

TAXBOOK⁺

Working steps of solutions

B21 to End

Income From Other Sources

Build Your Confidence (BYC)

COMPREHENSIVE

B21. Comprehensive – Examine under which head of income would the following incomes be taxable in the hands of Rakesh for AY 2022-23:

| # | Income | Head |
|----|---|--|
| 1 | He is a builder. He let out certain flats held for sale for a period of 9 months and derived rental income of Rs. 10 lakh. | IHP |
| 2 | He is a Member of Parliament. He received salary of Rs. 10,000 per month in this capacity. | IFOS |
| 3 | He is a partner in R&S Co., partnership firm. He received interest on capital and salary from the firm. This was allowed as deduction in the hands of the firm. | PGBP |
| 4 | He let out plant and machinery belonging to him and derived rental income of Rs. 1,50,000. He is not in the business of letting out plant and machinery. | IFOS |
| 5 | He received gift of Rs. 60,000 from his friend on the occasion of his birthday. | IFOS |
| 6 | Upon retirement, he received Rs. 20 lakh as lump sum payment from unrecognized provident fund out of which Rs. 7 lakh was his own contribution and Rs. 2 lakh was interest thereon. | 2 lakh as IFOS |
| 7 | He won a prize of Rs. 3 lakh from State Government lottery | IFOS |
| 8 | He was engaged in the business of giving motor cars on hire. Rental income for the year was Rs. 10 lakh. | PGBP |
| 9 | He earned Rs. 4,50,000 as interest from money lending business | PGBP |
| 10 | He is a dealer in shares. He earned dividend income of Rs. 50,000 on shares held by him as stock-in-trade. | IFOS |
| 11 | CA2016(N) - He received a sum of Rs. 5 lakh as compensation from 'Yatra Foundation' towards the loss of property on account of flood disaster at Chennai during December 2021 | IFOS (since not exempt u/s 10(10BC) (para 30), as not received from Government or local authority) |
| 12 | CA2016(M/N) - He received an advance of Rs. 3 lakh on 6.6.2021 to transfer his residential house property. Since the transfer was not effected during the PY due to failure in negotiations, he deducted the advance money forfeited from the cost of acquisition of the property. | IFOS; not deductible from COA u/s 51 |
| 13 | He received family pension of Rs. 5,000 p.m. from the employer of his late father. | IFOS 45,000 (60,000 – 15,000 exempt) |
| 14 | He was awarded Rs. 21,000 by the local municipal corporation for his outstanding social service | IFOS |

B22. Comprehensive – CA2009(N) - From the following particulars of Pankaj for the PY 2021-22, compute the income

Computation of income of Pankaj chargeable under the head IFOS for AY 2022-23

| Particulars | Rs. | Rs. |
|--|-------|--------|
| Director's fee from a company | | 10,000 |
| Interest on bank deposits | | 3,000 |
| Income from undisclosed source | | 12,000 |
| Winnings from lotteries (net of TDS @ 30%). Grossed winning = $35,000 \times (100/70)$ | | 50,000 |
| Royalty on a book written by him (assuming it is not taxable as PGBP) | 9,000 | |

| | | |
|---|---------|-----------------|
| Less: Expenses | (1,000) | 8,000 |
| Lectures in seminars | | 5,000 |
| Interest on loan given to relative | | 7,000 |
| Interest on debentures of a company (listed on RSE) net of TDS @ 10%. Gross interest = 4,500 × (100/90) | | 5,000 |
| Interest on Post Office Savings Bank Account (exempt u/s 10(15) up to Rs. 3,500 in case of individual account and Rs. 7,000 in case of joint account) | | Nil |
| Interest on Government securities | | 2,200 |
| Interest on Monthly Income Scheme of Post Office | | 33,000 |
| Income under the head IFOS | | 1,35,200 |

B23. Comprehensive – MASTER QUESTION - Compute the tax liability of Badal, a resident aged 35 years and carrying.....

