

TAXBOOK⁺

Working steps of solutions

B1 to B10

Income From Other Sources

Build Your Confidence (BYC)

B1. Dividend u/s 2(22)(e) – Determine whether the following payments are to be treated as dividend for the AY 2022-23:

#	Particulars	Dividend?	Remarks
1	Jayant holds 15% equity shares in BCD Pvt. Ltd. The company advanced Rs. 10 lakh to Jayant on 15.5.2021 at 12% p.a. rate of interest (market rate is 12% p.a.). Jayant repaid the loan on 1.3.2022. Accumulated profits of BCD Pvt. Ltd. are Rs. 15 lakh as on 15.5.2021.	10 lakh	Advance to specified shareholder
2	Jayant holds 10% equity shares in JKL Pvt. Ltd. The company advanced Rs. 20 lakh to the HUF of which Jayant is a member entitled to 25% income, on 15.5.2021. Accumulated profits of the company on 15.5.2021 were Rs. 15 lakh.	15 lakh	Advance to concern in which specified shareholder has SI
3	Jayant holds 25% equity shares in PQR Ltd., a company in which the public are not substantially interested. The company gave loan on 1.5.2021 of Rs. 15 lakh to Suyash who is not a shareholder in the company. Suyash gave loan of Rs. 15 lakh to Jayant on 15.5.2021. Accumulated profits of the company on 1.5.2021 were Rs. 75 lakh.	15 lakh	Payment on behalf or for individual benefit of specified shareholder
4	Jayant holds 15% equity shares in DEF Pvt. Ltd. The company is primarily engaged in the business of money lending. DEF Pvt. Ltd. advanced a loan of Rs. 30 lakh to Jayant in the ordinary course of its business at market rate of 15%.	No	Loan in ordinary course of money lending business
5	Jayant holds 20% equity shares in Z Pvt. Ltd. The company gave a loan of Rs. 1 lakh to Jayant on 1.1.2021 which is outstanding. The company paid normal dividend to its shareholders on 1.6.2021. Jayant was entitled to dividend of Rs. 1.5 lakh. The company paid Rs. 50,000 to Jayant after setting off the loan amount.	50,000	Dividend set-off against earlier 2(22)(e) payment, not again treated as dividend
6	JKL Pvt. Ltd., in which Jayant holds 12% equity shares, advanced Rs. 5 lakh to him in connection with a job work. This amount was adjusted against the bill raised by Jayant on completion of job work.	No	Trade advance not dividend
7	UVX Pvt. Ltd., in which Jayant holds 15% equity shares, awarded a works contract to him in connection with an export order that the company had won. To complete the work, he was required to purchase and install a machine. The company advanced him Rs. 10 lakh for this purpose.	No	Trade advance not dividend
8	JJ Pvt. Ltd., in which Jayant holds 5% equity shares, advanced a loan of Rs. 5 lakh to a partnership firm in which he was a partner entitled to 25% profit share.	No	Not a specified shareholder
9	Yam Jam Ltd., a listed company, granted a loan of Rs. 10 lakh to Sham Jam Ltd on 1.9.2021. Jayant held 20% equity shares in both the companies. The loan was outstanding till the end of the year. Yam Jam Ltd. had Rs. 8 lakh of accumulated profits as on 1.9.2021.	No	Payer is not a closely held company

B1a. CA2021(JULY) – Mr. Mani, holding 20% of the equity share capital in XY Ltd, a manufacturing company in which.....

Since XY Ltd. is a company in which the public are substantially interested, i.e., it is not a closely held company, section 2(22)(e) will not apply. Nothing will be taxable as deemed dividend in the hands of Mr. Mani.

Mistake by students – Not aware of provisions.

B2. Dividend – CA2016(N) - Rakesh has 15% shareholding in RSL (P) Ltd. and also has 50% share in Rakesh & Sons.....

Taxable as deemed dividend u/s 2(22)(e) in the hands of Rakesh to the extent of Rs. 20 lakh (accumulated profits; assuming this is the figure at the time of loan) as Rakesh beneficially holds $\geq 10\%$ equity shares in the payer company, which is a closely held company, and loan is given to a concern in which Rakesh holds substantial interest, i.e., beneficially entitled to $\geq 20\%$ income.

B3. Dividend – CA2020(N) – Julie received following amount during PY 2021-22. Received loan of Rs. 5,00,000 from.....

Taxable as deemed dividend u/s 2(22)(e) in the hands of Julie to the extent of Rs. 2,00,000 (accumulated profits on the date of loan) as loan is received from a closely held company in which she holds $\geq 10\%$ equity shares.

B4. Dividend – Compute the income taxable under the head IFOS in the hands of Mr. Swindle for the AY 2022-23.....

