UNIVERSITY OF DELHI

INCOME TAX

LAW AND PRACTICE

DSC 5.1

B.Com (Hons.) | B.Com (Prog.) — Third Year, Semester V

UNIT 4 — PART A

INCOME FROM OTHER SOURCES

The Residual Head

Basis of Charge · The General Charge and the Specific Charge
Dividend · Deemed Dividend · Buy-Back • Interest on Securities
Grossing Up · Bond Washing · Interest on Enhanced Compensation
Family Pension · Annuity · Director's Fees · Ground Rent · Lease Rent
Lotteries · Crossword Puzzles · Races · Card Games · Online Games
Casual Income at 30% • Owning and Maintaining Race Horses
Machinery, Plant and Furniture Let on Hire · Composite Letting
Gifts from Non-Relatives · Stamp Duty Value · The 10% Tolerance
Sums Received Under a Life Insurance Policy · Forfeited Advances
The Deductions · Amounts Not Deductible
Twelve Worked Problems • Six Long Questions • 118 Objective Questions

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BUILT ON THE BARE TEXT OF SECTIONS 92 TO 95

Governed by the INCOME-TAX ACT, 2025

(Act No. 30 of 2025, as amended by the Finance Act, 2026)
with the INCOME-TAX RULES, 2026

TAX YEAR 2026-27

1 April 2026 to 31 March 2027
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Compiled by

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Preface

What Changed, and Which Act Changed It

This booklet has been written from the bare Act. Sections 92 to 95 of the Income-tax Act, 2025 replace sections 56 to 59 of the Income-tax Act, 1961. Section 92 is section 56; section 93 is section 57; section 94 is section 58; and section 95 is section 59.

For this head the 2025 Act has done three things. It has renumbered. It has gathered into one place what the 1961 Act kept in several. And in one or two corners it has tidied the language — most visibly by writing the deemed-gift provision, the old section 56(2)(x), as a single clause, section 92(2)(m), with its exclusions in section 92(3) and its definitions in section 92(5).

One — the old section 56(2)(x) is now section 92(2)(m)

The threshold is still **₹50,000**, the tolerance on immovable property is still the higher of ₹50,000 and **10% of the consideration**, and the list of exempt relations in section 92(3) reproduces the old proviso word for word. What has changed is that **virtual digital asset** now appears in the definition of "property" in section 92(5)(f) as item (x), in the body of the Act rather than in a proviso.

Two — the family pension deduction now has two figures

Section 93(1)(d) allows one-third of the family pension or a monetary cap, whichever is less. The cap is **₹25,000 where income-tax is computed under section 202(1)** — that is, under the default regime — and **₹15,000 in any other case**. A book printed before the Finance Act, 2025 gives ₹15,000 only. Most students will now be on the ₹25,000 figure, because section 202(1) applies unless the option under section 202(4) is exercised.

Three — the 20% cap on interest against dividend

Section 93(2)(b) is the old section 57(i) proviso. Against dividend income the **only** deduction is interest expenditure, and that interest is limited to **20% of the dividend** included in the total income. Collection charges, which section 93(1)(a) allows against interest on securities, are therefore **not** allowed against dividend. Against dividend of the buy-back kind — section 2(40)(f) — section 93(2)(a) allows nothing at all.

What the 2025 Act has not changed

Everything else. The residual character of the head; the thirteen specific inclusions; the 30% rate on casual income and the bar on any deduction against it; the deduction of 50% on interest on compensation; the treatment of machinery, plant and furniture let on hire, alone or with a building; the grossing-up arithmetic; and the exception for a person who owns and maintains horses for racing. The table at paragraph 11.1 converts the numbering in fifty rows.

The rebate of section 156 and special-rate income

Where the total income includes winnings charged at 30% under section 194, the rebate of section 156(2) is capped by section 156(3) at the income-tax payable at the rates in section 202(1). Problem 12 computes the special-rate tax first and the slab tax on the balance, and tests the rebate against section 156(3); the special-rate tax is not wiped out by the rebate.

About this booklet, and a request

This booklet has been prepared by Artificial Intelligence — Claude Opus 5.0 (Anthropic) — under the guidance and supervision of Advocate Dr. S. B. Rathore in the first week of August 2026, from the bare text of the Income-tax Act, 2025 and the Income-tax Rules, 2026 as downloaded from incometaxindia.gov.in.