Computation of tax liability of Badal for AY 2022-23

| Particulars | Rs. | Rs. |
|---|---------------------------------|----------------------|
| Computation of total income | | |
| Income from other sources | | |
| Income from Z Ltd. | | |
| <ul style="list-style-type: none"> Bonus shares to equity shareholder: Not treated as dividend u/s 2(22)(a) Distribution of debentures: Treated as dividend u/s 2(22)(b) to the extent of accumulated profits on the date of distribution = 2 lakh × (15 cr / 20 cr) Buy-back of shares: Buyback by a domestic company is exempt u/s 10(34A) and not treated as dividend u/s 2(22)(d) in the hands of shareholder | - 1,50,000 - | 1,50,000 |
| Income from BD Pvt. Ltd. in which Badal holds ≥ 10% equity shares | | |
| <ul style="list-style-type: none"> Advance against service contract: Trade advance in nature of commercial transaction is not dividend Loan to firm in which Badal is entitled to ≥ 20% income is dividend u/s 2(22)(e) to the extent of accumulated profits on the date of payment Loan to friend: It is dividend u/s 2(22)(e) but not taxable since there are no accumulated profits on 1.8.2020, remaining after loan to firm Dividend: Not taxable since set off against amount already treated dividend u/s 2(22)(e) | - 4,00,000 - - | 4,00,000 |
| Dividend from CNK Ltd. | | 10,000 |
| Dividend from US company: Taxable = 30,000 – interest of 5,000. Interest expense, up to 20% of dividend income included in the total income before such deduction, is allowed as deduction. Payment to banker for realizing dividend is not deductible. | | 25,000 |
| Loan from JBL Pvt Ltd: Not dividend u/s 2(22)(e) since loan made in ordinary course of business of money lending. | | - |
| Receipt of money: | | |
| <ul style="list-style-type: none"> From friends on occasion of his marriage: Not taxable From fiancée on his birthday: Taxable From partnership firm in which he is a partner: Taxable Aggregate sum taxable u/s 56(2)(x) since it exceeds 50,000 | - 40,000 20,000 60,000 | 60,000 |
| Gift of movable property: | | |
| <ul style="list-style-type: none"> Jewellery inherited from parent: Not taxable Work of art received on partition of HUF: Not taxable Gold coins from unregistered trust: Taxable Aggregate sum does not exceed 50,000. Nothing taxable u/s 56(2)(x). | - - 50,000 - | - |
| Movable property received for inadequate consideration: | | |
| <ul style="list-style-type: none"> Unquoted shares from elder son of brother: Taxable Stock of television sets: Not taxable since not a capital asset Honda Civic car: Not taxable since not specified movable asset Excess (Aggregate FMV 1,50,000 – Consideration 50,000) taxable u/s 56(2)(x) since it exceeds 50,000 | 1,00,000 - - 1,00,000 | 1,00,000 |
| Gift of immovable property: Plot of land gifted by grandfather's cousin sister: SDV taxable u/s 56(2)(x) since it exceeds 50,000 | | 4,00,000 |
| Immovable property received for inadequate consideration: Excess (SDV 12 lakh – Consideration 10 | | 2,00,000 |