Computation of income taxable under the head IFOS in the hands of Mr. Swindle for the AY 2022-23

Particulars	ROR	RNOR	NR
Dividend received in India from J Ltd., a domestic company, on 1.10.2021, after paying remuneration of Rs. 5,000 to the bank for realizing the dividend (gross amount taxable; remuneration to bank not deductible)	1,00,000	1,00,000	1,00,000
Dividend received outside India from B Ltd., an Indian company, on 15.5.2021 (deemed to accrue or arise in India u/s 9(1)(iv))	1,00,000	1,00,000	1,00,000
Dividend received in India from C Ltd., a foreign company, on 15.5.2021 (taxable as received in India)	1,20,000	1,20,000	1,20,000
Dividend received outside India from D Ltd., a foreign company, on 15.5.2021, and later remitted to India	80,000	-	-
Dividend received outside India from Z Ltd., a foreign company, on 15.6.2021.	50,000	-	-
Income from other sources	4,50,000	3,20,000	3,20,000

Money or property received without or for inadequate consideration

B5. 56(2)(x) – Determine whether the following will be taxable in the hands of recipient u/s 56(2)(x).

#	Particulars	Taxability	Amount taxable	Reason
1	Jay HUF received Rs. 1,35,000 as gift in cash from Meena. Meena is the younger daughter of the friend of Jay. Jay is the Karta of the HUF.	Taxable	1,35,000	Meena is not a member of HUF, hence, not relative.
2	Prakash HUF received a house property as gift from Rini, the daughter of Prakash. Rini is the member of Prakash HUF of which Prakash is the Karta. SDV of the house is Rs. 15 lakh.	Not taxable	Nil	Rini is member of HUF, hence, relative. However, income from house will be clubbed with her income u/s 64(2) (refer para 184 for details)
3	Shashwat received the following gifts on his 50 th birthday: 1,500 shares of Z Ltd. from his best friend (FMV Rs. 20 per share) and diamond jewellery from elder son of his brother (FMV Rs. 60,000).	Taxable	90,000	Friend and nephew are not relatives. Birthday is not an exempted event. Aggregate FMV of 90,000 exceeds 50,000.
4	Rajan HUF gifted a motor cycle (FMV 50,000) to Rajan's son, Raghu, for winning the college sports competition. Rajan is the Karta of HUF.	Not taxable	Nil	Motor cycle is not covered as movable property u/s 56(2)(x).
5	CA2016(M) - Mr. Kumar gifted a car to his sister's son, Sunil, for achieving good marks in CA Final exam. The FMV of the car is Rs. 5 lakh.	Not taxable	Nil	Car is not covered as movable property u/s 56(2)(x)
6	Rs. 60,000 was received by Rajesh from three of his colleagues on the occasion of marriage of his son. Each person gifted Rs. 20,000.	Taxable	60,000	Marriage is not of recipient. Aggregate > 50,000.
7	Sanjay received Rs. 51,000 as gift from his fiancée living in the US.	Taxable	51,000	Fiancée is not a relative. Aggregate > 50,000.
8	Sanjay, a director employee of a car manufacturing company, received a Honda City car as gift from a car distributor.	Not taxable	Nil	Car is not covered as movable property u/s 56(2)(x). Also, not received from employer (so as to be taxable as salary income) or as benefit from business (so as to be taxable as

B6. 56(2)(x) – CA2018(M) – Discuss the taxability of the following receipts in the hands of Sanjay Kamboj for.....

1. Sister is relative. Gift not taxable u/s 56(2)(x).
2. Car is not a movable property specified u/s 56(2)(x). Hence, not taxable.

Mistake by students – Not aware that car does fall under the definition of ‘property’ u/s 56(2)(x).

B7. 56(2)(x) – CA2011(M) - The following details have been furnished by Hemali pertaining to the year ended 31.3.2022. Compute the income, if any, assessable as IFOS.

#	Particulars	Taxability	Amount taxable	Reason
1	Cash gift of Rs. 51,000 received from her friend on the occasion of her 'Shastiapha Poorthi', a wedding function celebrated on her husband completing 60 years of age. This was also her 25 th wedding anniversary.	Taxable	51,000	Occasion not marriage. Friend not relative.
2	On the above occasion, a diamond necklace worth Rs. 2 lakh was presented by her sister living in Dubai.	Not taxable	Nil	Sister is relative
3	When she celebrated her daughter's wedding on 21.2.2022, her friend assigned in Hemali's favour, a fixed deposit held by the said friend in a scheduled bank; the value of fixed deposit and the accrued interest on the said date was Rs. 51,000.	Taxable	51,000	Occasion not marriage of Hemali. Friend not relative. FD is sum of money.*
Income from other sources			1,02,000	

**'Sum of money' is not defined u/s 56(2)(x). Two views are possible – FD represents sum of money or FD does not fall within this meaning. The first view is adopted in the answer. Students can also take the alternative view. A note should be given in the answer in either case.*

B8. 56(2)(x) – From the following transactions relating to Shikha, determine the amount chargeable to tax in her hands for AY 2022-23. Your answer should be supported by reasons.

