CHAPTER 5

INCOME FROM OTHER SOURCES



LEARNING OUTCOMES

After studying this chapter, you would be able to -

- **identify** the income which are chargeable to tax under the head "Income from other sources";
- **identify** the admissible/ inadmissible deductions while computing income under this head;
- **examine** the circumstance(s) when amount paid or payable by a closely held company to the shareholder, being a beneficial owner or the concern in which such shareholder has the substantial interest would be deemed as dividend;
- **examine** the circumstances when any sum of money or property transferred without consideration or for inadequate consideration would be taxable in the hands of recipient and the exceptions thereto;
- **compute** the income under the head "Income from Other Sources" after allowing the deductions available thereunder.

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5.1 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.

5.2 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.

Under section 276(2), the Central Government is empowered to notify, income computation and disclosure standards to be followed by any class of assessees or in respect of any class of income.

Accordingly, Central Government has notified ten ICDSs to be followed by all assessees (other than an individual or a HUF who is not required to get his accounts of the tax year audited as per the provisions of section 63) following the mercantile system of accounting, for the purpose of computation of income chargeable to income-tax under the head "Profits and gains from business or profession" or "Income from other sources".

Text of notified ICDSs is given as an Annexure at the end of this module.

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5.3 INCOMES CHARGEABLE UNDER THIS HEAD [SECTION 92]

Income chargeable only under the head 'Income from Other Sources'

(i) 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.

Dividend [covered by 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 etc., it is dividend in the hands of the share-holders. 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.

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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) 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.

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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 as specified by the Central Government 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.

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Meaning of parent entity or principal entity

Parent entity or principal entity in relation to one or more other group entities, shall be an entity of which other group entities are subsidiary and such entity exercises or controls more than ½ of the total voting power either at its own or together with one or more of its subsidiaries or controls the composition of the Board of Directors.

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

Building & Machinery Depreciation fund not to be included in accumulated profits. - *CIT v. Jaldu Rama Rao (1983) 140 ITR 168 (Andhra Pradesh)*

Accumulated profits in point (c) include all profits of the company up to the date of liquidation whether capitalised or not. But where liquidation is consequent to the compulsory acquisition of its undertaking by the Government or by any corporation owned or controlled by the Government, the accumulated profits do not include any profits of the company before 3 successive tax years immediately preceding the tax year in which such acquisition took place.

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 section 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

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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. Some illustrations /examples of trade advances/commercial transactions held to be not covered under section 2(40)(e) are as follows:

(i) Advances were made by a company to a sister concern and adjusted against the dues for job work done by the sister concern. It was held that amounts advanced for business transactions do not to fall within the definition of deemed dividend under section 2(40)(e)) [*CIT vs. Creative Dyeing & Printing Pvt. Ltd. [NJRS] 2009-LL-0922-2, ITA No. 250 of 2009, Delhi High Court*].

(ii) Advance was made by a company to its shareholder to install plant and machinery at the shareholder's premises to enable him to do job work for the company so that the company could fulfil an export order. It was held that as the assessee proved business expediency, the advance was not covered by section 2(40)(e)) [*CIT vs Amrik Singh, [NJRS] 2015-LL-0429-5, ITA No. 347 of 2013, P & H High Court*]

(iii) A floating security deposit was given by a company to its sister concern against the use of electricity generators belonging to the sister concern. The company utilised gas available to it from GAIL to generate electricity and supplied it to the sister concern at concessional rates. It was held that the security deposit made by the company to its sister concern was a business transaction arising in the normal course of business between two concerns and the transaction did not attract section 2(40)(e)) [*CIT, Agra vs Atul Engineering Udyog, [NJRS] 2014-LL-0926-121, ITA No. 223 of 2011, Allahabad High Court*]

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.

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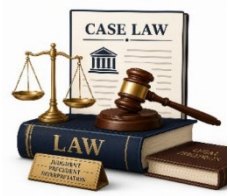


CIT v. Parle Plastics Ltd. (2011) 332 ITR 63 (Bom.)

Issue: What are the tests for determining "substantial part of business" of lending company for the purpose of application of exclusion provision u/s 2(40)?

Analysis & Decision: U/s 2(40), "dividend" does not include, inter alia, any advance or loan made to a shareholder by a company in the ordinary course of its business, where the lending of money is a substantial part of the business of the company.

Percentage of turnover in relation to the whole as also the percentage of the profit in relation to the whole and sometimes even percentage of manpower used for a particular part of the business in relation to the total manpower or work force of the company would be required to be taken into consideration for determining the substantial part of business. **The capital employed for a specific division of a company in comparison to total capital employed** would also be relevant to determine whether the part of the business constitutes a substantial part.



CIT v. Vir Vikram Vaid (2014) 367 ITR 365 (Bom)

Issue: Can repair and renovation expenses incurred by a company in respect of premises leased out by a shareholder having substantial interest in the company, be treated as deemed dividend?

Analysis & Decision: The expenditure incurred by virtue of repairs and renovation on the premises cannot be brought within the definition of advance or loan given to the shareholder having substantial interest in the company, though he is the owner of the premises. It cannot be treated as payment by the company on behalf of the shareholder or for the individual benefit of such shareholder.

Accordingly, **the repair and renovation expenses in respect of premises owned by the shareholder having substantial interest in the company and occupied by the company cannot be treated as deemed dividend**.

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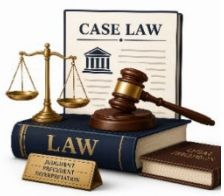


Pradip Kumar Malhotra v. CIT (2011) 338 ITR 538 (Cal.)

Issue: Can the loan or advance given to a shareholder by the company, in return for an advantage conferred on the company by the shareholder, be deemed as dividend under section 2(40)(e)?

Analysis & Decision: The phrase "by way of advance or loan" appearing in section 2(40)(e) must be construed to mean those advances or loans which a shareholder enjoys simply on account of being a person who is the beneficial owner of shares (not being shares entitled to a fixed rate of dividend whether with or without a right to participate in profits) holding not less than 10% of the voting power. In case such loan or advance is given to such shareholder as a consequence of any further consideration which is beneficial to the company received from such a shareholder, such advance or loan cannot be deemed as dividend within the meaning of the Act.

Thus, only gratuitous loan or advance given by a company to a shareholder, who is the beneficial owner of shares holding not less than 10% of the voting power, would come within the purview of section 2(40)(e) but not cases where the loan or advance is given in return for an advantage conferred upon the company by such shareholder.