| | | |
|---|------------|------------------|
| lakh) > 50,000 and SDV > 110% of consideration. Hence, excess taxable u/s 56(2)(x). SDV on date of agreement taken as part payment made by a specified mode on this date. | | |
| Interest income: | | |
| • On debentures of Jabra Ltd: Gross up for TDS: 54,000 × (100/90) | 60,000 | |
| • On GOI bonds | 20,000 | |
| • On loan to acquaintance: 90,000 – 9,000 expenses in cash for realizing interest (not disallowed u/s 40A(3) as amount in cash does not exceed 10,000) | 81,000 | |
| • On FD with bank: Gross up for TDS: 67,500 × (100/90) | 75,000 | |
| • On POSA: Exempt up to 3,500 u/s 10(15) | - | |
| • On PPF: Exempt u/s 10(11) | - | |
| • On Post Office MIS | 8,000 | |
| • On compensation: Taxable on receipt basis. 2 lakh - 50% deduction. No other deduction allowed. | 1,00,000 | |
| | | 3,44,000 |
| Shares of closely held company issued for price more than face value. Issue price 500 – FMV 300, i.e., 200 per shares for 10,000 shares is taxable in hands of Benz Pvt. Ltd. u/s 56(2)(viib), not in hands of Badal. | | - |
| Income from units of Mutual Fund: Taxable | | 30,000 |
| Winning from KBC: Gross winning taxable. No deduction allowed. | | 3,20,000 |
| Letting of shop with machine (both are separable; income from letting of machine taxable as IFOS and income from letting of shop taxable as IHP): Rent of machine taxable as IFOS = Rent 36,000 – Insurance premium 2,000 – Depreciation 5,000. | | 29,000 |
| Advance forfeited: Taxable u/s 56(2)(ix) as it is forfeited on or after 1.4.2014 | | 3,00,000 |
| Royalty: Taxable as IFOS, since it is not business income | 5,00,000 | |
| • Less: Manuscript development expenses = 3,00,000 – 10,000 personal expenses disallowed – 1,50,000 excess payment to wife disallowed u/s 40A(2) | (1,40,000) | |
| • Less: Professional fee to Jack = 1,50,000 – 45,000 (30%) disallowed u/s 40(a)(ia) since tax deducted but paid after ROI due date | (1,05,000) | |
| | | 2,55,000 |
| Family pension: 60,000 – 15,000 deduction (lower of 1/3 rd pension or 15,000) | | 45,000 |
| Undisclosed income u/s 69B: Taxable | | 3,00,000 |
| Award from Swachh foundation: Taxable | | 25,000 |
| Director's fee: 80,000 – 20,000 expenses | | 60,000 |
| Income from other sources | | 30,53,000 |
| Profits and gains of business or profession | | |
| Business income = Turnover 120 lakh – Deductible expenditure 115 lakh | 5,00,000 | |
| Receipt from Keyman insurance policy: Taxable u/s 28(vi) | 2,00,000 | |
| | | 7,00,000 |
| Capital gains | | |
| Short term capital gain on sale of shares of JKL Pvt. Ltd. (Note 1) | 1,00,000 | |
| Short term capital gain on sale of house (Note 2) | 7,50,000 | |
| | | 8,50,000 |
| Income from house property | | |
| Rent from shop (Note 3) | | 76,440 |
| | | |
| Gross total income | | 46,79,440 |
| Less: Deduction u/s 80C (investment in PPF) | | (1,50,000) |
| Total income | | 45,29,440 |
| Computation of tax liability | | |
| Composition of total income: | | |
| Income taxable u/s 115BB (winnings) | | 3,20,000 |
| Income taxable u/s 115BBE (undisclosed income) | | 3,00,000 |
| Other income | | 39,09,440 |
| | | 45,29,440 |
| Tax u/s 115BBE @ 60% | 1,80,000 | |
| Add: Surcharge @ 25% | 45,000 | 2,25,000 |

| | | |
|-------------------------------------|----------|------------------|
| Tax u/s 115BB @ 30% | 96,000 | |
| Tax on other income at normal rates | 9,85,332 | |
| Add: Surcharge | Nil | 10,81,332 |
| | | 13,06,332 |
| Add: HEC @ 4% | | 52,253 |
| Tax liability | | 13,58,585 |
| Tax liability (rounded off) | | 13,58,590 |

Note 1: Capital gain on sale of shares of JKL Pvt. Ltd.

| Particulars | Rs. |
|---|------------|
| Full value of consideration u/s 50CA = FMV since FVC < FMV | 2,50,000 |
| Less: Cost of acquisition = Value taken into account u/s 56(2)(x) | (1,50,000) |
| Short term capital gain (since held for not more than 24 months) | 1,00,000 |

Note 2: Capital gain on sale of house

| Particulars | Rs. |
|---|-------------|
| Full value of consideration u/s 50C = FVC since SDV does not exceed 110% of FVC | 20,00,000 |
| Less: Expenditure on transfer | (50,000) |
| Net consideration | 19,50,000 |
| Less: Cost of acquisition = Value taken into account u/s 56(2)(x) | (12,00,000) |
| Short term capital gain (since held for not more than 24 months) | 7,50,000 |

Note 3: Income from house property – Rent from shop

| Particulars | Rs. |
|--|----------|
| Gross annual value = Higher of expected rent 1,08,000 (@ 9,000 p.m.) or actual rent 1,20,000 (@ 10,000 p.m.) | 1,20,000 |
| Less: Municipal taxes paid during the PY by Badal @ 10% of 1,08,000 | (10,800) |
| Net annual value | 1,09,200 |
| Less: Standard deduction of 30% | (32,760) |
| Income from house property | 76,440 |