Income from Other Sources

SECTION 56: INCOME FROM OTHER SOURCES — CHARGING SECTION

Income from other sources is a residuary head of income i.e. income not chargeable under any other head, and which is not excluded from the total income under the Act, is chargeable to tax under this head. All incomes other than income from salary, house property, business and profession or capital gains are covered under "Income from other sources".

Further, there are certain incomes which are always taxed under this head. These incomes are as follows:

1. **Dividends** including deemed dividend. However, dividends from domestic company other than those covered by section 2(22)(e) are exempt from tax under section 10(34). (For detailed discussion refer to the chapter of Taxation of Income from Dividend & Deemed Dividend)

2. **Winnings from lotteries, crossword puzzles, races** including horse races, card game and other game of any sort, gambling or betting of any form whatsoever, are always taxed under this head. (For detailed discussion refer Chapter of Taxation of Non-residents & Foreign Companies)

3. Income by way of **interest received on compensation or on enhanced compensation** shall be chargeable to tax under the head "Income from other sources", and such income shall be deemed to be the income of the year in which it is received, irrespective of the method of accounting followed by the assessee. However, a deduction of a sum
equal to 50% of such income shall be allowed from such income. Apart from this, no other deduction shall be allowed from such an income. (For detailed discussion refer chapter of Capital Gains — Chargeability)

4. Forfeited advance money received against capital asset. Any sum of money received as an advance or otherwise in the course of negotiations for transfer of a capital asset, if,—

(a) such sum is forfeited on or after 1-4-2014; and

(b) the negotiations do not result in transfer of such capital asset.

(For detailed discussion refer Chapter of Taxation of Forfeiture of Advance Money Received against Capital Assets)

5. Gifts received by an individual or HUF (which are chargeable to tax) are also taxed under this head. Premium received by Closely held company is also taxable under section 56(2)(viia) i.e., under the head of Income from other sources. (For detailed discussion refer Chapter of Measure to Prevent Generation and Circulation of Unaccounted Money)

6. In addition to above, following incomes are charged to tax under this head, if not taxed under the head "Profits and gains of business or profession":

(i) Any contribution to a fund for welfare of employees received by the employer.

(ii) Income by way of interest on securities.
(iii) Income from letting out or hiring of plant, machinery or furniture.

(iv) Income from letting out of plant, machinery or furniture along with building; if both the lettings are inseparable.

(v) Any sum received under a Keyman Insurance Policy including bonus provided it is not taxable as Profits and Gains of Business or Profession or under the head Salary. (For detailed discussion refer chapter of Profits and Gains of Business or Profession)

Key Notes:

a) Family pension will also be taxed under the head Income from other sources since no relationship of employer and employee exist between the employer and the legal heir of the deceased employee.

b) Unexplained cash credit, money, investments, expenditure, etc. under sections 68, 69, 69A, 69B, 69C, 69D, shall be taxed under the head Income from other sources. c? Interest on Income Tax refunds is taxable under the head Income from other sources.

METHOD OF ACCOUNTING

Income chargeable to tax under the head "Income from other sources" is to be computed in accordance with the method of accounting regularly employed by the assessee. Hence, if the assessee follows mercantile system, then income will be computed on accrual basis. If assessee follows cash system, then income will be computed on cash basis.

However, method of accounting does not affect the basis of charge in case of income by way of interest received on compensation or on enhanced compensation which is taxed on cash basis.
SECTION 57: EXPENSES ALLOWED AS DEDUCTIONS WHILE COMPUTING INCOME CHARGEABLE TO TAX UNDER THE HEAD "INCOME FROM OTHER SOURCES"

Following major deductions are available from income chargeable to tax under the head "Income from other sources":

(a) Commission or remuneration for realizing interest on securities.

(b) Any sum received by an employer from employees as contribution towards any welfare fund of such employees is first included as income of the employer, and if the employer credits such sum to the employee's account under the relevant fund on or before the due date of filing of return, then such amount (i.e., employee's contribution) is deductible from the income of the employer.

(c) Revenue repairs, insurance premium and depreciation in respect of plant, machinery, furniture and buildings are deductible from rental income earned by letting out of plant, machinery, furniture and building, which are chargeable to tax under section.

(d) A deduction of lower of 15,000 or 33-1/3% of such income is available in case of income in the nature of family pension (i.e., regular monthly amount payable by the employer to the family members of the deceased employee)

(e) Deduction is available in respect of any other expenditure (not being in the nature of capital expenditure) laid out or expended wholly and exclusively for the purpose of making or earning such income during the relevant previous year.
SECTION 58: EXPENSES NOT ALLOWED AS DEDUCTIONS WHILE COMPUTING INCOME CHARGEABLE TO TAX UNDER THE HEAD "INCOME FROM OTHER SOURCES"

Under section 58, following expenditures are not deductible while computing income chargeable to tax under the head "Income from other sources":

(a) Personal expenditure.

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

(c) Any amount paid which is taxable under the head "Salaries" and payable outside India on which tax has not been paid or deducted at source.