#	Particulars	Gift of money	Movable property for inadequate consideration	Immovable property for inadequate consideration	Reason
1	On 1.1.2022, being her birthday, she received a gift of Rs. 40,000 by means of cheque from her father's maternal uncle.	40,000	-	-	Father's maternal uncle not relative and birthday not an excluded occasion.
2	On 12.2.2022, she acquired a vacant site from her friend for Rs. 1,32,000. Stamp duty authority fixed the value of site at Rs. 2,00,000 for stamp duty purposes.	-	-	68,000	68,000 excess (SDV – Consideration) > 50,000 and SDV > 110% of consideration. Excess is taxable
3	Received a cash gift of Rs. 2,25,000 from ABC Charitable Trust (registered u/s 12AB) on 12.10.2021 for meeting medical expenses.	Nil	-	-	Received from a trust registered under the Act
4	She bought 50 equity shares of a private company from a friend for Rs. 75,000. FMV of such shares on date of purchase was Rs. 1,33,000.	-	58,000	-	58,000 excess (FMV – Consideration) > 50,000. Excess is taxable.
		40,000	58,000	68,000	

Computation of income under the head IFOS

Particulars	Rs.
Sum of money received without consideration: Aggregate of Rs. 40,000 does not exceed Rs. 50,000	Nil
Movable property received for inadequate consideration: Aggregate FMV – Consideration = 1,33,000 – 75,000 = 58,000. This exceeds Rs. 50,000. Excess is taxable.	58,000
Immovable property (land or building) received for inadequate consideration (per property)	68,000
Income from other sources	1,26,000

B9. 56(2)(x) – CA2019(N) - Miss Bansuri, a Chinese national, got married to Mr. Keshav of India in Beijing on 3.2.2021.....

Computation of total income and tax payable for AY 2022-23

Particulars	A: Returned on 20.2.2022	B: Returned on 20.1.2022
Determination of residential status for AY 2022-23		
Stay in India in PY 2021-22	1.4.21 to 11.8.21 (133) + 20.2.21 to 31.3.22 (40) = 173 days	1.4.21 to 11.8.21 (133) + 20.1.21 to 31.3.22 (71) = 204 days
Stay in India in preceding 4 PYs	PY 2017-18 to 2020-21 (14.2.21 to 31.3.21) = 46 days.	Not relevant
Case A: Stay in India in PY 2021-22 < 182 days. Further, stay in PY 2021-22 ≥ 60 day but < 365 days in preceding 4 PYs	Status is non-resident	-
Case B: Stay in India in PY 2021-22 ≥ 182 days. Hence, she is resident. But she is non-resident in 9 out of 10 preceding PYs and stay in India is ≤ 729 days in preceding 7 PYs.	-	Status is RNOR
Computation of total income and tax liability for AY 2022-23		
Income under the head IFOS	-	-
• Gift from parents of husband received in India: Not taxable u/s 56(2)(x) since lineal ascendant of spouse is a relative	-	-
• Gift from married sister of husband received in India: Not taxable u/s 56(2)(x) since sister of spouse is a relative	-	-
• Gift from close friends: Taxable u/s 56(2)(x) since friend of husband is not a relative. FMV > 50,000.	2,62,000	2,62,000
Total income	2,62,000	2,62,000
Tax on total income	600	600
Less: Rebate u/s 87A (not available to non-resident)	-	(600)
	600	Nil
Add: HEC @ 4%	24	Nil
Tax liability	624	Nil
Tax liability (rounded off)	620	Nil

B9A. CA2021(JAN) - Prabhu Dayal Prem Narain HUF purchased a house property in the year 1946 for Rs. 30,000. On.....

In the hands of HUF – No capital gain in the hands of HUF on distribution of capital asset on partition in view of section 47(i) [see para 136].

In the hands of Prem Narain – No income u/s 56(2)(x) since house property received on partition of HUF.

B10. 56(2)(x) – Rocky is engaged in the business of trading in shares. Following particulars are furnished for PY 2021-22.....

