Government (b) as a reward by the Central/State Government for such purposes as may be approved by the Central Government in public interest.
11	Income by way of interest, premium on redemption or other payment on such securities, bonds, annuity certificates, savings certificates, other savings certificates issued by the Central Government and deposits	Such certificates and deposits are notified by the Central Government, subject to such conditions and limits as specified in the notification.
It may be noted that interest on Post Office Savings Bank Account which was so far fully exempt would henceforth be exempt from tax for any tax year only to the extent of: (1) ₹ 3,500 in case of an individual account. (2) ₹ 7,000 in case of a joint account.		
12	Interest on Gold Deposit Bonds issued under the Gold Deposit Scheme, 1999 or deposit certificates issued under the Gold Monetization	-

	Scheme, 2015 notified by the Central Government	
13	Interest on bonds, issued by – (a) a local authority; or (b) a State Pooled Finance Entity. “State Pooled Finance Entity” means such entity which is set up as per the guidelines for the Pooled Finance Development Scheme notified by the Central Government in the Ministry of Housing and Urban affairs.	As specified by the Central Government by notification

Schedule III

Sl. No.	Income not to be included in total income	Eligible persons	Conditions
3	Any amount received or receivable from the Central/ State Government or a local authority by way of compensation on account of any disaster	Any individual or his legal heir	No deduction of this amount was allowed earlier on account of any loss or damage caused by such disaster to such individual or his legal heir.
5	Daily Allowance received	Any person by reason of his membership of Parliament or of any State Legislature or of any Committee thereof	-
6	Any allowance received	Any person by reason of his membership of Parliament under the Members of Parliament (Constituency Allowance)	-

		Rules, 1986 made under the Salary, Allowances and Pension of Members of Parliament Act, 1954	
7	Any constituency allowance received	Any person by reason of his membership of any State Legislature under any State Act or rules made thereunder	-
15	Family pension received	Any member of the family of an individual who had been in the service of Central/ State Government and had been awarded "Param Vir Chakra" or "Maha Vir Chakra" or "Vir Chakra" or other notified gallantry awards	-
16	Family pension received	Widow or children or nominated heirs of a member of the armed forces (including para-military forces) of the Union	The death of such member has occurred in the course of operational duties, in specified circumstances and conditions.
38	Any gratuity commuted as per the provisions of section 19(1) (Table: Sl. No. 3C) to (Table: Sl. No. 6C)	Any widow, children or dependents on death of an employee	-
38B	Any interest on compensation amount awarded by Motor Accident Claims Tribunal	An individual or his legal heir.	Such interest is received under the Motor Vehicles Act, 1988

Schedule IV

Sl. No.	Income not to be included in total income	Eligible persons	Conditions
1	Any income by way of interest	(a) An individual, who is a resident outside India, as defined in FEMA, 1999, or (b) an individual who has been permitted by the RBI to maintain such account.	Such interest is on moneys standing to the credit of such person in a Non-resident (External) Account (NRE A/c) in any bank in India as per the said Act and rules made thereunder.

It may be noted that the joint holders of the NRE Account do not constitute an AOP by merely having these accounts in joint names. The benefit of exemption under schedule IV will be available to such joint account holders, subject to fulfillment of other conditions contained in that section by each of the individual joint account holders.

Deductions allowable [Section 93]

S. No.	Particulars	Deduction
1.	In case of interest on securities	Any reasonable sum paid by way of commission or remuneration to a banker or any other person.
2.	Income consists of recovery from employees as contribution to any PF, superannuation fund etc.	Amount of contribution remitted before the due date of filing of return of income u/s 263(1), as per the provisions of section 29(1)(e)
3.	Income from letting on hire of machinery, plant and furniture, with or without building	Current repairs to the machinery, plant, furniture or building, insurance premium, depreciation/ unabsorbed depreciation
4.	Family Pension	Sum equal to - 1/3 rd of such income or

		- ₹ 15,000 (in case optional regime) or - ₹ 25,000 (in case of default regime), whichever is less
5.	Commutation of pension received from LIC	The entire amount
6.	Interest on compensation/enhanced compensation received	50% of such interest income

Deductions not allowable [Section 94]