CIT v. Ambassador Travels (P) Ltd. (2009) 318 ITR 376 (Del.)

Issue: Would the provisions of deemed dividend u/s 2(40)(e) be attracted in respect of financial transactions entered into in the normal course of business?

Analysis & Decision: U/s 2(40)(e), loans and advances made out of accumulated profits of a company in which public are not substantially interested to a beneficial owner of shares holding not less than 10% of the voting power or to a concern in which such shareholder has substantial interest is deemed as dividend. However, this provision would not apply in the case of advance made in the course of the assessee's business as a trading transaction.

The assessee was involved in booking of resorts for the customers of these companies and entered into normal business transactions as a part of its day-to-day business activities. Such financial transactions cannot under any circumstances be treated as loans or advances received by the assessee from these concerns for the purpose of application of section 2(40)(e).

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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.

ILLUSTRATION 1

Dhaval is in business of manufacturing customized kitchen equipments. He is also the Managing Director and held nearly 65% of the paid-up share capital of Aarav (P) Ltd. A substantial part of the business of Dhaval is obtained through Aarav (P) Ltd. For this purpose, Aarav (P) Ltd. passed on the advance received from its customers to Dhaval to execute the job work entrusted to him.

The Assessing Officer held that the advance money received by Dhaval is in the nature of loan given by Aarav (P) Ltd. to him and accordingly is deemed dividend within the meaning of provisions of section 2(40)(e). The Assessing Officer, therefore, made the addition by treating advance money as deemed dividend.

Examine whether the action of the Assessing Officer is tenable in law.

SOLUTION

As per section 2(40)(e), in case a company, not being a company in which the public are substantially interested, makes payment of any sum by way of advance or loan to a shareholder holding not less than 10% of voting power/share capital of the company, then, the payment so made shall be deemed to be dividend in the hands of such shareholder to the extent to which the company possesses accumulated profits.

In the present case, Dhaval is holding 65% of the paid-up capital of Aarav (P) Ltd. Aarav (P) Ltd. has passed on advance received from its customers to Dhaval for execution of job work entrusted to Dhaval.

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Since Aarav (P) Ltd. is not a company in which public are substantially interested, the applicability of the provisions of section 2(40)(e) in respect of such transaction has to be examined. In *CIT v. Rajkumar (2009) 318 ITR 462 (Del.),* it was held that trade advance given to the shareholder which is in the nature of money transacted to give effect to a commercial transaction, would not amount to deemed dividend under section 2(40)(e). The Delhi High Court ruling in *CIT v. Ambassador Travels (P) Ltd. (2009) 318 ITR 376* also supports the above view.

In the present case, the payment is made to Dhaval by Aarav (P) Ltd. for execution of work is in the course of commercial business transaction and therefore, it cannot be treated as deemed dividend under section 2(40)(e). Hence, the action of the Assessing Officer is not tenable in law.

Note – *This can also be answered on the basis of Circular No. 19/2017, dated 12.06.2017. The CBDT has, in its 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 2(40)(e) and therefore, the same would not to be treated as deemed dividend. Since, the payment is made to Dhaval by Aarav (P) Ltd. for execution of work is in the course of commercial business transaction and therefore, the advance cannot be treated as deemed dividend under section 2(40)(e). Hence, the action of the Assessing Officer is not tenable in law.*

ILLUSTRATION 2

MNO (P) Ltd. is a company in which the public are not substantially interested. K is a shareholder of the company holding 15% of the equity shares. The accumulated profits of the company as on 1.10.2026 amounted to ₹ 10,00,000. The company lent ₹ 1,00,000 to K by an account payee bank draft on 1.10.2026. The loan was not connected with the business of the company. K repaid the loan to the company by an account payee bank draft on 30.3.2027. Examine the effect of the borrowal and repayment of the loan by K on the computation of his total income for the tax year 2026-27.

SOLUTION

As per section 2(40)(e), any payment by a company, in which the public are not substantially interested, by way of advance or loan to a shareholder, being a person who is the beneficial owner of shares holding not less than 10% of the voting power,

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shall be treated as dividend to the extent to which the company possesses accumulated profits.

In the instant case, MNO (P) Ltd. is a company in which the public are not substantially interested. The company has accumulated profits of ₹ 10,00,000 on 1.10.2026. The loan given by the company to K was not in the course of its business. K holds more than 10% of the equity shares in the company. Therefore, assuming that K has voting power equivalent to his shareholding, section 2(40)(e) comes into play. Deemed dividend of ₹ 1,00,000 under section 2(40)(e) would be taxable in the hands of Mr. K at normal rates of tax.

Under section 2(40)(e), the liability arises the moment the loan is borrowed by the shareholder and it is immaterial whether the loan is repaid before the end of the accounting year or not. Therefore, the repayment of loan by K to the company on 30.3.2027 will not affect the taxability of the sum of ₹ 1,00,000 as deemed dividend.

(ii) 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 at a flat rate of 30% under the head "Income from Other Sources".

(iii) 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)]

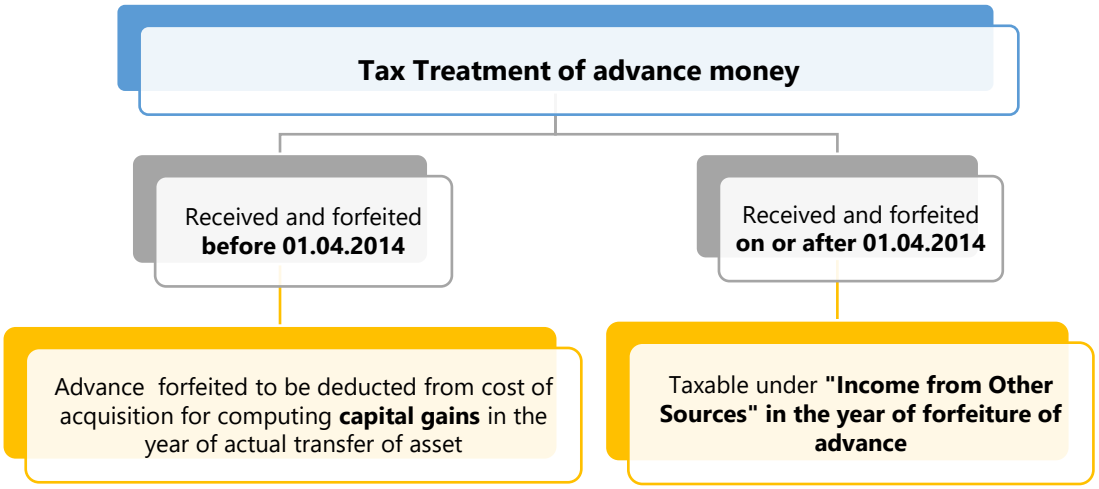
(a) Prior to tax year 2014-15, any advance retained or received in respect of a negotiation for transfer which failed to materialise is reduced from the cost of acquisition of the asset or the written down value or the fair market value of the asset, at the time of its transfer to compute the capital gains arising therefrom.