Computation of IFOS in the hands of Rocky for AY 2022-23

#	Particulars	Rs.
1	Cash gift is taxable u/s 56(2)(x) since it exceeds Rs. 50,000. Friend is not a relative.	1,25,000
2	Bullion, received without consideration, is taxable u/s 56(2)(x) since FMV exceeds Rs. 50,000	55,000
3	SDV of flat gifted by brother's father-in-law, received without consideration, is taxable u/s 56(2)(x), since SDV exceeds Rs. 50,000. Brother's father-in-law is not a relative.	4,50,000
4	Receipt of shares is not covered u/s 56(2)(x) as it is stock-in-trade for Rocky. Profit on subsequent sale of shares is taxable under the head PGBP for AY 2023-24.	-
5	House: Excess, i.e., difference between SDV of Rs. 15 lakh and Rs. 10 lakh, i.e., Rs. 5 lakh > 50,000 and SDV of	5,00,000

15 lakh > 110% of 10 lakh. Thus, excess is taxable u/s 56(2)(x). SDV on date of agreement is taken since part of consideration is received by specified mode on date of agreement.	
Income from other source	11,30,000

Computation of capital gain in the hands of Rocky for AY 2022-23 on sale of flat

Particulars	Rs.
Sale consideration u/s 50C = SDV, as it is > 110% of 10 lakh	12,00,000
Less: Cost of acquisition: Deemed to be the SDV taken into account u/s 56(2)(x), by virtue of section 49(4)	(4,50,000)
Short term capital gain (period of holding of Rocky does not exceed 24 months)	7,50,000

TAXBOOK⁺

Working steps of solutions

B11 to B20

Income From Other Sources

Build Your Confidence (BYC)

B11. 56(2)(x) - Yogi is a real estate dealer. On 15.10.2021, he sold a flat (being his stock-in-trade) to Jogi, his friend.....

Tax implications arising in the hands of Yogi and Jogi for AY 2022-23

Business income in the hands of Yogi	Rs.
Full value of consideration u/s 43CA = SDV of 80 lakh, as it is > 110% of consideration. SDV on date of agreement not taken since part consideration is paid by bearer cheque on that date.	80,00,000
Less: Cost of flat	(40,00,000)
Profits and gains of business or profession	40,00,000
IFOS in the hands of Jogi u/s 56(2)(x)	Rs.
Excess (SDV 80 lakh – Consideration 50 lakh) > 50,000 and SDV > 110% of consideration. Income u/s 56(2)(x) = Excess. Flat is a capital asset in the hands of Jogi even if it is stock-in-trade in the hands of Yogi.	30,00,000
Capital gain in the hands of Jogi	Rs.
Full value of consideration u/s 50C = Actual consideration as SDV ≤ 110% of consideration. SDV on date of agreement taken since part consideration is paid by account payee cheque on that date.	1,00,00,000
Less: Cost of acquisition u/s 49(4) is value taken into account u/s 56(2)(x)	(80,00,000)
Short term capital gain (since POH does not exceed 24 months)	20,00,000

If Yogi is not a real estate dealer, the flat will be a capital asset in his hands and capital gain will arise on sale of flat to Jogi, instead of business income. Short term capital gain will arise as POH does not exceed 24 months in the hands of Yogi. Computation will remain the same as above and short term capital gain will be Rs. 40,00,000. There will no change in taxability in the hands of Jogi.

B12. 56(2)(x) – CA2015(M) - Mohini transferred a house to her friend, Ragini, for Rs. 35,00,000 on 1.10.2021. The.....

Computation of total income of Mohini and Ragini for AY 2022-23

Particulars	Rs.	Rs.
Computation of total income of Mohini		
Long term capital gain:		
Full value of consideration u/s 50C = SDV, since it exceeds 110% of consideration. DRO value taken as it is ≤ SDV.	41,00,000	
Less: ICOA = COA × (CII of 2021-22/CII of 2014-15) = 26.50 lakh × (317/240)	(35,00,208)	5,99,792
Other income		2,80,000
Total income		8,79,792
Computation of total income of Ragini		
Income from other sources: Excess (SDV 41 lakh – Consideration 35 lakh) being 6 lakh > 50,000 and SDV of 41 lakh exceeds 110% of 35 lakh. Thus, excess of 6 lakh is taxable u/s 56(2)(x).		6,00,000
Other income		3,45,000
Total income		9,45,000

B13. 56(2)(x) – CA2010(M) – Raj Kumar sold a house to his friend Dhruv on 1.9.2021 for a consideration of Rs. 25,00,000.....

