UNIT 10 INCOME FROM OTHER SOURCES

Structure

10.0 OBJECTIVES

After studying this 'Unit you should be able to:

- list the incomes falling under the head 'Income from other sources';
- explain in detail the provisions of income tax for dividends and interest on securities;
- discuss the set off and carry forward of losses

10.1 INTRODUCTION

You have read about three heads of income. Income specific to a particular head is included in and charged to tax under that head. Income from other sources is a head of income which includes all those incomes which are:

i) listed in the definition of income,
ii) not exempt from tax, and
iii) not included in any specific head i.e., salaries, house property, capital gains etc.
iv) This means it is a residuary head which includes all those incomes which are not included in a specific head. In this unit you will study in detail the incomes included under this head and the provisions of income tax relating to them. You will also study about the set-off and carry forward of lossess.

10.2 INCOME CHARGEABLE UNDER THE HEAD 'INCOME FROM OTHER SOURCES'

Section 56(1) of the act states that, every kind of income which is included in the **total** income under the Income-tax Act, and which is not chargeable to income tax under any other head of income, is chargeable to income tax under the head 'Income from Other Sources'.

Under Section 56(2), the following incomes shall be chargeable under the head 'Other Sources':

1) Dividends;
2) Income from winnings from lotteries, crossword puzzles, races including horse races, card games or any other games, gambling or betting etc.
3) Any sum received by the assessee from his employees as contribution to any provident fund or superannuation fund or any fund set up under Employees' Insurance Act 1948 or any other fund for the welfare of the employees provided it is not chargeable under the head "Profits and Gains of Business or Profession".
4) Income by way of interest on Securities if not chargeable under "Profits and Gains of Business or Profession".
5) Income from machinery, plant or furniture belonging to the assessee and let on hire if the income is not chargeable to income tax under the head 'Business or Profession'.
6) Where an assessee lets on hire machinery, plant or furniture belonging to him and also buildings, and the letting of the buildings is inseparable from the letting of the said machinery, plant or furniture, the income from such letting, if not chargeable to income tax under the head 'business' is chargeable under the head 'Other Sources'.

Besides the above, there are some other incomes also which are chargeable under the head 'Income from Other Sources'.' They are:

i) Any fees or commission received by an employee from a person other than his employer.
ii) Any annuity received under a will. It does not include an annuity received by an employee from his employer.
iii) All interest other than interest on securities.
iv) Income of a tenant from sub-letting the whole or a part of the house property.
v) Remuneration received by a non-professional for doing examination work, viz., a professor getting such remuneration.
vi) Income of Royalty.
vii) Director's fees.
viii) Rent of land not appurtenant to any building.
ix) Agricultural Income from land situated outside India.
x) Income from markets, ferries and fisheries, etc.
xi) Income from leasehold property.
xii) Income of other persons included in the total income of the assessee, e.g., if the assessee and his spouse are partners in the same firm, the share of income' of the spouse is included in the total income of the assessee under the head 'Income from Other Sources'.
xiii) Income received by non-professionals in consideration of writing articles in Journals.
xiv) Interest received on foreign securities.
xv) Income from undisclosed sources.
xvi) Interest received by an employee on his own contributions to an unrecognized provident fund.
xvii) Casual income in excess of Rs. 5,000.
xviii) Salary of Member of Parliament, Member of Legislative Assembly or Council.
xix) Interest received on securities of a co-operative society.
xx) Family pension received by the widow and heirs of deceased employees.
xxi) Income received from units of Unit Trust of India.

xxii) Amount withdrawn from deposit in National Savings Scheme on which deduction u/s 80CCA has been allowed including interest thereon.

10.3 DEDUCTIONS ALLOWED

Under Section 57, the income chargeable under the head 'Income from Other Sources' shall be computed after making the following deductions :

1) In the case of dividends or 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 dividend or interest on behalf of the assessee, is deductable. No such deduction is allowed in case of a foreign company.

2) Where employees' contribution to Provident Fund, etc., are treated as the income of the assessee (employer) it is included in his income from other sources and a deduction of the sum, credited by the assessee to the employee's account in the relevant fund on or before the due date, will be allowed under this head.

3) In the case of income from letting of machinery, plant or furniture alongwith letting of buildings, which is chargeable to tax under the head 'income from other sources', the deductions in respect of the following shall be allowed:

   i) Expenditure incurred regarding current repairs of machinery, plant, furniture or building.

   ii) Insurance premium paid regarding building, machinery, plant or furniture against risk of damage or destruction of the assets.

   iii) Depreciation on buildings, machinery, plant or furniture.

4) In the case of income in the nature of family pension received by the widows or heirs of deceased employee, a deduction of sum equal to 33 1/3% of such income or Rs. 12,000, whichever is less, will be allowed.

5) Any other revenue expenditure incurred wholly and exclusively for the purpose of earning such income. It should not be in the nature of personal expenses of the assessee. No such deduction is allowed in case of a foreign company.

10.4 DIVIDENDS

In ordinary language dividend means the sum received by a shareholder of a company on the distribution of its profits; but under Section 2(22) dividend includes the following:

a) Any distribution by a company of accumulated profits if such distribution entails the release by the company to its shareholders of all or any of the assets of the company.

b) Any distribution to its shareholders by a company of debentures or deposit certificates in any form, and any distribution to its preference shareholders of shares by way of bonus, to'the extent to which the company possesses accumulated profits.

c) 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.

d) Any distribution to its shareholders by a company on the reduction of its capital, to the extent to which the company possesses accumulated profits.

e) Any payment by a company, not being a company, in which the public are substantially interested, of any sum 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 or to any concern in which such shareholder is a member or a partner and in which he has a substantial interest, to the extent to which the company possesses accumulated profits except where the advance or loan is made to a shareholder or the said concern by a company in the ordinary course of its business, where the lending of money is substantial part of the business of the company.