(b) 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.

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(c) 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 2014 and the negotiations do not result in transfer of such capital asset.

(d) 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 1.4.2014 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.



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

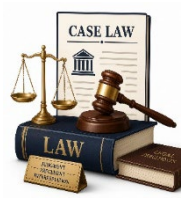
(a) As per section 276(1), income chargeable under the head "Profits and gains of business or profession" or "Income from other sources", shall be computed as per either cash or mercantile system of accounting regularly employed by the assessee.

(b) Section 278(1) provides that the interest received by an assessee on any compensation or on enhanced compensation shall be deemed to be his

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income for the tax year in which it is received, irrespective of the method of accounting followed by the assessee.

(c) 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 year in which it is received.



Movaliya Bhikhubhai Balabhai v. ITO (TDS) (2016) 388 ITR 343 (Guj)

Issue: Is interest on enhanced compensation u/s 28 of the Land Acquisition Act, 1894 assessable as capital gains or as income from other sources?

Analysis & Decision: The assessee **has received interest u/s 28 of the Land Acquisition Act, 1894 which represents enhanced value of land and thus, partakes the character of compensation and not interest. Hence, interest u/s 28 is liable to be taxed under the head of 'Capital Gains'** and not under 'Income from Other Sources'. On the other hand, interest u/s 34 of the Land Acquisition Act, 1894 is for the delay in making payment after the compensation amount is determined. Such amount is liable to be taxed under the head 'Income from Other Sources'.

Note: *The Land Acquisition Act, 1894 has now been repealed and replaced by the Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement Act, 2013.*

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

Any compensation or any other payment, due to or received by any person, by whatever name called, in connection with the termination of his employment or the modification of the terms and conditions, 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".

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(vi) Any specified sum received by a unit holder from a business trust during the tax year [Section 92(2)(k)]

Section 92(2)(k) provides that any specified sum received by a unit holder from a business trust during the tax year with respect to unit held by him at any time during such tax year would be chargeable to tax in the hands of unit holder under the head "Income from other sources".

Specified sum is to be computed in the following manner:

Specified sum = A (-) B (-) C (If (B + C) > A, It shall be deemed to be zero)	
A	Aggregate of sum distributed by the business trust with respect to such unit, during the tax year or during any earlier tax year or years, to such unit holder, who holds such unit on the date of distribution of sum or to any other unit holder who held such unit at any time prior to the date of such distribution, which is – (a) not in the nature of interest and dividend income referred to in Schedule V (Table: Sl. No. 3) or rental income referred to in Schedule V (Table: Sl. No. 4); and (b) not chargeable to tax in the hands of the business trust under section 223(2)
B	Amount at which such unit was issued by the business trust; and
C	Amount charged to tax under this clause in any earlier tax year;

(vii) 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)(l)]

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 provisions relating to exemption under Schedule II (Table: Sl. No. 2) have already been discussed in Chapter 4: Capital Gains.

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

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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 u/s 10(10D) of the Income-tax Act, 1961/ 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. <u>Where the assessee has received consideration, during the current T.Y., under one eligible LIP only</u>

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 for 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 **<u>not</u>** be eligible for exemption under Schedule II (Table: Sl. No. 2). **[Refer Example 3 given below]**

Example 1:

LIP	A
Date of issue	1.4.2015
Annual premium	6,00,000
Sum assured	60,00,000

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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 ratio 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 premium payable on the policy does not exceed ₹ 5,00,000 and also premium to sum assured ratio 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.*	

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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 the amount of premium payable on such eligible LIPs does not exceed ₹ 5,00,000 for any of the TYs during the term of such eligible LIPs and the premium to sum assured ratio ≤ 10%	Such consideration would be eligible for exemption under under Schedule II (Table: Sl. No. 2). **[Refer Example 4 given below]**
If the aggregate of the amount of premium payable on such eligible LIPs > ₹ 5,00,000 for any of the TYs during the term of such eligible LIP	Consideration in respect of any of those eligible LIPs whose aggregate amount of premium payable does not exceed ₹ 5,00,000 for 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 ratio ≤ 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

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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 the annual 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 ratio 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 the annual 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 payable does not exceed ₹ 5,00,000 for any tax year during the term of the policy and also premium to sum assured ratio 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

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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 annual premium payable for these two policies does not exceed ₹ 5,00,000 for any tax year during the term of these two policies and premium to sum assured ratio 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 ratio 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.

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The aggregate of annual 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 annual premium payable for these two policies does not exceed ₹ 5,00,000 for any tax year during the term of these two policies and premium to sum assured ratio 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 under Schedule II (Table: Sl. No. 2). 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. <u>Where the assessee has received consideration, during the current T.Y., under one eligible LIP only</u>

Circumstance	Eligibility for exemption under Schedule II (Table: Sl. No. 2)
If aggregate amount of premium payable on such eligible LIP and EEE LIPs does not exceed ₹ 5,00,000 for any of the TYs during the term of such eligible LIP and premium to sum assured ratio 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 amount of premium payable on such eligible LIP and EEE LIPs > ₹ 5,00,000 for any of the TYs during the term of such eligible LIP	Consideration under such eligible LIP would **<u>not</u>** be eligible for exemption under Schedule II (Table: Sl. No. 2).