Computation of capital gain in the hands of Raj Kumar for AY 2022-23

Particulars	Rs.	Rs.
Long term capital gain on sale of land (since POH exceeds 24 months):		
Full value of consideration u/s 50C = Value fixed by Revenue Divisional Officer	22,00,000	
Less: ICOA = COA × (CII of 2021-22/CII of 2015-16) = 5,19,000 × (317/254)	(6,47,728)	
		15,52,272
Short term capital gain on sale of building (since POH does not exceed 24 months)		
Full value of consideration u/s 50C = Value fixed by Revenue Divisional Officer	10,00,000	
Less: COA	(14,00,000)	
		(4,00,000)
Capital gains (long-term): Short term capital loss can be set off against long term capital gain u/s 70 (see para 189 for details)		11,52,272

Income from Other Sources in the hands of Dhruv for AY 2022-23

Income from other sources: Excess (SDV 32 lakh – Consideration 25 lakh) being 7 lakh > 50,000 and SDV of 32 lakh exceeds 110% of 25 lakh. Thus, excess of 7 lakh is taxable u/s 56(2)(x).

B14. 56(2)(x) – CA2018(N) – Subramani sold a house plot to Vimala for Rs. 45 lakh on 12.5.2021. The valuation.....

In the hands of Subramani

Capital gain will arise in the hands of Subramani. SDV of Rs. 53 lakh will be deemed to be the full value of consideration u/s 50C as SDV > 110% of consideration of Rs. 45 lakh.

In the hands of Vimala

Income from other sources upon receipt of house plot: Excess (SDV 53 lakh – Consideration 45 lakh) being 8 lakh > 50,000 and SDV of 53 lakh exceeds 110% of 45 lakh. Thus, excess of 8 lakh is taxable u/s 56(2)(x).

Short term capital gain on sale of house plot to Padmaja (since POH does not exceed 24 months):

Particulars		
Full value of consideration u/s 50C = Actual consideration since SDV ≤ 110% of actual consideration		55,00,000
Less: Cost of acquisition u/s 49(4) = Value of property taken into account u/s 56(2)(x)		(53,00,000)
Short term capital gain		2,00,000

INTEREST

B15. Interest – Determine the income taxable under the head IFOS in the hands of Swamy, a resident and ordinarily.....

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

Particulars	Rs.
Interest on tax-free 8% GOI bonds (exempt)	Nil
Interest on 9% debentures of XYZ Ltd (net of TDS @ 10%) = 18,000 × (100/90) = 20,000. Less commission of Rs. 4,000 (assuming it is reasonable)	16,000
Interest on Relief Bonds (exempt u/s 10(15))	Nil
Interest on 7% Capital Investment Bonds (exempt u/s 10(15))	Nil
Interest on loan given to a business colleague	6,000
Interest on fixed deposits with Kotak Mahindra Bank	15,000
Interest on PPF (exempt u/s 10(11))	Nil
Interest on Post Office Savings Bank Account (individual account) (exempt up to 3,500)	2,500
Interest on loan given to Mrs. Zed, a non-resident for her business carried on in India (deemed to accrue or arise in India u/s 9(1)(v) as interest payable by non-resident for loan used for business carried on in India; even otherwise taxable on global basis as Swamy is a ROR; also taxable on receipt basis assuming it is received in India)	10,000
Income under the head IFOS	49,500

B16. Interest on compensation – CA2011(N) - On 10.10.2021, Govind (a bank employee) received Rs. 5,00,000 towards.....

Particulars	Rs.
Interest on enhanced compensation taxable u/s 56(2)(viii) in the year of receipt	5,00,000
Less: Deduction u/s 57(iv) of 50%	(2,50,000)
Taxable interest on enhanced compensation	2,50,000

B17. Interest on compensation – CA2020(N) - Julie received following amount during PY 2021-22. Received interest.....

Interest received of Rs. 5,00,000 less deduction of 50%, i.e., Rs. 2,50,000 will be taxable in the year of receipt, i.e, PY 2021-22. Any specific expenditure is not deductible.

SHARE PREMIUM

B18. Share premium – CA2019(N) - MLX Investments (P) Ltd. was incorporated during PY 2019-20 having a paid up.....

1: Section 56(2)(viib) will not apply as issue price does not exceed face value.

2: Section 56(2)(viib) will apply as issue price exceeds face value. IFOS will be 20 lakh @ 20 per share (105 – 85).

3: Section 56(2)(viib) will apply as issue price exceeds face value. IFOS will be nil since issue price does not exceed FMV.

It is assumed that consideration is received from resident.

B19. Share premium – CA2016(M) – ABC Pvt. Ltd., a closely held company, issued 10,000 shares at Rs. 130 per share.....

Section 56(2)(viib) will apply as issue price exceeds face value. IFOS will be @ 10 per share (130 – 120), i.e., Rs. 1,00,000.

COMPUTATION OF TAX LIABILITY

B20. Tax liability – Compute the tax liability for AY 2022-23 in the following cases for Shikha. She has not opted for.....