Dividend does not Include the Following

i) A distribution made in accordance with the above Clause (c) 'or Clause (d) in respect of any shares issued for full cash consideration, where the holder of shares is not entitled in the event of liquidation to participate in the surplus assets.

ii) A distribution made in accordance with Clause (c) or Clause (d) in so far as such distribution is attributable to the capitalised profits of the company representing bonus shares allotted toits equity shareholders after March 31, 1964 and before April 1, 1965.

iii) Where the company goes into liquidation consequent of the compulsory acquisition of its undertaking by the Government or any Corporation owned or controlled by Government the distribution made by the liquidator of the company to its shareholders will not be charged to tax as 'dividend' to the extent such distribution is attributable to the accumulated profits of the company relating to any period prior to the three successive previous years immediately proceeding the previous year in which the undertaking of the company is acquired.

iv) Any advance or loan made to a shareholder of the said concern by the company in the ordinary course of its business, where the lending of money is a substantial part of the business of the company.

v) Any dividend paid by a company which is set-off by the company against the whole or any part of the sum previously paid by it as advance or loan referred to above in Clause (e).

vi) Where a company transfers its assets to another company in a scheme of amalgamation, such transfer is not regarded as a 'distribution' by the company of its accumulated profits to its shareholders even though its accumulated profits are embedded in the assets so transferred.

10.4.1 Rules for Taxation of Dividends

The following are the rules for taxations of dividends:

i) Any dividends declared by a company shall he deemed to be the income of the shareholders of the previous year in which it is declared.

ii) Any interim dividend shall be deemed to be the income of the shareholders of the previous year in which the amount of such dividend is unconditionally made available by the company to the members who are entitled to it, It means that the date of declaration of such dividends is immaterial so long as the amount is not released for disbursement.

iii) Dividend paid by an Indian Company outside India shall be deemed to accrue or arise in India.

iv) The entire amount of dividend received by a shareholder is taxable in his hands, even if the company had distributed this dividend out of non-taxable income, e.g., 60% of the income of a tea company is treated as agricultural income which is not taxable but the entire amount of dividend received by the shareholder of this company will be taxable in his hands with few exceptions.

v) In the case of dividend received from a foreign company if the foreign company has deducted tax at source and nothing is paid out of it to the Government of India, the amount deducted as tax at source shall not be included in the dividend income of the Indian shareholder.

vi) The income tax deducted at source from the dividend declared for the shareholders is to be included in the dividend income of the shareholders and as such the net amount of dividend received by a shareholder has to be grossed up or increased by the amount of tax deducted at source, and the shareholder gets credit in his assessment for the amount of tax deducted at source from the dividends declared by the company.

10.4.2 Grossing up of Dividends

Dividends may be tax-free or less tax. Tax-free dividends are those dividends for which the company does not deduct income tax at source. The total amount of dividend declared is paid to the shareholders. The income tax though not deducted is paid by the company to the income tax department on behalf of the shareholders such income tax is actually the income of the shareholder so while calculating of income from dividends the tax-free dividends are to be grossed up.

Similarly less tax dividends are to be grossed up because in this case the income tax is deducted at source by the company and the net amount is paid to the shareholder. But the income from dividends earned by the shareholder is not the net dividend but the gross dividend before income tax is deducted therefrom, for the year 1989-90 the rate of deduction of tax at source for less tax dividends is 21.6%. In order to gross up less tax dividends, the net amount of dividend received should be multiplied by $\frac{100}{78.4}$ However, dividends shall be paid without deduction of tax at source in the following cases if —

i) It is paid to the non-company resident shareholders, who furnishes to the company (which pays dividend) a certificate from Assessing Officer that to the best of his belief the total income of the shareholder will be less than the minimum exempted limit of income-tax.

ii) It is paid by a widely-held company to an individual who is resident in India if

   a) the dividend is paid by an account payee cheque; and

   b) the amount of such dividend during the financial year does not exceed Rs. 2,5001-.

10.5. WINNINGS FROM LOTTERIES, CROSSWORD PUZZLES, HORSE RACES, CARD GAMES, ETC.

Income from winnings from lotteries, crossword puzzles, races including horse races, card games and other games of any sort or from gambling or betting of any form of nature whatsoever, is taxable under head 'Income from Other Sources'. No deduction in respect of expenditure or allowance in connection with income by way of winnings from lotteries, cross word puzzles, horse races, card games etc. shall be allowed in computing the said income.

However, the person responsible for paying to any person any income by way of winnings from any lottery or crossword puzzles or horse race, of an amount exceeding Rs. 5,000 shall at the time of payment deduct income tax thereon at 43.2% during the financial year 1990-91 for the assessment year 1991-92. It was the same rate during the financial year 1989-90 for the assessment year 1990-91 in the case of resident non-corporate tax-payers. The amount of tax deducted at source shall be credited in the account of the assessee in his individual assessment,

Look at lllustration 1 and 2 and see how the income from other sources is worked out :

Illustration **1**

Mr. X is a Member of Parliament from Lucknow. During the previous year 1989-90 he had the following'incomes.

i) As a Member of Parliament he received a salary of Rs. 1,000 per month and daily allowance of Rs. 7,000 for attending various sessions.

ii) He held the following investments:

   a) 10% Preference Shares in Daurala Sugar Factory Ltd. of the face value of the Rs. 6,000.

   b) 2,000 Equity Shares of Rs. 10 each in D.C.M. Ltd. The company declared Interim Dividend of 10% on 15th March, 1990 but paid it on 15th April 1990 and declared a final dividend of 10% on 31st March, 1990.

   c) A 10% Fixed Deposit of Rs. 15,000 is held by him in State Bank of India, Lucknow. Interest is credited annually.

iii) He won Rs. 10,000 in Crossword Puzzles.

iv) On 1st August 1989 he purchased a plot of land for constructing his house. On account of shortage of funds, he could not get his house constructed and hence let out the plot at Rs. 200 p.m. from 1st September, 1989.

v) He has let machinery and furniture and also building to Mr. Y at a monthly rent. of Rs. 6,000. He spent Rs. 2,000 on the repair of machinery, furniture and building during the previous year. Depreciation allowed in respect of these assets for the previous year was Rs. 12,000.

The Bank charged Rs. 25 commission on collection of dividends.

Compute the taxable income of Mr. X under the head Income from Other Sources.

Solution

Computation of Taxable Income under the head 'Income from Other Sources for the Assessment Year 1990-91:

			Rs.
1) Salary as Member'of Parliament (Rs. 1,000 p.m. for 12 months)			12,000
2) Dividend on Preference Shares			600
3) Final Dividend on Equity Shares			2,000
4) Interest on Fixed Deposit			1,500
5) Winning from Crossword Puzzles in excess of Rs. 5,000 (Rs. 5,000 is exempt)			5,000
6) Rent of land for 7 months (from September 89 to March, 90)			1,400
7) Rental income from Machinery, Furniture and Building		72,000	
Less Repairs	2,000		
Depreciation	12,000	14,000	58,000
			80,500
Less Bank Commission			25
Income from Other Sources Rs.			80,475

Note : 1) Daily Allowance of Members of Parliament for attending Sessions is exempt u/s 10(17).