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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 the amount of premium payable on such eligible LIPs and EEE LIPs does not exceed ₹ 5,00,000 for any of the TYs during the term of such eligible LIPs and annual premium in respect of eligible LIPs also premium to sum assured ratio does not exceed 10%.	Consideration received would be eligible for exemption under Schedule II (Table: Sl. No. 2).
If aggregate of the amount of premium payable on such eligible LIPs and EEE LIPs > ₹ 5,00,000 for any of the TYs during the term of such eligible LIPs	Consideration in respect of any of those eligible LIPs (whose aggregate amount of premium along with the aggregate amount of premium of EEE LIPs does not exceed ₹ 5,00,000 for 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			

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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 premium to sum assured ratio 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" or LIP "B" or LIP "C" 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.*				

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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 premium to sum assured ratio 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 the annual premium payable for LIP "X" and "A" did not exceed ₹ 5,00,000 for 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 the annual premium payable for LIP "X" and "B" did not exceed ₹ 5,00,000 for 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 the annual premium payable for the LIPs "A" and "B" together did not exceed ₹ 5,00,000 for 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

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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 on maturity		24,00,000			
Consideration received as on 01.11.2035 on 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 premium to sum assured ratio 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 annual premium payable for LIP "X" and "Y" does not exceed ₹ 5,00,000 and premium to sum assured ratio 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 annual 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 the annual premium payable for LIP "Y" and "A" did not exceed ₹ 5,00,000

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for 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 the annual premium payable for LIP "Y" and "B" did not exceed ₹ 5,00,000 for 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 annual 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).

Example 11:

LIP			**A**	**B**	**C**
ULIP	**X**	**Y**			
Date of issue	1.4.2021	1.4.2023	1.4.2023	1.4.2023	1.4.2023
Annual premium	1,00,000	1,00,000	1,00,000	1,50,000	3,00,000
Sum assured	10,00,000	10,00,000	10,00,000	15,00,000	30,00,000
Consideration received on surrender as on 1.7.2033	6,00,000		6,00,000		
Consideration received as on 01.11.2034 on maturity		12,00,000		18,00,000	34,00,000
Note – *The assessee did not receive any consideration under any other eligible LIPs or ULIPs in earlier T.Y. preceding the T.Y.2034-35, except ULIP "X" and LIP "A".*					

Eligibility for exemption under Schedule II (Table: Sl. No. 2) - The consideration under ULIP "X" would be exempt under Schedule II (Table: Sl.

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No. 2) in T.Y. 2033-34, since the annual premium does not exceed ₹ 2,50,000 and also premium to sum assured ratio does not exceed 10%.

The consideration under ULIP "Y" would be exempt under Schedule II (Table: Sl. No. 2) in T.Y.2034-35, since the aggregate of annual premium for ULIP "X" and ULIP "Y" does not exceed ₹ 2,50,000 and also premium to sum assured ratio does not exceed 10%.

The consideration under LIP "A" 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 premium to sum assured ratio does not exceed 10%.

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

However, the consideration received under LIPs "B" or "C" (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 "B" is claimed to be exempt as aggregate of the annual premium payable for LIP "A" and "B" did not exceed ₹ 5,00,000 for any of the TYs., the consideration received under LIP "C" would not be exempt.

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

Alternative treatment: If the consideration under LIP "A" 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 "B" and LIP "C" would be exempt under Schedule II (Table: Sl. No. 2) in T.Y. 2034-35 since the aggregate of the annual premium payable for the LIPs "B" and "C" together did not exceed ₹ 5,00,000 for any of the tax years during the term of these two policies. This would be most beneficial to the assessee.

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.

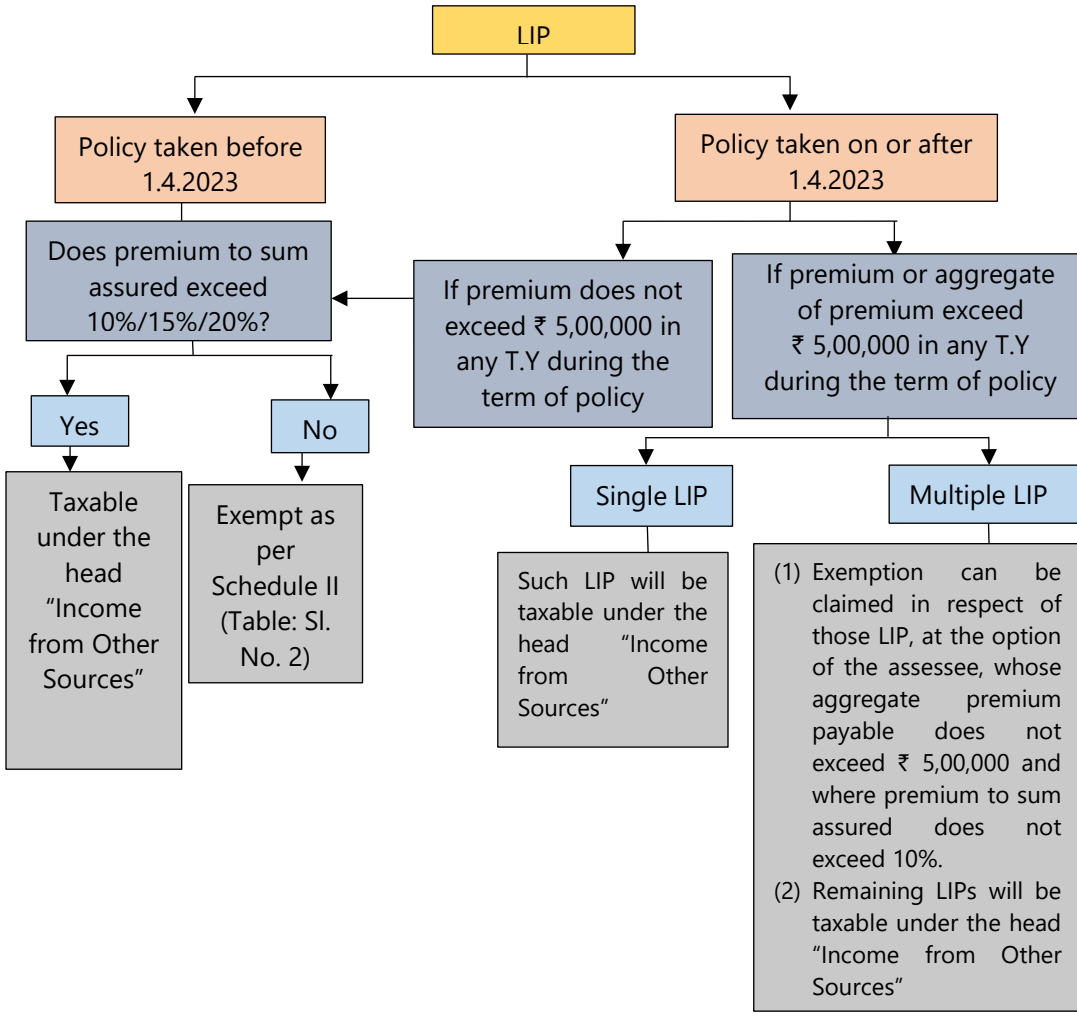
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Clarification on premium of Term life insurance policy

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.