Computation of tax liability for AY 2022-23

Particulars	Case I	Case II	Case III
Income from other sources			
• Dividend	3,50,000	3,50,000	3,50,000
• Winning from gambling u/s 115BB	60,000	60,000	60,000
Capital gain			
• LTCG u/s 112	-	30,000	30,000
• LTCG u/s 112A	-	1,50,000	1,50,000
Gross total income	4,10,000	5,90,000	5,90,000
Less: Deduction u/s 80C (deposit in PPF) (not allowed from income taxable at special rates, i.e., winning u/s 115BB, 112, 112A)	(1,50,000)	(1,50,000)	(1,50,000)
Total income	2,60,000	4,40,000	4,40,000
Incomes included in total income			
Winning u/s 115BB	60,000	60,000	60,000
LTCG u/s 112	-	30,000	30,000
LTCG u/s 112A	-	1,50,000	1,50,000
Other income	2,00,000	2,00,000	2,00,000
Computation of tax liability:			
On winning u/s 115BB @ 30% (benefit of unexhausted BEL not available from winnings)	18,000	18,000	18,000
On LTCG u/s 112 @ 20%: Unexhausted BEL = 50,000 (2,50,000 – 2,00,000). 30,000 adjusted against LTCG u/s 112.	-	Nil	-
On LTCG u/s 112 @ 20%: Benefit of unexhausted BEL not available to non-resident	-	-	6,000
On LTCG u/s 112A @ 10% in excess of 1 lakh: Balance unexhausted BEL of 20,000 adjusted. Taxable LTCG = 1,50,000 – 20,000 UBEL – 1,00,000 exemption = 30,000. Tax @ 10%.	-	3,000	-

On LTCG u/s 112A @ 10% in excess of 1 lakh: Benefit of unexhausted BEL not available to non-resident.	-	-	5,000
On other income at normal rates	Nil	Nil	Nil
Tax on total income	18,000	21,000	29,000
Less: Rebate u/s 87A (not available from tax u/s 112A or to a non-resident)	(12,500)	(12,500)	-
	5,500	8,500	29,000
Add: Surcharge	-	-	-
	5,500	8,500	29,000
Add: HEC@ 4%	220	340	1,160
Tax liability	5,720	8,840	30,160

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

CHARGEABILITY

M1. Income is taxable under the head IFOS if it is not exempt or It is not chargeable under any other head of income.....

Both conditions should be satisfied

DIVIDEND

M7. Charmis Pvt. Ltd., having reserves of Rs. 10 lakh and capitalized profits of Rs. 5 lakh (due to issue of bonus.....

AP = 15L. Div to the extent of AP = 15L. Raju = 10% of 15L.

M8. TexMax Ltd. distributed deposit certificates (without interest) to its equity and preference shareholders on.....

Total value distributed = 100L. Div to the extent of AP = 50L. A = 10% of 50L

M9. Shure Ltd., an Indian company, paid Rs. 500 per share on buy back of its shares on 1.9.2021 and paid buy back tax.....

Exempt u/s 10(34A)

M14. Zara Pvt. Ltd, extended a loan of Rs. 10 lakh on 12.12.2021 to B&C, a partnership firm, in which B has.....

Covered u/s 2(22)(e) = 10L + Job work NO = 10L. Div to the extent of AP = 9L. Money lending exception not available as it is not substantial part of business of company.

M16a. Mr. D, a lawyer aged 50 years, has the following particulars of income and expenses for PY 2021-22: Gross.....

TI = PGBP 15,00,000 (50% of 30,00,000 u/s 44ADA; he does not want 44AB; hence lower income of 12,00,000 (receipts – expenses) cannot be claimed) + FD interest 30,000 + Dividend 1,00,000 – Deduction u/s 57 of 20,000 (interest upto 20% of dividend included in the TI before such deduction) = 16,10,000

M18. Priyansh, a non-resident, received the following dividend during the PY 2021-22: Rs. 50,000 from Facebook Inc.....

50,000 FB Yes as received in India + 30,000 Daisy Yes as received from ICo + Lazy No as received/accrued outside India = 80,000

M20. Ranbir, a resident of age 36 years, has the following incomes for AY 2022-23: Dividend of Rs. 20 lakh, short.....

Div & 112A income = 51,00,000, other income = 90,00,000

SC = 15%.

TAX: 112A 10% of 30L is 3,00,000; On balance 1.1 cr is 31,12,500 = 34,12,500.

Tax + 15% SC + 4% HEC (on tax and SC) = 40,81,350

M21. Ranbir, a resident of age 66 years, has the following incomes for AY 2022-23: Dividend of Rs. 20 lakh, short.....

Div & 112A is 51L, other income is 3 Cr. SC 15% on div/112A and 25% on other income.