Suggestions on presentation, and reports of any discrepancy, are warmly invited.

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The Prescribed Syllabus

Income Tax Law and Practice — DSC-5.1

Where this booklet sits

Unit IV of the prescribed syllabus covers three things. This Part A takes the first of them — Income from other sources, in sections 92 to 95. Part B takes the clubbing provisions and the set-off and carry forward of losses.

Unit	Prescribed content	Where dealt with
Unit 1	Introduction — basic concepts: income, agricultural income, person, assessee, tax year; residential status and scope of total income; incomes exempt from tax	Unit 1 booklet (Introduction)
Unit 2	Computation of Income under Different Heads-1 — income from salaries; income from house property	Unit 2 Part A (Salaries); Unit 2 Part B (House Property)
Unit 3	Computation of Income under Different Heads-2 — profits and gains of business or profession; capital gains	Unit 3 Part A (Business or Profession); Unit 3 Part B (Capital Gains)
Unit 4	Income from other sources; income of other persons included in the assessee's total income; set-off and carry forward of losses	Unit 4 Part A (Other Sources) — this booklet; Unit 4 Part B (Clubbing and Set-off)
Unit 5 (A)	Deductions from gross total income; rebates and reliefs	Unit 5 Part A (Deductions, Rebates and Reliefs)
Unit 5 (B)	Computation of total income and tax liability of individuals; filing of returns of income on-line and TDS	Unit 5 Part B (Total Income and Tax Liability)

What this Part covers, against the topics prescribed

Topic	Where in this booklet
Basis of charge; the residual character of the head	Chapter 1
Dividend, including deemed dividend and buy-back	Chapter 2
Interest on securities; grossing up	Chapter 3
Interest on compensation and enhanced compensation	Chapter 3, paragraph 3.6
Family pension	Chapter 4, paragraphs 4.1 and 4.2
Annuity	Chapter 4, paragraph 4.3
Director's fees and sitting fees	Chapter 4, paragraph 4.4
Ground rent and lease rent	Chapter 4, paragraph 4.5
Winnings from lotteries, crossword puzzles, races, card games, gambling and betting — casual income	Chapter 5
Rent from machinery, plant and furniture, alone or with a building	Chapter 6
Gifts received from persons who are not relatives	Chapter 7
Sums received under a life insurance policy	Chapter 8
Deductions allowed [section 93]	Chapter 9
Amounts not deductible [section 94]; other provisions [section 95]	Chapter 9
Computation of the head, with practical problems	Chapter 10

Topic	Where in this booklet
Revision, objective questions and long questions	Chapter 11

Suggested readings

- Ahuja, G., & Gupta, R. Simplified Approach to Income Tax. Delhi: Flair Publications Pvt. Ltd.
- Mittal, N. Concept Building Approach to Income Tax Law and Practice. Delhi: Cengage Learning India Pvt. Ltd.
- Singhania, V. K., & Singhania, M. Students' Guide to Income Tax | University Edition. Delhi: Taxmann Publications Pvt. Ltd.
- The bare Income-tax Act, 2025 and the Income-tax Rules, 2026, free at incometaxindia.gov.in.

Latest edition of books is to be followed. Suggested readings will be updated by the Department of Commerce and uploaded on the Department's website.

A note on the reading list

Every title on the prescribed list was written for the Income-tax Act, 1961, and an edition printed before April 2026 necessarily carries the section numbers, the rule numbers and the figures that were in force when it went to press. These are standard works and the reasoning in them holds good.

Until their 2026 editions reach you, take the section numbers, the rule numbers and the figures from this booklet, or from the bare Income-tax Act, 2025 and the Income-tax Rules, 2026.

The teachers' meeting of 4 August 2026

At a joint meeting of the Department of Commerce, Delhi School of Economics and the Department of Commerce, Shri Ram College of Commerce, held on 4 August 2026 under the Department-College Interface, guidelines were settled for this paper "in order to have uniformity and consistency in teaching". Those that bear on this booklet are set out below.

Unit 4: Income from Other Sources, Clubbing of Income and Set-off (7 hours)

Income from other sources. Section 92(2)(k) — the specified sum received by a unit holder from a business trust — need not be covered.