Summary



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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.

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"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

(viii) 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)]

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.

(a) **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.

(b) **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.**

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II. **Value of property 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 on the ground specified in section 78(2) i.e. (i) stamp duty value exceeds the fair market value on the date of transfer (ii) stamp duty value has not been disputed in any appeal or revision or no reference before any authority or any court. If such value is less than the stamp duty value, the same would be taken for determining the

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value of such property, for computation of income under this head in the hands of the buyer.

(c) **Movable Property [Property other than immovable property]:**

If movable property is received

(i) **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.

(ii) **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.

(d) **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).

(e) **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.

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(f) **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) -

(i) from any relative; or

(ii) on the occasion of the marriage of the individual; or

(iii) under a will or by way of inheritance; or

(iv) in contemplation of death of the payer or donor; or

(v) from any local authority as defined in the Schedule III (Note 6); or

(vi) from or by any registered non-profit organisation as defined in section 355(g), except when received by any person referred to in section 355(h); or

(vii) by way of transaction not regarded as transfer under section 70(1)(a),(c), (d), (e), (f), (g), (i), (j), (k), (l), (n), (o), (t), (u), (v) or (w); or

(viii) from an individual by a trust created or established solely for the benefit of relative of the individual.

(ix) from such class of persons and subject to such conditions, as may be prescribed.

Accordingly, Rule 58 provides that the provisions of section 92(2)(m) would not be applicable to the following transactions –

S. No.	Received by	Property	Condition
1.	a resident of an unauthorized colony in the National Capital Territory of Delhi	Any immovable property, being land or building or both	Where the Central Government by notification, regularised the transactions of such immovable property based on the latest Power of Attorney, Agreement to Sale, Will, possession letter and other documents including documents evidencing payment of consideration for conferring or recognising right of ownership or transfer

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			or mortgage in regard to such immovable property in favour of such resident.
	Resident means a person having physical possession of property on the basis of a registered sale deed or latest set of Power of Attorney, Agreement to Sale, Will, possession letter and other documents including documents evidencing payment of consideration in respect of a property in unauthorised colonies and includes their legal heirs but does not include tenant, licensee or permissive user. **Unauthorised colony means** a colony or development comprising of a contiguous area, where no permission has been obtained for approval of layout plan or building plans and has been identified for regularisation of such colony in pursuance to the notification number S.O. 683(E), dated the 24th March, 2008, of the Delhi Development Authority.		
2.	Shareholder	Any movable property, being unquoted shares, of a company and its subsidiary and the subsidiary of such subsidiary	(i) where the Tribunal, on an application moved by the Central Government under section 241 of the Companies Act, 2013, has suspended the Board of Directors of such company and has appointed new directors nominated by the Central Government under section 242 of the said Act; and (ii) where the share of company or its subsidiary or the subsidiary of such subsidiary has been received by the shareholder pursuant to a resolution plan approved by the Tribunal under section 242 of the

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			Companies Act, 2013 after affording a reasonable opportunity of being heard to the jurisdictional Principal Commissioner or Commissioner.
	A company shall be a subsidiary of another company, if such other company holds more than half in nominal value of the equity share capital of the company;		
3.	Investor or investor bank (SBI)	Any movable property, being equity shares, of the reconstructed bank	Where the said share has been allotted by the reconstructed bank (Yes Bank) under the Yes Bank Limited Reconstruction Scheme, 2020 at a price specified in the said scheme.
4.	Any person from a public sector company or the Central Government or any State Government	Any movable property, being equity shares, of a public sector company or a company	It should be received under strategic disinvestment.
	Strategic disinvestment - Sale of shareholding by the Central Government or any State Government or a public sector company, in a public sector company or in a company, which results in - reduction of its shareholding to below 51% and - transfer of control to the buyer. The condition of reduction below 51% would apply only in a case where shareholding of the Central Government or the State Government or the public sector company exceeded 51% before such sale of shareholding. The requirement of transfer of control may be effected by the Central Government or the State Government or the public sector company or any two of them or all of them.		

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5.	The fund management entity of the resultant fund	Any movable property, being shares or units or interest in the resultant fund	It should be received in lieu of shares or units or interest held by the investment manager entity in the original fund, pursuant to the relocation, subject to the following conditions, namely – (i) not less than 90% of shares or units or interest in the fund management entity of the resultant fund are held by the same entities or persons in the same proportion as held by them in the investment manager entity of the original fund; and (ii) not less than 90% of the aggregate of shares or units or interest in the investment manager entity of the original fund was held by such entities or persons.

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 bullion (i) virtual digital asset.

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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 any of the persons referred in items (ii) to (vi) above. **(b) In case of Hindu Undivided Family,** any member thereof**.**