M23. Joy (P) Ltd goes into liquidation on 1.5.2021 on which date its accumulated profits are Rs. 10 lakh. It distributes.....

Div (up to AP) = 20% of 10L = 2L

STCG: FVC (40L FMV of assets + 5L cash – 10L dividend) = 35L. 20% is 7L. STCG = 7L FVC – COA 5L = 2L.

M26. If jewellery is acquired for inadequate consideration and excess of FMV over consideration is more than.....

Excess is taxable

M27. If a painting is gifted and its FMV exceeds Rs. 50,000, the amount in excess of Rs. 50,000 is taxable.....

FMV is taxable

M28. If Rs. 40,000 is gifted by a friend on two occasions during the PY, nothing is taxable.....

80,000 is taxable

M29. If gold jewellery is purchased for Rs. 10,000, on two occasions during the PY, when the market value on both.....

Excess $(80,000 - 20,000) > 50,000$. Excess is taxable.

M30. If a house is sold by a friend for Rs. 5,00,000 when the market value is Rs. 6,00,000 and stamp duty value.....

2L is taxable

M32. Raghav received the following during the PY 2021-22: Gift of Rs. 50,000 from neighbor, gift of watch of market.....

Cash from neighbor NO as $\leq 50K$ + Watch NO as not specified property + Jewellery NO as excess $\leq 50K$

M33. Ryan HUF, comprising Ryan, his wife and his son as members, received the following during the PY 2021-22.....

Cash gift NO as received from relative + gold 60,000 + car NO as not specified property + land SDV 4,00,000 = 4,60,000

M34. Samar received the following during the PY 2021-22: Gift on birthday of Rs. 20,000 from father, Rs. 20,000 from.....

CASH: Father NO + elder brother NO + colleague 20,000 = NIL as $\leq 50K$.

GIFT OF MOVABLE PROPERTY: Furniture NO.

SALE OF MOVABLE PROPERTY: Diamond/painting 60,000 $(90,000 - 30,000)$ + Raw material NO = 60,000.

M35. Mr. Kishore celebrated his 50th marriage anniversary. On this occasion, his wife received a diamond necklace.....

All are relatives except for friends who gave cash gifts

M36. Shaily received the following during the PY 2021-22: Plot of land from erstwhile business customer on occasion.....

Plot 7,00,000 + house 20,00,000 + shop NO as on partition of HUF + flat NO as under will = 27,00,000

M37. Vihaan sold 1,000 equity shares of J (P) Ltd to his friend, Suhaan on his marriage, for Rs. 100 each on 1.7.2021.....

No income u/s 56(2)(x) on receipt as on marriage.

STCG per share = 600 (FVC u/s 50CA) – 100 actual cost = 500 per share = 5,00,000

M38. Zeeshan purchased residential house from a private company in which he was a shareholder, for Rs. 10 lakh.....

IFOS: Excess of 25L $(35L - 10L) > 50K$ & SDV 35L $> 110\%$ of 10L; IFOS = 25L.

STCG = 50L FVC – 35L value taken into account u/s 56(2)(x) = 15L.

M39. Mr. B, a member of his father's HUF, transferred a house property to the HUF without consideration. The value.....

Not taxable for HUF as received from relative.

M40. Jeev received a plot of vacant land from his grandparent as gift on his birthday on 15.6.2021 when its FMV was

IFOS NIL as received from relative

STCG = 65L – 30L = 35L

M41. Divyansh acquired a house from his friend as gift on the occasion of Deepawali on 10.11.2021 when its SDV was.....

IFOS = 60L. STCG = 70L – 60L = 10.

M42. DLF (P) Ltd., a real estate dealer, sold a flat to D, its director, on 15.4.2021 for Rs. 10 lakh when its SDV was.....

DLF: 30L FVC u/s 43CA – 20L = 10L PGBP.

D: IFOS = Excess 20L $(30L SDV - 10L consideration)$. STCG = 40L $(FVC u/s 50C) - 30L (value taken u/s 56(2)(x)) = 10L$

M42a. Mr. B sold 1,000 shares of PQR Pvt. Ltd. to JKL Pvt. Ltd. for Rs. 2,00,000 on 15.12.2021 (FMV on this date.....

Mr. B: LTCG = 3,00,000 FVC u/s 50CA – 1,00,000 ICOA = 2,00,000

JKL Pvt. Ltd.: IFOS = Excess being FMV of 3,00,000 – Consideration of 2,00,000 = 1,00,000 as it is > 50,000.

INTEREST

M44. Suyash, following mercantile system of accounting, received the following interest during the PY 2021-22.....