2) Interim Dividend has been received during the previous year 1990-91, hence it is not taxable in the Assessment Year 1990-91.

Illustration 2

Dr. Puri is a Prbfessor of Economics and is a resident in India, He submits before you the following incomes for computing his income under the head 'Income from Other Sources' the assessment year 1990-91.

1)' He is the author of a text book which fetched him a gross royalty income of Rs. 50,000. He claims the following expenses regarding earning this royalty income:

a) Salary to a clerk who collects for him necessary data and goes thraugh the final proof regarding Rs. 500 p.m.

b) Cost of 'books purchased in connection with the revision work of the book Rs. 1,000.

c) Telephone Expenses of Rs. 1,800 attributed to the publication and sale of his book and other matters in connection with the printing of the new edition of the book. .

2) Income from Research Papers published in 'Taxation' and 'Taxmann' Rs. 4,000.

3) He lives in a rented house paying rent of Rs. 600 p.m. The house is too big for, his family. Hence he has sub-let one-third portion of the house on a rent of Rs. 350 per month. Dr. Puri has undertaken the liability of paying municipal taxes of Rs. 600 on the whole house and also the current repairs of the whole house amounting to Rs. 900.

4) Dr. Puri received Rs. 75 per lecture delivered at the Institute of Management. During the previous year he delivered 20 lectures.

5) He is an examiner in a number of Universities, from which he got a remuneration of Rs. 3,000.

6) His other incomes were:

i) Winnings from Card Games Rs. 8,000

ii) Received interest on Government Securities of U.K. Government Rs. 1,500.

7) Received Rs. 2,500 as dividend from a company in which the public are substantially interested by an account payee cheque.

Solution:

Computation of Taxable Income under **the** head **'Income** from Other **Sources' for the** Assessment Year 1990-91:

				Rs.
1)	Income from Royalty		50,000	
	Less Expenses incurred:			
	i) Salary to clerk	6,000		
	ii) Cost of books purchased	1,000		
	iii) Telephone Expenses	1,800	8,800	41,200
2)	Income from Research papers published			4,000
3)	Income from sub-letting:			
	Rent Received	4,200		
	Less Rent paid for 1/3rd portion	2,400	1,800	
	Less Proportionate Expenses.....			
	1/3 Municipal Taxes	200		
	1/3 Repairs	300	500	1,300
4)	Income from Lectures			1,500
5)	Income from Examinership			3,000
6)	Income form Foreign Govt. Securities			1,500
7)	Income from Card Games in excess of Rs. 5,000 exempt u/s 10(3)			3,000
8)	Dividend (Not to be grossed up as it is received by account payee cheque from a company in which the public are substantially interested and is not more than Rs. 2,500)			2,500
	Income from Other Sources Rs.			58,000

Check Your Progress A

1) State whether the following statements are True or False?

i) Any income tither than the incomes under the head Salary, House Property,' 'Business or Profession and Capital Gains, is included in Income from Other. Sources.

ii) Interim Dividend is the income of shareholders of the previous year in which the interim dividend is declared.

iii) Final Dividend is the 'income of the shareholders of the previous year in which the amount of such dividend is released for payment to shareholders.

iv) Income tax deducted at source from the dividend declared is to be included in the dividend income of the shareholders.

2) Fill up the blanks in the following sentences:

i) Winnings from crossword puzzles is a.............. income but is taxable under the head....................

ii) The rate of deduction of tax at source from payments of winnings from lottery is......................... during the financial year 1990-91.

iii) Cost of purchasing lottery tickets is.................. from the amount of winnings received.

10.6 INTEREST ON SECURITIES

Interest on Securities if charged under the head 'income from other sources' mean the following:

i) Interest on any security of the Central or State Government;

ii) Interest on debentures or other securities for money issued by or on behalf of a local authority;

iii) Interest on debentures issued' by a company (whether Indian or foreign); and

iv) Interest on debentures or other securities issued by a Statutory Corporation.

Security means an acknowledgement of a debt represented by a debenture, bond, etc., issued by the Central or any State Government, local authority, statutory corporation, or a company. Even securities issued by a foreign government or foreign cempany are covered by this definition of securities and interest thereon will be chargeable as interest on securities.

10.6.1 Basis of Charge

1) Income from'interest on securities is chargeable on due basis if the assessee follows mercantile system of accounting. In case books are maintained on cash basis this income is taxable on receipt basis. However, where no method of accounting is regularly employed by the assessee, the income from interest on securities shall be chargeable to tax as the income of the previous year in which it becomes due though it may be received latter.

2) Interest on securities does not accrue from day to day but becomes due on certain fixed dates only; which are mentioned on the security itself. It means that interest on securities is chargeable to tax in the hands of one who holds the securities, as owner, on the due date of interest. Where securities are sold before the due date of intere::, the entire amount of interest payable on the next due date shall be deemed to be the income of the buyer who holds the securities on the said due date as owner thereof. This amount will not be apportioned on time basis between the seller and the buyer, whether it is bought and sold on cum-int. basis or ex.int. basis.

3) Interest on securities shall be chargeable to tax under the 'Business or Profession' if securities are held as stock-in-trade or under the head 'Income from Other Sources', if securities are held as investments.

10.6.2 Kinds of Securities

Securities may be (1) Government Securities and (2) Commercial Securities. Government Securities may further be sub-divided into (i) Less Tax Securities and (ii) Tax-free Securities. Similarly Commercial Securities may also be sub-divided into (i) Less Tax Securities and (ii) Tax-free Securities.

1) **Government Securities**

   i) **Less Tax Government Securities :** In the case of these securities, income tax is deducted at source on the account of interest calculated at the percentage stated on the securities and the balance of the amount of interest left after deduction of the aforesaid income tax is paid to the security-holder. In this case the gross amount of interest (calculated at the rate per cent given on the security) is liable to tax in the hands of the owner of the securities, end the tax deducted at source will be deducted from the total tax payable by the assessee.

   ii) **Tax-free Government Securities :** Securities, the interest on which is exempt from tax and also excluded from computation of total income in case of all assessees are called tax-free government securities. These are fully exempted securities. There are no partially exempted government securities. Government specifically declares certain securities to be tax-free. However, there are some persons who are exempt from tax regarding their income from interest from government securities (even if they are, otherwise, taxable); but it does not mean that these are tax-free sdcurities. It is only the holder who is exempt.