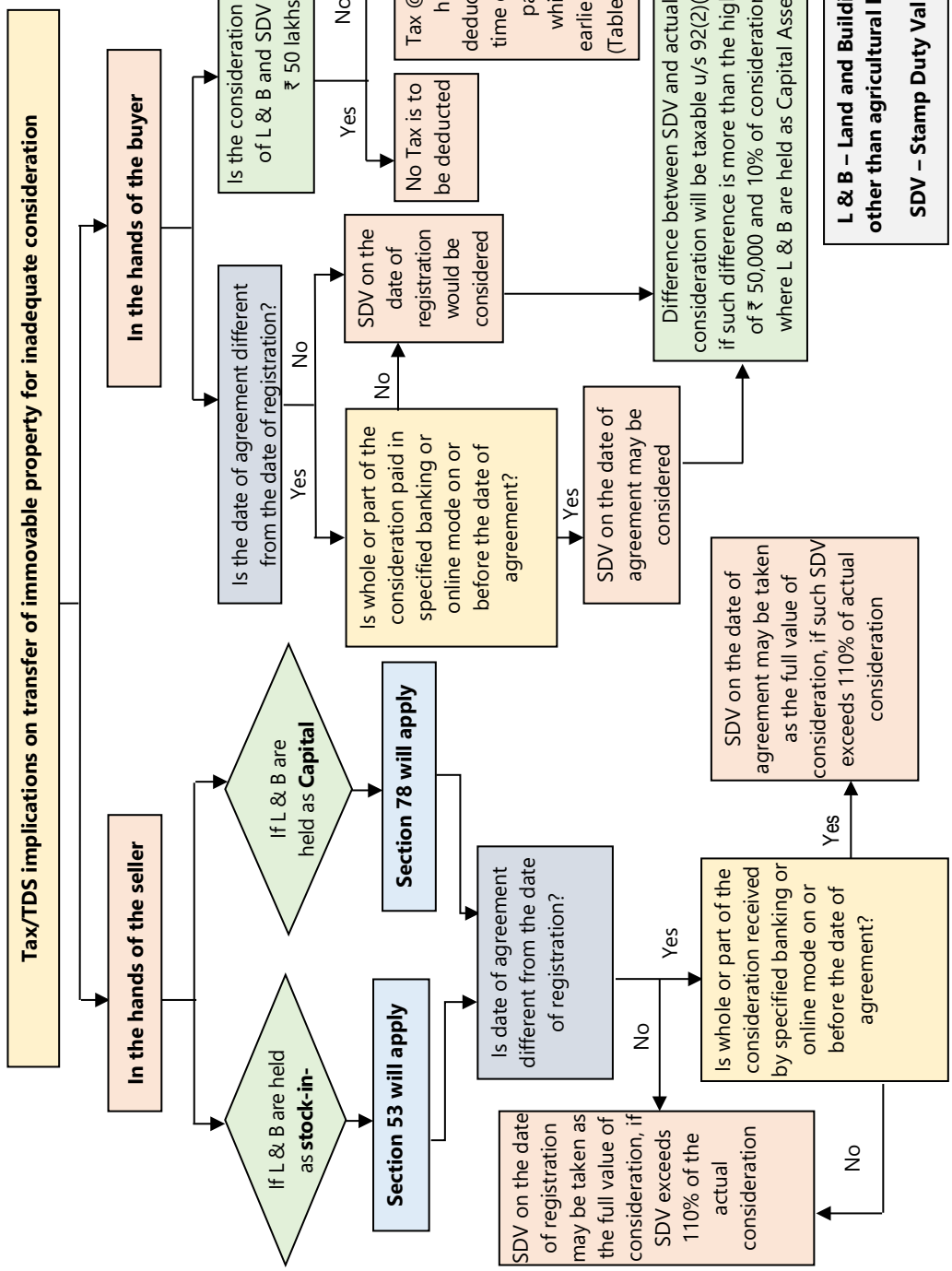
PCIT v. Dr. Ranjan Pai (2021) 431 ITR 250 (Karn)

Issue: Can bonus shares received by shareholders be taxable under the head 'Income from other sources' as per the provisions of section 92(2)(m), as they are received without consideration?

Analysis & Decision: The issue of bonus shares by capitalization of reserves is merely a reallocation of the company's funds. There is no inflow of fresh funds or increase in the capital employed, which remains the same. Thus, there is no addition or alteration to the profit-making apparatus and the total funds available with the company remain the same. On the other hand, when a shareholder gets bonus shares, the value of the original shares held by him goes down and the market value as well as intrinsic value of the two shares put together will be the same or nearly the same as the value of original share before the issue of bonus shares. **Thus, any profit derived by the assessee shareholder on account of receipt of bonus shares is adjusted by depreciation in the value of equity shares originally held by him**.

Hence, **the provisions of section 92(2)(m) would not be attracted in the hands of the recipient shareholders on receipt of bonus shares.**

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ILLUSTRATION 3

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 had purchased the land in April, 2009.

Mr. A purchased from his friend Mr. C, who is also a dealer in shares, 1000 shares of X Ltd. @ ₹ 400 each on 19th June, 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 (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

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(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 lakh, 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 4

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

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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 5

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

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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 Mr. Rajesh on the date of agreement. Discuss the tax implications in the hands of Mr. Hari and Mr. 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 Mr. Hari	In the hands of 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 not received on the date of agreement by 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 not made in specified banking or online mode.

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

In the hands of Mr. Hari	In the hands of 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 whole or part of the 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 not been received in 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 not made in 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

(i) 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.

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(ii) Income from letting out on hire, machinery, plant or furniture.

(iii) Where letting out of buildings is inseparable from the letting out of machinery, plant or furniture, the income from such letting.

(iv) 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.
Note - *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
Note - *Accordingly, the Central Government has specified the "Tax-free Pooled Finance Development Bonds" under Pooled Finance Development Fund Scheme of*		

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Government of India, interest from which would be exempt under Schedule II (Table: Sl. No. 13).		
17	Any income covered under section 10(15)(iv)(h) of the Income-tax Act, 1961 Interest payable by any public sector company in respect of certain specified bonds or debentures subject to the conditions which the Central Government may specify by notification, including the condition that the holder of such bonds or debentures registers his name and holding with that company.	-
Note - *Accordingly, the Central Government has specified tax free bonds issued by India Infrastructure Company Ltd. and tax free, secured, redeemable, non-convertible Bonds of the Indian Railway Finance Corporation Ltd. (IRFCL), National Highways Authority of India (NHAI), Rural Electrification Corporation Ltd. (RECL), Housing and Urban Development Corporation Ltd. (HUDCL), Power Finance Corporation (PFC), Jawaharlal Nehru Port Trust, Dredging Corporation of India Limited, Ennore Port Limited and The Indian Renewable Energy Development Agency Limited, the interest from which would be exempt under this section.*		

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 [Section 92(2)(d)].

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".

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For e.g. 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.

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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 window, children or dependents on death of an employee	-

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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.			



CIT v. Sree Rama Multi Tech Ltd. (2018) 403 ITR 426 (SC)

Issue: Is interest income from share application money deposited in bank eligible for set-off against public issue expenses or should such interest be subject to tax under the head 'Income from Other Sources'?