PPF Exempt + GOI 25,000 + FD 30,000 + interest on comp 1,00,000 (2 lakh on receipt basis – 50% deduction) = 1,55,000

M46. Darshit earned the following interest during the PY 2021-22: Interest on debentures Rs. 45,000 (net of TDS.....

Debentures 50,000 + friend 9,000 (10,000 – 1,000 commission) + POSA 1,500 (5,000 – 3,500 exempt) + ICICI 5,000 + Gold Bond Bonds exempt = 65,500

M47. Divya received interest on compensation of Rs. 3,00,000 on 1.7.2021 for compulsory acquisition of a plot of land.....

3L – 50% deduction

SHARE PREMIUM

M50. Grand (P) Ltd issued 1,000 equity shares of face value Rs. 10 each to Darshit for Rs. 200 each on 12.1.2022.....

@ 200 – 150 = 50 per share.

M51. GC (P) Ltd issued 1,000 equity shares of face value Rs. 10 each to David for Rs. 200 each on 12.1.2022. FMV was.....

Nil as issue price of 200 does not exceed FMV of 225

M52. DM Ltd, not being a company in which the public are substantially interested, issued 1,000 equity shares of face.....

Nil, as consideration received from NR

OTHER INCOMES TAXABLE AS IFOS

M60. Danish, a resident and ordinarily resident, earned the following during PY 2021-22: Dividend of Rs. 10,000 from.....

Dividend 10,000 + MF 20,000 + gift taxable as SALARY + race 50,000 + Keyman taxable as SALARY = 80,000

M61. Champion, a resident of age 29 years, earned the following during PY 2021-22: Salary (computed) Rs. 1,00,000.....

Normal rate income = Salary 1,00,000 + Dividend 20,000 – PPF 1,20,000 u/s 80C = Nil. Winning = 1,00,000. Total Income = 1,00,000.

Tax = 30,000 (30% on winning) – 12,500 u/s 87A = 17,500. Tax + 4% HEC = 18,200.

M63. Jayant, staying in a flat at a rent of Rs. 10,000 p.m., sub let the flat at Rs. 15,000 p.m. He owned a printing.....

Flat = 1,80,000 – 1,20,000 = 60,000.

Machine 12,000 (6 months) – 5,000 repairs = 7,000.

Car 1,20,000 – 7,000 insurance – 51,000 depreciation (15% on WDV of 3,40,000 (4,00,000 – 60,000 depreciation for PY 2020-21)) = 62,000.

Total = 1,29,000

M64. Mehul received compensation of Rs. 50 lakh on 12.3.2021 on account of compulsory acquisition of his house by.....

Total income = Interest 1,00,000 (2,00,000 – 50% deduction) + Compensation on earthquake exempt u/s 10(10BC) (refer para 30) + Pension 45,000 (60,000 – 15,000 deduction) + 3,00,000 business income = 4,45,000

M65. Raunak, a software engineer, earned salary income (computed) of Rs. 3,00,000 during the PY 2021-22. He

Total Income = Salary 3,00,000 + Award 50,000 + Land 90,000 (1,20,000 – 30,000) + Director's fee 1,20,000 + Undisclosed income 10,00,000 – PPF 1,00,000 u/s 80C (not from undisclosed income) = 14,60,000

M66. If, in the hands of Mrs. C, a resident aged 70 years, interest on securities for the PY 2021-22 is Rs. 45,000 (net of.....

TI = 50,000 interest + 2,00,000 pension + 1,00,000 undisclosed income – 1,00,000 u/s 80C (not from undisclosed income) = 2,50,000 (comprising 1,00,000 undisclosed income and 1,50,000 other income).

Tax u/s 115BBE for undisclosed income @ 60% = 60,000 – 12,500 u/s 87A = 47,500. Tax on balance income = NIL. Tax + 25% SC + 4% HEC (on tax and SC) = 61,750.

SPECIAL PROVISIONS

M67. Which of the following is fully allowed as deduction while computing income under the head IFOS.....

Not disallowed u/s 40A(3) as made by specified mode

M68. Which of the following is not fully allowed as deduction while computing income under the head IFOS.....

Disallowed u/s 40A(3)

M69. Raja, a Chartered Accountant, authored a book on taxation during the year and earned royalty of Rs. 15 lakh.....

Expenses allowed = Bookseller NO u/s 40A(3) + Stationery 10,000 (15,000 – 5,000 disallowed as personal) + Salary 3,50,000 (5,00,000 – 30% disallowed u/s 40(a)(ia)) + Proof reading 1,00,000 (5,00,000 – 4,00,000 disallowed u/s 40A(2)) = 4,60,000.

Total Income = 15,00,000 – 4,60,000 expenses + 15,000 recovery u/s 59 = 10,55,000