2) **Commercial Securities**

   i) **Less Tar Commercial Securities :** These are just like the less tax government securities. The only difference is that these are 'issued by some company or corporation and the government securities are issued by the government. From tax point of view there is no difference between the two.

ii) Tax **free Commercial Securities** : These are issued by a company or some other business-institution. Really speaking, their interest is not tax-free, because tax due on this interest is' payable by the company or the business institution concerned. These are called tax-free because the entire amount of interest due is paid to the assessee without deduction of tax at source and the assessee has not to pay tax on it from his own pocltet. The tax paid by the company on this interest is deemed to have been paid on behalf of the assessee, hence the relevant amount of tax paid on any interest due to an assessee is added up in his interest income, i.e., the interest due to an assessee is grossed up and then this grossed up amount is included in his total income. No relief is granted on this interest, except that the, amount of tax paid by the company on this interest is deducted from the total tax payable by the assessee on his total income, and the balance of amount left is payable by the assessee as tax. For example, if a company has issued 10% tax-free Debentures, the debenture-holder will receive the entire amount of interest calculated at 10% but the amount to be included in the total income of the debenture-holder will be the amount actually received by him as interest **plus** income tax thereon paid by the company. The net amount of income tax payable by the debenture holder will be the total tax payable by him on his total income **minus** the tax paid by the company on his behalf on interest on debentures.

10.6.3 Grossing up of Interest on Securities

The following are the rules for grossing up interest on securities:

1) If the rate of interest is given, only the interest of tax-free commercial securities is grossed up and interest on all other securities is not grossed up.

2) Interest on tax-free commercial securities is always grossed up whether its rate per cent is given or the amount received is given.

3) Interest on less tax securities is grossed up only when the amount received is given.

The following formula may be used to find out the gross amount in different circumstances (for the assessment year 1990-91):

In case of a person other than a company:

a) where the person is resident in India:

   i) interest received on tax-free government securities — Never grossed up.

   ii) Interest received on government securities or debentures of a company which are listed in a recognised stock exchange in India —

   Stock Exchange in India —

   Interest received $\times \frac{100}{89.2}$

   iii) Interest received on other debentures and other securities not listed in a recognised stock exchange

   Interest received $\times \frac{100}{78.4}$

b) Where the person is non-resident in India:

   i) Interest received on tax-free government securities:

   Interest received $\times \frac{100}{85}$

   ii) Interest on other securities:

   Interest received $\times \frac{100}{70}$ or

   Interest received ***plus*** tax deducted at source, whichever is higher.

It should be clearly understood that the taxable income from interest on securities is (i) net interest received by the security-holder ***plus*** (ii) the amount of income tax deducted at source or paid by the authority responsible for paying the interest, directly into the government treasury on behalf of the security-holder.

10.6.4 Bondwashing Transactions

These transactions are not genuine. It is a device to avoid tax. Generally, interest on securities is payable half-yearly or yearly on fixed dates. As the whok amount of interest is regarded as the income of the person who happens to be the owner on the due date **of interest,** some tactful persons sell their securities a few days before the due date of interest, to some of theirfriends or relatives and buy it back a few days after the due date. Thus they do not remain the owner of the securities on the due date and they are not required to pay tax on this income from interest on securities. They sell their securities to such persons whose total income including the income from interest on securities either does not exceed the minimum taxable limit or if it exceeds that limit it is lesser than that of the seller, so that either no tax will be payable on such interest or it will be payable at a lower rate. Thus the seller escapes tax completely; and the buyer also does not pay tax on it as his income is below the minimum taxable limit; and even if the buyer's income exceeds the minimum taxable limit, he will pay tax at lower rate, which is in fact, secretly paid by the seller on behalf of the buyer. Such transactions are called 'Bondwashing Transactions'. The general rule that tax is payable by the person who is the owner of the securities on the due date of interest does not apply to bondwashing transactions. In order to prevent this device of avoiding tax, it has been provided that the Assessing Officer can include the whole interest in respect of bondwashing transactions in the income of the transferor and not in the income of the transferee.

10.6.5 Interest on Securities Exempt from Tax

According to Section 10(15) the interest on certain securities is fully exempt from tax. They are:

1) Income by way of interest, premium on redemption or other payment on such securities, bonds, annuity certificates, savings certificates, other certificates issued by the Central Government and notified in this behalf to the extent of as notified.

   Under clause (i) the interest/premium on the following securities/bonds shall be fully exempt:

   i) 12 years National Savings Annuity Certificates.
   ii) National Defence Gold Bonds, 1980.
   iii) Special Bearer Bonds, 1991.
   iv) Treasury Savings Deposit Certificates (10 years).
   v) Post Office Cash Certificates (5 years).
   vi) National Plan Certificates (10 years).
   vii) National Plan Savings Certificates (12 years).
   viii) Post Office National Savings Certificates (7 years/12 years).
   ix) Post Office Savings Bank Account.
   x) Post Office Cumulative Time Deposit Rules, 1981.
   xi) Scheme of Fixed Deposits governed by the Government Savings Certificates (Fixed Deposits) Rules, 1968.
   xii) Scheme of Fixed Deposits governed by the Post Office (Fixed Deposits) Rules, 1968.
   xiii) Special Deposit Scheme, 1981.

   Further interest on Public Account shall be exempt upto Rs. 5,000.

Under the Post Office Savings Bank Rules a 'Public Account' can be opened by a local authority, a lawfully constituted association, institution or other body for the encouragement of thrift or for the mutual benefit of its members and a High School and Intermediate College (Payment of Salaries of Teachers and other Employees) Act, 1971.

2) (iia) 7% Capital Investment Bonds held by individual and H.U.F. assessees only.

3) (iib) In the case of an individual of Hindu undivided family, interest on 9% Relief Bonds shall be exempt.

4) (iic) Interest on the notified bonds arising to following is exempt subject to certain conditions:

   a) a non-resident Indian, being an individual owning the bonds; or

b) any individual owning the bonds by virtue of being a nominee or survivor of such non-resident Indian; or
c) by an individual to whom the bonds have been gifted by Non-resident Indian.