S. No.	Deductions not allowable
1.	Any personal expense of the assessee
2.	Any interest chargeable to tax under the Act which is payable outside India on which tax has not been paid or deducted at source.
3.	Any payment chargeable to tax under the head "Salaries", if it is payable outside India unless tax has been paid or deducted at source.
4.	Any expenditure in respect of which a payment is made to a related person, to the extent the same is considered excessive or unreasonable by the Assessing Officer, having regard to the FMV.
5.	Any expenditure in respect of which a payment or aggregate payments in a day to a person exceeding ₹ 10,000/ ₹ 35,000 when such payment is not made through specified banking or online mode.
6.	30% of expenditure in respect of sum which 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 upto the due date of return specified in section 263(1).
7.	Any expenditure or allowance in connection with income by way of earnings from lotteries, crossword puzzles, races including horse races, card games and other games of any sort or from gambling or betting of any form or nature.



TEST YOUR KNOWLEDGE

1. *Examine under which heads the following incomes are taxable:*
 - (i) *Rental income in case property held as stock-in-trade for 3 years*
 - (ii) *Salary received by a partner from his partnership firm*
 - (iii) *Rental income of machinery*
 - (iv) *Winnings from lotteries by a person having the same as business activity*
 - (v) *Salaries received by a Member of Parliament*
 - (vi) *Receipts without consideration*
 - (vii) *In case of retirement, interest on employee's contribution if provident fund is unrecognized.*
 - (viii) *Rental income in case of a person engaged in the business of letting out of commercial properties.*
2. *Examine whether the following are chargeable to tax and the amount liable to tax:*
 - (i) *A sum of ₹ 1,20,000 was received as gift from non-relatives by Raj on the occasion of the marriage of his son Pravin.*
 - (ii) *Interest on enhanced compensation of ₹ 96,000 received on 12.3.2027 for acquisition of urban land, of which 40% relates to T.Y.2025-26.*
3. *On 10.10.2026, 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 2017-18.*

Out of this interest, ₹ 1,50,000 relates to the financial year 2018-19; ₹ 1,65,000 to the financial year 2019-20; and ₹ 1,85,000 to the financial year 2020-21. 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 in the T.Y.2026-27?

4. The following details have been furnished by Mrs. Hemali pertaining to the year ended 31.3.2027:

- (i) Cash gift of ₹ 51,000 received from her friend on the occasion of her "Shastiaptha Poorthi", a wedding function celebrated on her husband completing 60 years of age. This was also her 25th wedding anniversary.
- (ii) On the above occasion, a diamond necklace worth ₹ 2 lakhs was presented by her sister living in Dubai.
- (iii) When she celebrated her daughter's wedding on 21.2.2027, 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 ₹ 52,000.

Compute the income, if any, assessable as "Income from other sources" for T.Y.2026-27.

5. Examine the following transactions in the context of Income-tax Act, 2025:

- (i) Mr. B transferred 500 shares of R(P) Ltd. to M/s. B Co. (P) Ltd. on 10.10.2026 for ₹ 3,00,000 when the fair market value was ₹ 5,00,000. The cost of acquisition of shares for Mr. B was ₹ 4,45,000 and he acquired these shares in 2023. 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 ₹ 5,00,000. He received a sum of ₹ 1,00,000 from Atma Charitable Trust (a registered NPO) by account payee cheque in December 2026 for meeting his medical expenses.

Is the sum of money so received from the trust chargeable to tax in the hands of Mr. Chezian?

ANSWERS

1. Head under which following incomes are taxable:

	Particulars	Head of Income
(i)	Rental income in case property held as stock-in trade for 3 years	Income from house property
(ii)	Salary by partner from his partnership firm	Profits and gains of business or profession
(iii)	Rental income of machinery (See Note below)	Profits and gains of business or profession/Income from other sources
(iv)	Winnings from lotteries by a person having the same as business activity	Income from other sources
(v)	Salaries payable to a Member of Parliament	Income from other sources
(vi)	Receipts without consideration	Income from other sources
(vii)	In case of retirement, interest on employee's contribution if provident fund is unrecognized	Income from other sources
(viii)	Rental income in case of a person engaged in the business of letting out of commercial properties	Profits and gains from business or profession

Note - As per section 92(2)(f), rental income of machinery would be chargeable to tax under the head "Income from Other Sources", if the same is not chargeable to income-tax under the head "Profits and gains of business or profession".