Two points were recorded for the whole paper. First, the Income-tax Act, 2025 applies from 1 April 2026, so the academic session 2026-27 is an exceptional year and the provisions for the tax year 2026-27 are what is to be taught; it was suggested that tax year 2026-27 be taught in 2027-28 as well. Second, ITR-1 will be done in the academic session 2026-27.

Contents

How this booklet is arranged

Chapter 1

Basis of Charge: the Residual Head

1.1 Where the law is

The whole of this head occupies four sections. They are short. A student who reads sections 92 to 95 once, slowly, will have read nine-tenths of the law on the subject.

Section	What it does	Old section
92(1)	The general charge — anything not excluded and not chargeable under the other four heads	56(1)
92(2)	The specific charge — thirteen classes of income named and brought in expressly	56(2)
92(3)	The exclusions from the deemed-gift clause — relatives, marriage, will, inheritance and eight others	Proviso to 56(2)(x)
92(4)	Stamp duty value — the date of the agreement, and reference to a Valuation Officer	Provisos to 56(2)(x)
92(5)	The definitions — property, relative, jewellery, lottery, fair market value	Explanation to 56(2)(x)
93	The deductions allowed	57
94	The amounts not deductible	58
95	Profits chargeable to tax — section 38 applied to this head	59

Four sections elsewhere that matter as much

- **Section 2(40)** — the definition of "dividend", which is where deemed dividend lives.
- **Section 194** — the 30% rate on winnings, and 30% on net winnings from an online game.
- **Section 278(1)** — interest on compensation is the income of the year of RECEIPT.
- **Section 276** — the method of accounting, cash or mercantile, for this head and for business.

1.2 The general charge [Section 92(1)]

Section 92(1)

Income of every kind which is not to be excluded from the total income under this Act, shall be chargeable to income-tax under the head "Income from other sources", if it is not chargeable to income-tax under any of the heads specified in section 13(a) to (d).

Three conditions must be satisfied together. Miss any one of them and nothing is charged under this head.

	Condition	The point
1	There must be an income	A receipt which is not income at all — a loan taken, a capital receipt outside section 92(2) — is not charged. But section 92(2) itself deems several capital receipts to be income, and those are charged
2	It must not be excluded from total income	An income excluded by Schedule II or Schedule III, or by a person-based exemption in Schedule VII, is outside the charge altogether
3	It must not be chargeable under any of the first four heads	Salaries [section 15], House property [section 20], Business or profession [section 26], Capital gains [section 67]. Only if all four are inapplicable does section 92 operate

1.3 The specific charge [Section 92(2)]

Section 92(2) opens with the words "In particular, and without prejudice to the generality of the provisions of sub-section (1)". That is important. The list is illustrative, not exhaustive. An income outside the list is still charged if it answers the description in section 92(1).

Clause	Income	Chapter
(a)	Any dividend	2
(b)	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 or nature	5
(c)	Sums received from employees as contributions to a provident fund, superannuation fund, an Employees' State Insurance fund or any other welfare fund, where not charged as business income	4
(d)	Sums received under a Keyman insurance policy, including bonus, where not charged as business income or as salary	4 and 8
(e)	Interest on securities, where not charged as business income	3
(f)	Income from machinery, plant or furniture belonging to the assessee and let on hire	6
(g)	Income from letting machinery, plant or furniture together with buildings, where the letting of the buildings is inseparable	6
(h)	An advance received during negotiations for the transfer of a capital asset, if it is forfeited and the negotiations do not result in a transfer	8
(i)	Interest received on compensation or enhanced compensation referred to in section 278(1)	3
(j)	Compensation or other payment in connection with the termination of employment or the modification of its terms	4
(k)	The specified sum received by a unit holder from a business trust	—
(l)	Sums received under a life insurance policy, other than under a unit linked policy or a Keyman policy, which are not excluded under Schedule II	8
(m)	Money or property received without consideration or for inadequate consideration — the deemed gift	7

Clause (k) is outside the scope of the paper

The thirteen clauses are printed as the section has them. Clause (k) — the specified sum received by a unit holder from a business trust — is outside the scope settled for this paper at the teachers' meeting of 4 August 2026, and is not treated anywhere in this booklet. It is shown here because a table of section 92(2) that omitted a clause would misstate the section.