Illustration 3

The investments of Mr. X on 1st April 1989 were as given below:

a) Rs. 30,000, 10% U.P. Government Loan;

b) Rs. 10,000, 10% Debentures of a Jute Mill company.

c) Rs. 2,000 Interest received on Debentures of a Co-operative Society.

d) Rs. 15,000, 6% Securities issued by a Foreign Government.

e) 7% National Plan Certificates Rs. 10,000.

f) Rs. 1,500 received as dividend on units of Unit Trust of India.

g) Rs. 3,568 received as interest on less tax Government Securities.

The Bank commission for collecting interest is Rs. 30: Interest on securities being payable in each case on 1st January and 1st July. Find out income from other sources for the assessment year 1990-91.

Solution

Income from Other Sources :	Rs.
a) Int. on 10% UP Govt. loan for 1 year	3,000
b) Int. on 10% Debentures of a Jute Mill Company for 1 year.	1,000
c) Interest on Debentures of a Co-operative Society (Not to be grossed up)	2,000
d) Interest on foreign government securities (Not to be grossed up)	900
e) Interest on National Plan Certificates	Exempt
f) Dividend from U.T.I. (Not to be grossed up)	1,500
g) Interest received on less tax govt. securities Grossed up $\frac{3,568 \times 100}{89.2}$	4,000
	12,400
Less Bank Commission for collecting Interest	30
Income from Other Sources.......	12,370

Notes : 1) Interest from co-operative society, foreign government securities, and dividend from U.T.I. is never grossed up.

2) Interest on National Plan Certificates is exempt from tax.

Illustration 4

Mr. Y has the following investments in the previous year ended on 31st March, 1990:

i) Rs. 10,000 Equity Shares of Thapper & Company Limited on which a final dividend of 10% declared on 28th February 1990, which was received by Mr. Y on 15th April, 1990.

ii) Rs. 12,000 Equity Shares of Birla Jute Limited on which an interim dividend 10% was declared on 15th February, 1990 but paid on 15th April, 1990.

iii) Rs. 45,000 Tax Free Debentures of a limited company (not listed on any stock exchange) on which Rs. 3,528 received as interest.

iv) 10% Rs. 10,000 U.P. State Electricity Board Bonds.

v) Rs. 10,000 in Post Office Savings Bank Account on which Rs. 600 credited as interest during the year.

vi) Rs. 10,000 9% National Rural Development Bonds.

vii) Special Bearer Bonds of Rs. 10,000 on which a premium of Rs. 1,000 received during the year.

viii) On 1st September 1989 he bought 7% Capital Investment Bonds of the face value of Rs. 20,000 at par, for which he took a loan of Rs. 10,000 @ 10% p.a. on the same date.

.Find out the income from other sources for.the assessment year 1990-91.

Solution

Computation of Income from Other Sources for the Assessment Year 1990-91:

		Rs.
i)	Final Dividend' on Equity Shares	1,000
ii)	Interim Dividend on Equity Shares not taxable in the A.Y. 1990-91 as it is received in the previous year 1990-91 assessable in A.Y. 1991-92	Nil
iii)	Interest on tax-free Debentures of a company (not listed) grossed up $\frac{3,528 \times 100}{78.4}$	4,500
iv)	Interest on U.P.S.E.B. Bonds	1,000
v)	Interest on Post Office Savings Bank A/c	Exempt
vi)	Interest on National Rural Development Bonds	900
vii)	Premium on Special Bearer Bonds	Exempt
viii)	Interest on Capital Investment Bonds	Exempt
	Rs.	7,400

Notes : 1) Interest on P.O. Savings Bank A/c is totally exempt.

2) Interest on Capital Investment Bonds is exempt u/s 15 (iib).

3) Premium on Special Bearer Bonds is exempt u.s. 15(i).

4) Interim dividend is taxable for' the year in which it is released for payment, and not in the year of declaration.

5) Interest on loan for purchasing exempted securities is not deductible as its income is not taxable. Interest on Capital Investment Bonds is exempt, hence-interest on loan taken to purchase them is not deductible.

Check Your Progress B

1) Fill up the blanks in the following sentences:

   i) Security means an acknowledgement of a debt represented by.............. issued by the Central or any State Government, local authority or a Company etc.

   ii) Where no method of accounting is regularly employed by the assessee, the income from interest on securities is chargeable to tax on..................basis.

   iii) Interest on securities does not..................but becomes due on certain fixed dates only.

   iv) Where securities are sold in between the due dates of interest, the...............amount of interest due on the next due date is deemed to be the income of the.................

   v) Bondwashing transactions are not................, it is a device.................

2) State whether they are True or False:

   i) Interest on debentures issued by a foreign company is not treated as interest on securities.

   ii) If any security is bought from a person in between the two due dates of interest, the buyer will pay tax on interest for only the remaining period before the next due date, i.e., the period during which the buyer was the owner of the security,

   iii) There is no exception to the rule that interest is deemed to be the income of the person who owns the security on the due date.

iv) From the point of view of security-holder there is no difference between a tax-free government security and tax-free commercial security.

v) Even if the rate of interest is given, the interest on tax-free commercial security is always grossed up.

10.7 SET-OFF AND CARRY FORWARD OF LOSSES

Set-off of losses means setting-off losses against the income of the same year. Where it is not possible to set-off the losses during the same assessment year in which they occurred so much of the loss as has not been so set-off out of certain specified losses can be carried forward for being set-off against his income in the succeeding years provided the losses have been determined in pursuance of a return filed by the assessee within the time allowed uls 139(1) or within such further time as may be allowed by the Assessing Officer and it is the same assessee who sustained the loss and the business is continuing.

10.7.1 Inter-Source Adjustment

Where there is more than one source of income under the same head, the loss from one or more sources is allowed to be set-off against the income from the other sources. It meaqs that where the net result for any assessment year in respect of any source falling under any head of income is a loss, the assessee shall be entitled to have the amount of such loss set-off against the income from any other source under the same head. This is called inter-source adjustment. For example, suppose an assessee has four house properties. Three of them yield net taxable income; but from the fourth there is net loss. The assessee can set off the loss of one house property against the income of the remaining house properties. Similarly, if an assessee has four businesses of different nature, In a particular year suppose from two businesses there is taxable profit and from the remaining two businesses there is loss. The loss of these two businesses can be set off against the profits of the other two businesses.