Analysis & Decision: The assessee-company was statutorily required to keep share application money in a separate account till the allotment of shares was completed. Part of the share application money would normally have to be returned to unsuccessful applicants, and therefore, the entire share application

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money would not ultimately be appropriated by the company. **The interest earned was inextricably linked with the requirement of raising share capital.**

Any surplus money deposited in the bank for the purpose of earning interest is liable to be taxed as "Income from Other Sources". Here, the share application money was deposited with the bank not to make additional income but to comply with the statute. The interest accrued on such deposit is merely incidental. Moreover, the issue of shares relates to capital structure of the company and hence, expenses incurred in connection with the issue of shares are to be capitalized. **Accordingly, the accrued interest is not liable to be taxed as "Income from Other Sources"; the same is eligible to be set-off against public issue expenses.**



Whether interest from non-SLR Securities of Banks 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 relatable 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".**

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

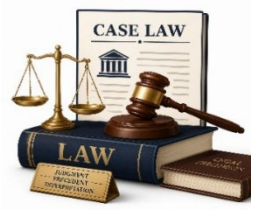
(1) Section 194 (Table Sl. No.1) provides that income by way of winnings from lotteries, crossword puzzles, races including horse races (not being income from the activity of owning and maintain race horses) or card games and other games of any sort or from gambling or betting of any form would be taxed 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.

(2) No expenditure or allowance can be allowed from such income.

(3) Deduction under Chapter VIII is not allowable from such income.

(4) Adjustment of unexhausted basic exemption limit is also not permitted against such income.



CIT v. Manjoo and Co. (2011) 335 ITR 527 (Kerala)

Issue: Can winnings of prize money on unsold lottery tickets held by the distributor of lottery tickets be assessed as business income and be subject to normal rates of tax instead of the rates prescribed u/s 194(1) (Table: Sl. No. 1)?

Analysis & Decision: The receipt of the prize money is not in his capacity as a lottery distributor but as a holder of the lottery ticket which won the prize. The Lottery Department also does not treat it as business income received by the distributor but instead treats it as prize money paid on which tax is deducted at source.

Further, **winnings from lotteries are assessable under the special provisions of section 194(1) (Table: Sl. No. 1), irrespective of the head under which such income falls.**

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

(1) Section 194 (Table Sl. No.5) 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%.

(2) No expenditure or allowance can be allowed from such income.

(3) Deduction under Chapter VIII is not allowable from such income.

(4) Adjustment of unexhausted basic exemption limit is also not permitted against such income.

Meaning of certain terms

S. No.	Term	Meaning
(i)	Internet	The combination of computer facilities and electromagnetic transmission media, and related equipment and software, comprising the interconnected worldwide network of computer networks that transmits information based on a protocol for controlling such transmission
(ii)	Online game	A game that is offered on the internet and is accessible by a user through a computer resource including any telecommunication device

5.6 DEDUCTIONS ALLOWABLE [SECTION 93]

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

(1) **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.

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(2) **Income of the nature referred to in Section 92(2)(c) i.e., 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).

(3) **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:

(i) the amount paid on account of any current repairs to the machinery, plant or furniture or building.

(ii) land revenue, local rates or municipal taxes paid.

(iii) the amount of any premium paid in respect of insurance against risk of damage or destruction of the machinery or plant or furniture or building.

(iv) the normal depreciation allowance in respect of the machinery, plant, furniture or building, due thereon.

(4) **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 an amount equal to 1/3rd of such income or **₹ 15,000 (in case of option regime) or ₹ 25,000 (in case of default regime)**, whichever is less, is allowable.

(5) **Any other expenditure not being in the nature of capital expenditure** laid out or expended wholly and exclusively for the purpose of making or earning such income.

(6) **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.

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Summary of compensation/enhanced compensation (including interest) received on compulsory acquisition

Initial Compensation will be taxable in the year in which first instalment is received under the head 'Capital Gains'

Enhanced Compensation will be taxable as & when received under the head 'Capital Gains'

Interest on compensation/ enhanced compensation is taxable in year of receipt under the head 'Income from Other Sources' after deduction of 50% of such interest

(7) **In case of income in the nature of commutation of pension received from LIC –** Deduction of the entire amount would be allowed.

(8) **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 2021-22, ₹ 1,65,000 relates to tax year 2022-23 and ₹ 1,85,000 relates to tax year 2023-24. 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 i.e., 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**

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5.7 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:

(1) **In the case of any assessee:**

(i) any personal expense of the assessee;

(ii) any interest chargeable to tax under the Act which is payable outside India on which tax has not been paid or deducted at source.

(iii) any payment taxable in India as salaries, if it is payable outside India unless tax has been paid thereon or deducted at source.

(2) **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 exceeding ₹ 10,000/ ₹ 35,000 when such payment is not made through specified banking or online mode.

(3) **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 up to the due date of return specified in section 263(1).

In case, assessee fails to deduct the whole or any part of 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;

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(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.

(4) **No deduction in respect of any expenditure incurred in connection with casual income:** No deduction in respect of any expenditure or allowance in connection with 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 race horses, 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.

5.8 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 trading 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.

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TEST YOUR KNOWLEDGE

Questions

1. *Parimal, Managing Director of Heavens Engg. Pvt. Ltd. holds 70% of its paid up capital of ₹ 20 lakhs. The balance as at 31.03.2026 in General Reserve was ₹ 6 lakhs. The company on 1.04.2026 gave an interest-free loan of ₹ 5 lakhs to its Supervisor having salary of ₹ 4,000 p.m., who in turn on 15.4.2026 advanced the said amount of loan so taken from the company to Shri Parimal. The Assessing Officer had treated the amount of advance as deemed dividend. Is the action of Assessing Officer correct?*

2. *Mr. Santhanam holding 25% voting power in VKS Manufacturing Private Limited permitted his own land to be mortgaged to a bank for enabling the company to obtain a loan. Mr. Santhanam requested the company to release the property from the mortgage. The company failed to do so, but for retaining the benefit of bank loan it gave an advance of ₹ 10 lakhs to Mr. Santhanam, which was authorized by a resolution passed by the Board of Directors. The company's accumulated profit on the date of payment of advance was ₹ 50 lakhs. The Assessing Officer proposes to treat the amount of ₹ 10 lakhs as deemed dividend by invoking the provision of section 2(40)(e).*

   Is the proposition of the Assessing Officer correct in law?