2. Taxability of Receipts

S. No.	Taxable/ Not Taxable	Answer Amount liable to tax (₹)	Reason
(i)	Taxable	1,20,000	The exemption from applicability of section 92(2)(m) would be available if, <i>inter alia</i> , gift is received from a relative

			or gift is received on the occasion of marriage of the individual himself. In this case, since gift is received by Mr. Raj from a non-relative on the occasion of marriage of his son, it would be taxable in his hands under section 92(2)(m).
(ii)	Taxable	48,000	As per section 278(1), interest received by the assessee on enhanced compensation shall be deemed to be the income of the year in which it is received, irrespective of the method of accounting followed by the assessee. Interest of ₹ 96,000 on enhanced compensation is chargeable to tax in the year of receipt i.e., T.Y. 2026-27 under section 92(2)(ii) after providing deduction of 50% under section 93(1)(f). Therefore, ₹ 48,000 is chargeable to tax under the head "Income from other sources".

3. Section 278(1) 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 92(2)(i) 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 93(1)(f) 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 T.Y 2026-27

Particulars	₹
Interest on enhanced compensation taxable u/s 92(2)(i)	5,00,000
Less: Deduction under section 93(1)(f) (50% x ₹ 5,00,000)	2,50,000
Taxable interest on enhanced compensation	2,50,000

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

The gift of ₹ 51,000 received from a non-relative is, therefore, chargeable to tax under section 92(2)(m) in the hands of Mrs. Hemali, since the same exceeds ₹ 50,000.

- (ii) The provisions of section 92(2)(m) are not attracted in respect of any sum of money or property received from a relative. Thus, the gift of diamond necklace received from her sister, being a relative, is not taxable under section 92(2)(m), even though jewellery falls within the definition of "property".
- (iii) To be exempt from applicability of section 92(2)(m), the property should be received on the occasion of the marriage of the individual, not that of the individual's son or daughter. Therefore, this exemption provision is not attracted in this case.

Any sum of money received without consideration by an individual is chargeable to tax under section 92(2)(m), if the aggregate value exceeds ₹ 50,000 in a year. "Sum of money" has, however, not been defined under section 92(2)(m).

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

- (1) The first view is that fixed deposit does not fall within the meaning of "sum of money" and therefore, the provisions of section 92(2)(m) are not attracted. It may be noted that fixed deposit is also not included in the definition of "property".
- (2) However, another possible view is that fixed deposit assigned in favour of Mrs. Hemali falls within the meaning of "sum of money" received.

Income assessable as “Income from other sources”

If the first view is taken, the total amount chargeable to tax as “Income from other sources” would be ₹ 51,000, being cash gift received from a friend on her Shastiapha Poorthi.

As per the second view, the provisions of section 92(2)(m) would also be attracted in respect of the fixed deposit assigned and the “Income from other sources” of Mrs. Hemali would be ₹ 1,03,000 (₹ 51,000 + ₹ 52,000).

5. (i) Any movable property received for inadequate consideration by any person is chargeable to tax under section 92(2)(m), if the difference between aggregate Fair Market Value of the property and consideration exceeds ₹ 50,000.

Thus, share received by M/s B. Co. (P) Ltd. from Mr. B for inadequate consideration is chargeable to tax under section 92(2)(m) to the extent of ₹ 2,00,000.

As per section 79, since the consideration is less than the fair market value of unquoted shares of R(P) Ltd., fair market value of shares of the company would be deemed to be the full value of consideration. It is presumed that the shares of R(P) Ltd are unquoted shares.

The full value of consideration (₹ 5,00,000) less the cost of acquisition (₹ 4,45,000) would result in a long term capital gains of ₹ 55,000 in the hands of Mr. B.

- (ii) The provisions of section 92(2)(m) would not apply to any sum of money or any property received from any registered NPO. Therefore, the sum of ₹ 1 lakh received from Atma Charitable Trust, being a registered NPO, for meeting medical expenses would not be chargeable to tax under section 92(2)(m) in the hands of Mr. Chezian.



Q.NO.	ANSWERS	
1.	(c)	₹ 10 lakhs
2.	(c)	Not treated as dividend
3.	(c)	Market value of assets on date of distribution
4.	(c)	Taxable under the head "Income from Other Sources"
5.	(b)	Entire interest shall be taxable in T.Y. 2026-27 under the head "Income from Other Sources" after providing 50% deduction
6.	(d)	₹ 58,000
7.	(b)	Nil
8.	(d)	₹ 12 lakhs
9.	(d)	₹ 55,000