Exceptions

1) Speculation losses can be set off only against profits, if any, of another speculation business' carried on by the assessee. They cannot be set-off either against any other regular business or against any other head of income.

2) Losses from the activity of owning and maintaining race horses in any assessment year shall be set-off only against income from owning and maintaining race-horses only and not against any other income.

3) Losses from other businesses will not be allowed to be set-off against winnings from races, lotteries, etc.

10.7.2 Inter-Head Adjustment

Where in respect of any assessment year the net result of the computation under any head of income is a loss, the assessee shall be entitled to have the amount of such loss set-off against his income, if any, assessable under any other head of income. There are, however, certain exceptions to this general rule, which are as under:

Exception : Loss under the head 'Income from House Property' on account of unrealised rent. Such loss cannot be set-off against income under any other head.

Thus, the loss from 'non-speculative business' or 'capital losses (whether short-term or long-term) may be set-off against the income falling under any other head 'Salaries', 'Income from House Property', 'Capital Gain', 'Income from other sources' (excluding winning from races, lotteries etc.).

10.7.3 Set-Off of Capital Losses

Such losses can be set-off against the gain from any other short-term capital assets or long-term capital assets as well as against the income under any other head of income. Long-term capital losses will be scaled down in the same manner and by the same percentage of deduction, as are allowed out of long-term capital gains and thereafter, the balance of long-term capital losses shall be set-off against income under any other head in the same year as business losses.

10.7.4, Carry Forward and Set-Off of Capital Losses

Capital Losses (Whether short-term or long-term) : Capital losses which cannot be wholly or partially set-off in the same assessment year, against income under any other head, shall be carried forward to the following assessment year and shall be set-off against income, if any, under the head capital gains. If the entire amount of carried forward capital loss cannot be set-off in the following assessment year, the amount remaining unabsorbed shall be carried forward to be set-off against capital gains in subsequent years upto a maximum of eight assessment years immediately succeeding the assessment year for which the loss was first computed.

Special provisions regarding long-term capital losses of assessment years prior to the assessment year '1988-89 carried forward to the assessment year 1988-89 or any subsequent year:

Carried forward long-term capital losses of any assessment year prior to the assessment year 1988-89 shall be dealt with in the assessment year 1988-89 or any subsequent assessment year in the following manner:

It shall be reduced by the deductions specified in Section 48(3) (i.e., first Rs. 10,000 plus 10% or 30% of the balance in the case of a company, and 50% or 60% in the case of any other assessee depending on the category of the asset concerned) and the reduced amount shall be carried forward and set-off against income under the head 'capital gains'; but such carry forward shall not be allowed beyond the **fourth** assessment year immediately succeeding the assessment year for which the loss was first computed.

Illustration 5

Mr. X, a resident of India submits the following particulars of his income for the assessment year 1990-91:

		Rs.
1)	Income from house let out (Computed)	15,000
2)	Profit from cloth business	20,000
3)	Speculation income	2,000
4)	Short-term capital gains	4,000
5)	Long-term capital gains from shares	20,000

The following items have been brought forward from the preceding assessment year 1989-90.

i)	Loss from Iron business discontinued during the previous year (1988-89)	4,000
ii)	Loss from cloth business	2,000
iii)	Speculation loss	3,000
iv)	Short-term capital loss for the assessment year 1987-88	4,500
v)	Long-term capital loss from land for the year 1987-88 before deduction u/s 48(3)	18,000

You are required to compute his gross total income and deal with the carry-forward of losses.,

Solution

Treatment of Carried-Forward Losses	Rs.
1) Business Income (Cloth)	20,000
Less Cloth Business Loss b/fd	2,000
	18,000
2) Speculation Business Income	2,000
Less Speculation Loss b/fd	3,000
Speculation Loss c/fd.........	1,000

3) a) Capital Gains

			Rs.
i) Short-term capital gain			4,000
ii) Long-term capital gain regarding shares		20,000	
Less deduction u/s 48(2):			
Initial	10,000		
60% of balance of Rs. 10,000	6,000	16,000	4,000
			8,000

b) Capital Losses

i) Long-term capital loss from land		18,000	
Less Deduction u/s 48(3):.			
Initial	10,000		
50% of the balance of Rs. 8,000	4,000	14,000	
		4,000	
ii) Short-term capital loss	4,500		− 8,500
'Capital loss carried forward		Rs.	500

Statement of Gross Total Income

		Rs.
1) Income from House Property		15,000
2) Income from Business		18,000
3) Capital Gains		Nil
Gross Total Income	Rs.	33,000

Notes :

1) Losses of business which are discontinued or whose ownership is changed cannot be carried forward for set-off in subsequent years. As iron busines has been discontinued. its loss cannot be carried forward and set-off.

2) Speculation loss can be set-off against speculation profits only.

3) Brought forward short-term capital loss can be set-off against short-term as well as long-term capital gains.

4) Brought forward long-term capital losses can be set-off against short-term as well as long-term capital gains; but before being set-off such long-term capital loss has to be reduced as provided under Section 48(3).

Illustration *6*

Mr. Y furnishes the following particulars of his income for the assessment year 1990-91.

	Rs.
1) Income from salary	21,000
2) Interest on securities (gross)	10,000
3) Dividends (gross)	10,000
4) Profits from a proprietory business	40,000
5) Profit from speculation in shares	15,000
6) Profit from speculation in wheat	15,000
7) Loss from speculation in silver	35,000
8) Short-term capital loss	9,000
9) Long-term capital loss from sale of machinery (before scaling down uls 48(3)	50,000
10) Profit from horse-racing	8,000
11) Loss in crossword puzzles	2,000
12) Profit in rummy (card games)	5,000
13) Loss in flash (card games)	7,000
14) Brough forward capital loss (long-term) in respect of sale of building in the previous year 1988-89 after deduction u/s 48(3)	10,000

Compute his gross total income for the assessment vear 1990-91.