3. *An enterprise engaged in manufacturing of steel balls discontinued its activities and decided to lease out its factory building, plant and machinery and furniture from 1.4.2026 on a consolidated lease rent of ₹ 50,000 per month. Compute the income for Tax Year 2026-27 of the assessee from following information:*

		₹
(i)	*Interest received on deposits*	*1,00,000*
(ii)	*Brokerage paid on hundi loan taken*	*2,000*
(iii)	*Interest paid on hundi and other loans which were given as deposits on interest to others*	*75,000*
(iv)	*Expenses incurred on repairs of building, plant and machinery*	*15,000*
(v)	*Fire insurance premium of plant and machinery and furniture*	*12,000*

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(vi) Depreciation for the year 1,47,500

(vii) Legal fees paid to an advocate for drafting and registering the lease agreement 1,500

(viii) Factory licence fees paid for the year 1,000

(ix) There is unabsorbed depreciation of ₹ 2,75,000 of the Tax Years 2024-25 and 2025-26.

(x) Interest paid in (iii) above includes an amount of ₹ 25,000 remitted to a non-resident outside India on which tax was not deducted at source.

4. In July 2026, Mr. Pervez employed as Marketing Manager in a Pharma company, received a Maruti car as gift from a distributor of the company. The value of the gifted car is estimated at ₹ 2,60,000. Is the value of car taxable as income? If so, under what head it is taxable?

Answers

1. The company had advanced a loan to an employee who in turn had advanced the same to the Managing Director of the company holding 70% of its capital. By virtue of the provisions of section 2(40)(e), the same shall be treated as the payment by a company in which public are not substantially interested, on behalf of, or for individual benefit of any such share holder (who holds not less than 10% of the voting power), to the extent to which the company possesses accumulated profits.

In this case, the company has reserves of ₹ 6 lakhs on 31st March of the preceding year and the amount of loan advanced on 1st April is ₹ 5 Lakhs. Therefore, the payment is to be treated as deemed dividend. The amount of interest-free loan of ₹ 5 lakhs given by the company to the supervisor who in turn had given the same to Mr. Parimal, shall be construed as the amount given for the benefit of Mr. Parimal and would be treated as deemed dividend. This has been held by the Supreme Court in the case of *L. Alagusundaram Chettiar v. CIT (2001) 252 ITR 893*.

2. The issue under consideration is whether loan or advance given to a shareholder by the company, in return of an advantage or benefit conferred

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on the company by the shareholder, can be deemed as dividend under section 2(40)(e) in the hands of the shareholder

The facts of the case are similar to the facts in *Pradip Kumar Malhotra v. CIT (2011) 338 ITR 538*, wherein the above issue came up before the Calcutta High Court.

The High Court observed that the phrase "by way of advance or loan" appearing in section 2(40)(e) must be construed to mean those advances or loans which a shareholder enjoys simply on account of being a person who is the beneficial owner of shares (not being shares entitled to a fixed rate of dividend whether with or without a right to participate in profits) holding not less than 10% of the voting power.

In case such loan or advance is given to such shareholder as a consequence of any further consideration received from such a shareholder which is beneficial to the company, such advance or loan cannot be a deemed dividend within the meaning of the Act.

Thus, gratuitous loan or advance given by a company to a shareholder, who is the beneficial owner of shares holding not less than 10% of the voting power, would come within the purview of section 2(40)(e) to the extent of accumulated profits of the company but not the cases where the loan or advance is given in return for an advantage conferred upon the company by such shareholder.

In this case, advance of ₹ 10 lakhs was given by VKS Manufacturing (P) Ltd. to Mr. Santhanam holding 25% of voting power in lieu of non-release of his personal property from mortgage thereby enabling the company to retain the benefit of loan obtained from bank. Therefore, applying the rationale of the Calcutta High Court ruling in *Pradip Kumar Malhotra's* case, such advance cannot be brought within the purview of section 2(40)(e), since it was not in the nature of gratuitous advance but was given to protect the interest of the company.

The proposition of the Assessing Officer to treat the amount of ₹ 10 lakhs as deemed dividend by invoking the provisions of section 2(40)(e) in this case is, therefore, **not correct**.

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3. The income derived from leased assets shall be chargeable to tax as 'Income from other sources' under section 92(2)(g) but the computation thereof shall be made after allowing deductions specified under sections 28(1)(a), (b), (d) and 33 subject to provisions of section 28(2). This is as per the provisions of section 93(1)(c).

Computation of income under the head "Income from other sources"

Particulars			₹	₹
(A)	Lease Rent for 12 months @ ₹ 50,000 p.m.			6,00,000
	Less: Expenses and deductions allowable under section 93(1)(c) & 93(1)(e):			
	Repairs		15,000	
	Fire Insurance Premium		12,000	
	Legal expenses for drafting of lease agreement		1,500	
	Factory Licence fee		1,000	
	Depreciation for the year		1,47,500	
	Unabsorbed depreciation of earlier tax years – eligible for deduction **(Note 1)**		2,75,000	4,52,000
				1,48,000
(B)	Interest on Deposits		1,00,000	
	Less: Expenses allowable under section 93(1)(e)			
	Brokerage	₹ 2,000		
	Interest on hundi loans **(Note 2)**	₹ 50,000	52,000	48,000
Total Income				**1,96,000**

Notes:

1. Unabsorbed depreciation of ₹ 2,75,000 pertains to earlier tax years. The unabsorbed depreciation shall form part of the current year depreciation and can be set off against any other head of income other than salary. Accordingly, the amount of ₹ 2,75,000 is adjustable/ allowed to be set off against 'Income from other sources'.

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2. Since deposits are made by investing amount received on hundi and other loans, the interest on hundi and other loans would be eligible for deduction from the income arising on such deposits.

   However, interest paid to non-resident is not eligible for deduction as the tax has not been deducted at source.

4. Mr. Pervez, an employee of a Pharma company, has received a car as a gift from a distributor of the company. Since there is no employer-employee relationship in this case between the distributor and Mr. Pervez, the value of gift is **not** a perquisite chargeable to tax under the head "Salaries".

   Section 92(2)(m) brings within its scope the value of any property received by any person. For this purpose, "property" means immovable property being land or building or both, shares and securities, jewellery, archaeological collections, drawings, paintings, sculptures, any work of art or bullion or virtual digital assets.

   Therefore, for the purpose of attracting the provisions of section 92(2)(m) for chargeability under the head "Income from Other Sources", an individual should be in receipt of property as defined therein. Since, car is not included in the definition of "property", the provisions of section 92(2)(m) would not be attracted in the hands of Mr. Pervez.

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