1.4 Residual, and what that means in practice

The head of last resort

Section 13 classifies all income under five heads. The first four are defined by what they are. The fifth is defined by what it is not. So the question in every problem is not "does this look like other sources?" but "have the other four been ruled out?"

The heads are **mutually exclusive**. An income cannot be charged under two heads. Where a receipt answers the description of two heads, the more specific prevails, and section 92(1) yields.

Two consequences follow, and both are examined.

- **An income charged under this head cannot be charged again.** Interest on a business loan given by a money-lender is business income under section 26, so clause (e) of section 92(2) is displaced by its own closing words — "if the income is not chargeable to income-tax under the head Profits and gains of business or profession".
- **An income which no other head fits is charged here, listed or not.** Examples: a director's sitting fee where he is not an employee; ground rent; income of a tomb or a temple; salary of a Member of Parliament; the remuneration of an examiner paid by a university to a teacher of another college; and agricultural income from land situated outside India.

1.5 Always taxed here, and sometimes taxed here

Some of the thirteen clauses are unconditional. Others carry the words "if the income is not chargeable under the head Profits and gains of business or profession". The distinction is worth a table, because it decides which head the income falls under.

Always under this head	Under this head only if not business income
Dividend [clause (a)]	Contributions received from employees [clause (c)]
Winnings and casual income [clause (b)]	Sums under a Keyman insurance policy [clause (d)] — also not if charged as salary
Forfeited advance [clause (h)]	Interest on securities [clause (e)]
Interest on compensation [clause (i)]	Machinery, plant or furniture let on hire [clause (f)]
Compensation on termination of employment [clause (j)]	Composite letting with a building [clause (g)]
The specified sum from a business trust [clause (k)] — outside the scope of the paper	
Life insurance sums not excluded [clause (l)]	
Money and property without consideration [clause (m)]	

1.6 Method of accounting [Section 276]

Section 276(1)

Income chargeable under the head "Profits and gains of business or profession" or "Income from other sources" shall, subject to the provisions of sub-section (2), be computed as per either cash or mercantile system of accounting regularly employed by the assessee.

This head and business are the only two where the assessee chooses. Salary is taxed on due or receipt, whichever is earlier; house property on annual value; capital gains in the year of transfer. Here, an assessee who keeps his books on the cash basis is charged on interest when he receives it; one on the mercantile basis, when it accrues.

Three exceptions to the choice

- **Interest on compensation or enhanced compensation.** Section 278(1) charges it in the year of RECEIPT, "irrespective of anything to the contrary contained in section 276". The choice of method is overridden.
- **Dividend.** Charged when it is paid, credited or distributed. A dividend declared but not paid within the year is not the income of that year.
- **Income computation and disclosure standards.** Section 276(2) lets the Central Government notify standards which a class of assessees must follow, and section 276(3)(c) lets the Assessing Officer make a best judgment assessment where they are not followed.

1.7 Year of charge — a summary

Income	Charged in the year	Authority
Interest on securities	of accrual or of receipt, according to the method regularly employed	s. 276(1)
Dividend	of payment, credit or distribution	s. 2(40)
Winnings	of receipt	s. 92(2)(b)
Interest on compensation or enhanced compensation	of receipt, always	s. 278(1)
Forfeited advance	of forfeiture	s. 92(2)(h)
Money or property without consideration	of receipt	s. 92(2)(m)
Sums under a life insurance policy	of receipt	s. 92(2)(l), Rule 59
Family pension	of receipt	s. 92(1)

Chapter 2

Dividend

2.1 The charge

> **Section 92(2)(a)**
> *The following incomes shall be chargeable to income-tax under the head "Income from other sources":— (a) any dividend.*

The clause is unconditional. Dividend is charged under this head even where the shares are held as stock-in-trade by a dealer in shares. This is the one exception to the rule that a receipt of a trader is business income, and it is the direct consequence of the absence, in clause (a), of the saving words which clauses (c) to (g) all carry.

> **Dividend is taxable in the shareholder's hands**
> Since 1 April 2020 the dividend distribution tax has gone. The company pays no tax on the distribution; the shareholder pays tax on the dividend at his own slab rate. The whole of the dividend is included in the total income, and the only deduction is interest, capped at 20% — see paragraph 2.7.