Solution

				Rs.
1) Income from salary			21,000	
Less standard deduction @ $33\frac{1}{3}\%$			7,000	14,000
2) Profit of proprietory business				40,000
3) Speculation Business				
Profit from speculation in shares			15,000	
Profit from speculation in wheat			15,000	
			30,000	
Less loss from speculation in Silver			35,000	
Carried forward speculation loss			5,000	
4) Capital Loss				
i) Short-term capital loss			−9,000	
ii) Long-term capital loss on sale of machinery..........		50,000		
Less deduction u/s 48(3):				
Initial	10,000			
60% of the balance of Rs. 40,000	24,000	34,000	−16,000	−25,000
5) Income from Other Sources				
Interest on securities		10,000		
Dividends		10,000		
Profit from horse-racing	8,000			
Profit from Rummy (card game)	5,000			
	13,000			
Less : Exempt u/s 10(3)	5,000	8,000		28,000
		Gross Total Income	Rs.	57,000

Notes

1) Brought forward capital loss can be set,off only against capital gains. As there are no capital gains this loss has again been carried forward to be set-off in subsequent years against capital gains.

2) Loss of crossword puzzles and card games cannot be set-off against any income, whatsoever.

Check Your Progress C

I) Fill up the blanks in the following sentences:

i) Set-off of losses means setting-off losses against the income of the............ year.

ii) Set-off of loss of one source against income of other source under the same head of income is called...................

iii) Business loss which cannot be set-off against any income in the same assessment year can be carried forward for..............years to be set-off.

iv) Long-term capital loss which cannot be set-off against any income in the same assessment year can be carried forward for.................years.

2) State whether they are True or False :

i) Speculation business losses can be set off against profits of regular business.

ii) Non-speculative (regular) business losses can be set-off against speculation business profits.

iii) When inter-source adjustment exhausts, inter-head adjustments begins.

iv) Loss under the head,house property-can be carried forward for eight years to be set-off in the following and subsequent seven years.

v) If a speculation business is discontinued its brought forward losses cannot be carried forward any further to be set-off against profits of any other speculation business.

10.8 LET US SUM UP

Any income which, though to be included in total income but does not find place under any other head of income, is taxable under the head 'Income from Other Sources'. It includes dividends; income from winnings from lotteries, crossword. puzzles, horse races, card games or betting etc., interest on securities, income from letting of machinery, plant or furniture which is not chargeable as business income, etc.

In case of dividends or interest on securities any commission paid to a banker or any other person for collecting the dividends or interest on behalf of the assessee is deductible from such income.

In case of income from letting of machinery, plant or furniture alongwith letting of buildings, which is chargeable under the head 'Other Sources' deduction in respect of repairs, insurance premium and depreciation of buildings, machinery, plant or furniture shall be allowed..

In the case of income from family pension received by the widows or heirs of deceased . employee, a deduction of a sum equal to 33 1/3% of such income or Rs. 12,000, whichever is less, is to-be allowed.

Any other revenue expenditure incurred wholly and exclusively for the purpose of earning such income is allowed. Dividends are classified into two types—final dividend and interim dividend. Final dividend is deemed to be the income of the previous year in which it is declared and interim dividend is deemed to be the income of the year in which it is released for payment. **Dividends are to be grossed up before including in the total income as income tax paid by company is also the income of the assessee.** However, the tax paid by the company will be deducted from the total tax payable by the assessee. Winnings from lotteries, crossword puzzles etc. are casual. . in nature and therefore this income in excess of Rs. 5,000 is taxable under the head 'Other Sources'.

Interest on Securities : Any security issued by the Central or State Government or local authority or any company or a statutory corporation is a security for this purpose. Any interest earned on such securities is taxable under the head 'Other Sources', generally, on due basis. Interest on securities is deemed to be due on the due date of .interest and does not accrue from day to day. Securities can be : Government Securities and Commercial Securities. Securities may also be less tax and tax-free. Commercial tax-free securities are, in fact, not tax free but tax on interest on such securities is paid by the Company paying interest on behalf of the security holder. Like dividends, the interest also should be grossed up before it is included in the total income of the assessee.

The Deductions permissible from interest income include : (i) bank commission for collecting interest and (ii) interest on loan taken to purchase the securities.

Set-off of losses means setting-off losses against the income of the same year. Where it 'is not possible to set-off the losses during the same assessment year in. which they occurred, so much of the loss as has not been so set-off out of certain specified losses can be carried forward for being set-off against his income in the succeeding years. Set-off can be inter-source and inter-head. Inter-source means when loss of one source is set-off against the income of some other source under the same head of income. Inter-head means when a loss remains unabsorbed from inter-source set-off, the balance of it can be set-off against income under other head of income.

So far as capital losses are concerned (whether long-term or short-term) they can be set-off against the gain from any other long-termcapital assets or short-term capital assets as well as against the'income under any other head of income. Long-term capital losses shall be scaled down in the same manner and by the same percentage of deduction as are allowed out of long-termcapital gains and thereafter the balance of long-term capital losses shall be set-off. Capital losses which cannot be wholly set-off in the same assessment year against income under any other head, shall be carried forward to the following assessment year/years and shall be set-off against income if any, under-the Capital Gains.

10.9 KEY WORDS

Bondwashing Transactions : When securities are sold near the due date of interest to some friend or relative with an intention to buy back after the due date of interest, it is a bogus transaction, as it is a device to avoid tax. Such transactions are called Bond-washing Transactions.

Dividends : Any distribution by a company of accumulated profits in any form which results in reduction of assets or increase of liabilities or distribution at the time of liquidation of the compapy, of by way of reduction of capital is called dividend.

Interest on Securities : Interest on securities means interest on any security of the Central or State Government or interest on debentures issued by a local authority or a company or a Statutory Corporation.

Inter-head Adjustment : Where in respect of any assessment year the net result of the computation under any head of income is a loss. He shall be entitled to have the amount of such loss set-off against his income, if any, under any other head of income. This is called Inter-head Adjustment.

Inter-source Adjustment : When there is more than one source of income under the same head, the loss from one or more sources is allowed to be set-off against income from the other source under the same head. It is called Inter-source Adjustment.

Less-Tax Securities (both Government and Commercial) : On such securities the rate of interest is given. The interest calculated at this rate is gross amount of interest from which tax is deducted at source.

Tax-free Commercial Securities : These are issued by a company or some other business institution. Really, their interest is not tax-free but the tax on this is paid by the business institution concerned on behalf of the debenture holder over and above the interest, which is fully paid to the debenture holder.

Set-off of losses : Setting off losses against the income of the same year.

Carry forward of losses : The losses which cannot be set off in the same year are carried to next year to set-off against income of next year.

