

Section 56 – Income from Other Sources

Any income which is not chargeable to tax under any other four heads of income and which is not to be excluded from the total income shall be chargeable to tax as residuary income under the head “Income from Other Sources”.

Other four Heads of Income

- ▶ Salaries
- ▶ Income from House property
- ▶ Profits and gains of business or profession
- ▶ Capital Gains

By virtue of section 56(2), the following incomes are chargeable to tax under this head :-

- ▶ Dividends
- ▶ Winnings from lotteries
- ▶ Crossword puzzles
- ▶ Horse races
- ▶ Card Games etc.
- ▶ Income from machinery, plant or furniture let on hire
- ▶ Interest on securities (If the same is not taxable as business income under section 28)
- ▶ Gift is taxable under this head as well
- ▶ Money/property is received without consideration or for inadequate consideration

Dividend (Sec. 56(2))

Dividend (Sec. 56(2) (i) – Under section 2(22), the following payments or distributions by a company to its shareholders are deemed as dividends to the extent of accumulated profits of the company :-

- a. Any distribution entailing the release of the company's assets
- b. Any distribution of debentures , debenture-stock, deposit certificates and bonus to preference shareholder
- c. Distribution on liquidation of the company
- d. Distribution on reduction of capital
- e. Any payment by way of advance or loan to the following :
 - i. a shareholder (being a person who is beneficial owner of equity shares) holding no less than 10 per cent of the voting power; or
 - ii. Any concern in which such shareholder is a member or a partner and in which he has substantial interest.

Dividend Sec-56 (2)

- The following points should be noted –
 1. Under section 2(22) (e), the amount advanced for business transaction would not fall within the definition of 'deemed dividend'. In other words, if the amount advanced does not bear the characteristics of loans and advances, section 2(22) (e) is not applicable.
 2. Any subsequent dividend to the extent it is set off against any loan or advance (deemed as dividend under section 2(22) (e)) is not treated as "dividend".
 3. The expression "concern" for the purpose of this provision, means a HUF or a firm or an association of persons or a body of individuals or a company. Further , a person shall be deemed to have a substantial interest in a concern, other than a company, if such person is at any time during the previous year beneficially entitled to not less than 20 percent of the income of such concern. In relation to a company, the provisions of section 2(32) will apply.

Winnings from lotteries ,crossword puzzles, horse races and card games ,etc.

Gross winnings from lotteries, crossword puzzles, races including horse races (other than income from the activity of owning and maintaining race horses), card games and other games of any sort or from gambling or betting of any nature whatsoever shall be chargeable to income-tax under section 115BB at a flat rate of 30 per cent (Without claiming any allowance or expenditure).

Meaning of “lottery” – from the assessment year 2002-03, the expression “lottery” includes winning from prizes awarded to any person by draw of lots or by chance or in any other manner whatsoever, under any scheme or arrangement by whatever name called.

Meaning of card game and other game of any sort – This includes any game show, an entertainment programme on television or electronic mode, in which people compete to win prizes or any other similar game.

Income from machinery, plant or furniture let on hire [Sec. 56(2) (ii)/(iii)]

Income from machinery, plant or furniture belonging to the assessee and let on hire is taxable as income from other source if the same is not chargeable to tax under the head "Profits and gains of business or profession". When an assessee lets on hire machinery, plant or furniture and also building and letting of building is inseparable from the letting of machinery, plant or furniture, the income from the letting of building is taxable as income from other sources if the same is not chargeable to tax under the head "Profits and gains of business or profession".

Interest on securities

- ▶ Interest on securities is taxable under the head “Income from other sources” if the same is not taxable as business income under section 28. If books of account in respect of such account are not maintained or are maintained on the basis of mercantile system of accounting, then interest on securities is taxable on “accrual basis.

- ▶ Interest exempt under section 10(15) – Interest on the following is exempt from tax :-
 1. Interest on notified securities , bonds and certificates. The notified securities /bonds, etc. are : 12- years National saving annuity certificates; national defence gold bonds, 1980; etc.
 2. Interest to an individual and hindu undivided family on 7 Per cent capital investment bonds.
 3. Interest on notified bonds arising to non-residents Indians [i.e. NRI bonds, and NRI bonds (Second Series), issued by the state bank of India].
 4. Interest on securities held by the issue department of the central bank of Ceylon.
 5. Interest on notified debentures of public sector companies

Money/Property received without consideration or inadequate consideration (Sec.56(2) (vii)/(x):

- ▶ Section 56(2) (vii) is applicable when sum of money/property is received by an individual/HUF on or after October 1, 2009 and money/property falls in any of the following 5 categories. The scope of this provision has been extended by section 56(2) (x). The extended version is applicable when a sum of money/property is received by any person on or after April 1, 2017 and money/property falls in any of the following 5 categories.

Different categories	Tax treatment	For the ceiling of Rs. 50,000 whether a single transaction would be examined, or all transaction of the previous year will be considered
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Money/Property received without consideration or inadequate consideration (Sec.56(2)(vii)/(x):

Category 1- Any sum of money (gift in cash or by cheque or draft)	If aggregate amount of sum of money received without any consideration from one or more persons during a previous year exceeds Rs. 50,000, the whole of such aggregate value is chargeable to tax	All transactions
Category 2- Immovable property without consideration	If any immovable property (without any consideration) is received and the stamp duty value of which exceeds Rs. 50,000, stamp duty value of which exceeds Rs. 50,000, stamp duty value is chargeable to tax.	Single transaction

Money/Property received without consideration or inadequate consideration (Sec.56(2)(vii)/(x):

<p>Category 3- Immovable property for a consideration (applicable from the assessment year 2014-15)</p>	<p>From the assessment year 2019-20- An immovable property is received for a consideration. The transaction satisfies the following conditions-</p> <ul style="list-style-type: none"> a. Stamp duty value exceeds 105 % if consideration (w.e.f. 1st April 2020 percent changed to 110) and b. The difference between stamp duty value and consideration is more than Rs. 50,000. <p>If the above two conditions are satisfied, the difference between stamp duty value and consideration is chargeable to tax.</p>	<p>Single Transaction</p>
<p>Category 4 – Movable property without consideration</p>	<p>If aggregator fair market value of movable properties received without consideration during a previous year exceeds Rs. 50,000, the whole of aggregate fair market value of movable property or properties is chargeable to tax.</p>	<p>All transactions</p>

Money/Property received without consideration or inadequate consideration (Sec.56(2)(vii)/(x):

Category 5 – Movable property for a consideration which is less than fair market value

If movable property is received for a consideration which is less than the aggregate fair market value of the property by an amount exceeding Rs. 50,000, then the difference between aggregate fair market value and the consideration is chargeable to tax.

All transactions

Exempted categories – While calculating the above monetary limit of Rs. 50,000 in any of the five categories, any sum of money or property received from the following shall not be considered—

- 1. Money/property received from a relative.*
- 2. Money/property received on the occasion of the marriage of the individual.*
- 3. Money/property received by way of will/inheritance.*
- 4. Money/property received in contemplation of death of the payer.*
- 5. Money/property received from a local authority.*
- 6. Money/property received from a local authority.*