10.10 ANSWERS TO CHECK YOUR PROGRESS

A 1) i) False; ii) False; iii) False; iv) True.

2) i) Casual; Income from other sources.
ii) **43.2%** iii) not allowed as deduction.

B) 1) i) Debenture, bond etc. ii) due iii) accrue from day to day
iv) entire, buyer v) genuine, to avoid tax.

2) i) False, ii) False, iii) False, iv) False, v) True.

C 1) i) Same, ii) inter-source adjustment, iii) eight, iv) eight.

2) i) False, ii) True, iii) True, iv) False, v) False.

10.11 TERMINAL QUESTIONS/EXERCISES

Questions

1) Explain clearly the meaning of the term 'dividend' as defined in the Indian Income-Tax Act, and point out the law relating to taxation of dividends.
2) Discuss the various kinds of securities? Explain the rule regarding grossing up of interest on Tax-Free Commercial Securities.

3) Explain Bond Washing Transactions? How it is a device to avoid tax?

4) Discuss the provisions relating to set-off of losses in the following cases :
i) Speculation loss, ii) Short-term Capital Loss, iii) Long-term Capital Loss,
iv) Losses from horse-race, gambling and crossword puzzles.

5) Discuss the conditions subject to which losses are allowed to be set-off in the current year and carried forward.

Exercise

1) Mr. X furnishes the following particulars of his income for the previous year ending on 31st March, 1990:

   i) Dividend from a tea company Rs. 2,500 (gross) (60% of the income of the company is not taxable).

   ii) Amount won on 1st November 1989 from a horse race Rs. 2,500.

   iii) Interim Dividend declared by the directors of A Co. Ltd. in January 1990 but the payment was made in June 1990 for which dividend warrants were despatched in May 1990. Amount received as dividend was Rs. 7,800.

   iv) Final dividend declared by B Co. Ltd. in January, 1990, 'dividend warrants were despatched in April, 1990 and the payment was received in June, 1990 amounting to Rs. 4,000.

   v) Winning from a lottery Rs. 62,500.

   vi) Received refund from Compulsory Deposit Scheme (Income-tax payer's) Rs. 1,000 principal deposit and Rs. 200 interest.

   vii) Interest received on deposit with a firm Rs. 5,352.

   viii) Dividend received from a co-operative society Rs. 450.

   ix) Income from non-agricultural land Rs. 1,500. Mr. X claims the following expenses:

   Bank Commission for collecting dividend Rs. 100; Interest on loan taken to purchase shares in tea company Rs. 800; and expenses incurred for purchasing lottery tickets Rs. 2,000. Compute the taxable income of Mr. X under the head 'Income from Other Sources' for the Assessment Year 1990-91.
   (Answer : Rs. 73,750)
   Hint : Interest received from a firm Rs. 5,352 will be grossed up at the rate of 10.8% T.D.S. (Tax deduction at source) which will amount to Rs. 6,000.

2) From the following particulars of Mr. P for the assessment year 1990-91, compute his income from other sources:

   i) Rs. 3,136 received as dividend on tax-free Public Ltd. Company's Shares.

   ii) Rs. 3,568 received as interest on U.P. Govt. Securities.

   iii) He holds Rs. 10,000 units of Unit Trust of India on which a dividend of Rs. 1,200 has been received during the previous year.

   iv) He received Rs. 1,000 as interest on the debentures of the co-operative society.

   v) He holds Rs. 35,680, 10% Tax-free Debentures of Delhi Municipal Corporation.

   vi) Rs. 1,500 received by an Account Payee Cheque as interest on debentures (Listed) of a company in which the public are substantially interested. He collected the entire interest and dividends himself and charged Rs. 200 collection fees.

   vii) Mr. P had set up a factory with building, plant, machinery, furniture etc. However, he decided to give it on hire at Rs. 2,000 per month. During the year he spent Rs. 2,000 for repair and Rs. 500 for insurance. The depreciation allowable is Rs. 5,000. He had borrowed Rs. 30,000 against mortgage of these assets and paid Rs. 3,000 interest thereon. The amount we spent for the marriage of his daughter.

   (Answer : Rs. 32,200)

Hints : 1) Collection fees is not deductible as he himself collected the interest (United Commercial Bank v. CIT(1953) 4 ITR p. 425).

2) Tax-free dividend on shares has been grossed up at the rate 21.6% TDS and interest on U.P. Govt. securities and Tax free Debentures of D.M.C. have been grossed up at the rate of 10.8% TDS.

3) Dividend'from U.T.I. and interest on debentures of co-operative society are not to be grossed up as no TDS is done in these cases.

4) Interest on Debentures of Rs. 1,500 received by Account Payee is also not to be grossed up as the amount does not exceed Rs. 2,500.

3) A resident assessee, furnishes the following particulars for the accounting years ended on 31st March 1989 and 1990:

Accounting Year ending on 31.3.1989

	Rs.
Silver Speculation Business Loss brought forward (Discontinued in 1987-88)	10,000
Profit of Cloth Business	35,000
Saw Mill Business Profit	25,000
Accounting Year ending on 31.3.1990	
Gold Speculation Business Profit (newly started this year)	50,000
Loss of cloth business	10,000
Saw Mill Business Loss	14,000
Profit from a business adventure in foreign country not brought to India	35,000

Compute the gross total income of the assessee for the assessment years 1989-90 and 1990-91.
(Answer : 1989-90 Rs. 60,000; 1990-91 Rs. 51,000.

Hint : Silver speculation loss shall be carried forward to 1990-91.

Discontinuance of speculation business is immaterial.

Note : These questions will help you to understand the unit better. Try to write answers for them. But do not submit your answers to the University. These are for your practice only.

SOME USEFUL BOOKS

Bhagwati Prasad, ***Law and Practice of Income Tax,*** Navaman Prakashan, Aligarh (Chapter 8, 10 & 11).

Mahesh Chandra & Goyal S.P., ***Income Tax Law and Practice,*** 1990, Himalaya Publishing House, Delhi (Chapters 7, 10 & 11).

Mehrotra, H.C. ***'Income Tax Law and Accounts'*** 1990, Sahitya Bhawan, Agra (Chapters 6, 9 & 10).

Vinod K. Singhania, ***Students Guide to Income Tax;*** Taxman, Publications Private Ltd. (Chapters 6, 8 & 9).