2.2 The meaning of dividend [Section 2(40)]

The definition is inclusive. It brings in six things, and then takes five out.

	What is dividend	The limit
(a)	Any distribution by a company of accumulated profits, whether capitalised or not, if it entails the release of the company's assets to the shareholders	To the extent of accumulated profits
(b)	Any distribution of debentures, debenture-stock or deposit certificates, with or without interest; and any distribution to preference shareholders of shares by way of bonus	To the extent the company possesses accumulated profits
(c)	Any distribution on liquidation	To the extent attributable to accumulated profits immediately before liquidation
(d)	Any distribution on a reduction of capital	To the extent the company possesses accumulated profits
(e)	Any payment by a closely held company by way of loan or advance to a substantial shareholder, or to a concern in which he has a substantial interest, or for his individual benefit	To the extent of accumulated profits — see paragraph 2.3
(f)	Any payment by a company on the purchase of its own shares under section 68 of the Companies Act, 2013	The whole payment — see paragraph 2.4

Bonus shares — the asymmetry students forget

- Bonus shares issued to EQUITY shareholders are not a dividend. Nothing leaves the company; the shareholder's proportionate interest is unchanged.
- Bonus shares issued to PREFERENCE shareholders ARE a dividend under clause (b), to the extent of accumulated profits.
- Debentures or deposit certificates distributed to ANY shareholder are a dividend under clause (b).

2.3 Deemed dividend — loans and advances [Section 2(40)(e)]

Section 2(40)(e)

Any payment by a company, not being a company in which the public are substantially interested, of any sum (whether as representing a part of the assets of the company or otherwise),— (i) as an advance or loan to a shareholder, being a person who is the beneficial owner of shares (not being shares entitled to a fixed rate of dividend, with or without a right to participate in profits) holding not less than 10% of the voting power; or (ii) as an advance or loan to any concern in which such shareholder is a member or a partner and in which he has a substantial interest; or (iii) made on behalf, or for the individual benefit, of any such shareholder, to the extent to which the company in either case possesses accumulated profits.

Five conditions must all be met.

	Condition
1	The company must be one in which the public are NOT substantially interested — a closely held company
2	The payment must be by way of loan or advance
3	The recipient must be a beneficial owner of equity shares carrying not less than 10% of the voting power, or a concern in which such a shareholder has a substantial interest, or the payment must be for his individual benefit
4	The company must possess accumulated profits on the date of the payment
5	The charge is limited to the accumulated profits so possessed. Once they are exhausted by one loan, a second loan in the same year is not a dividend

Substantial interest

A person has a substantial interest in a concern if he is beneficially entitled to not less than 20% of the income of the concern; and, where the concern is a company, if he is the beneficial owner of shares carrying not less than 20% of the voting power.

Two things that are NOT a deemed dividend

- A loan or advance made in the ordinary course of a business in which the lending of money is a substantial part — section 2(40), exclusion (ii). A loan from a finance company to its own shareholder on ordinary commercial terms is safe.
- A subsequent dividend set off against a sum already treated as a deemed dividend, to the extent so set off — exclusion (iii). This prevents the same money from being taxed twice.

2.4 Buy-back of shares [Section 2(40)(f)]

Since 1 October 2024 the consideration paid by a company on the buy-back of its own shares is a dividend in the hands of the shareholder. Two consequences follow, and both are severe.

	Consequence
1	The WHOLE of the buy-back consideration is dividend income. The cost of the shares is not deducted from it
2	Section 93(2)(a) allows NO deduction of any kind against dividend of this description — not even the 20% interest which section 93(2)(b) allows against ordinary dividend

The cost is not lost — it becomes a capital loss

The shareholder's cost of acquisition of the shares bought back is treated as a capital loss under the head Capital gains, the full value of the consideration being taken as nil. That loss may be set off and carried forward under the ordinary rules. It cannot be set off against the dividend.

2.5 What is not dividend

- A distribution on liquidation or on a reduction of capital, in respect of a share issued for full cash consideration, where the holder is not entitled to participate in surplus assets on liquidation.
- A loan or advance made by a company in the ordinary course of a money-lending business.
- A dividend set off against a sum already treated as a deemed dividend under clause (e), to the extent so set off.
- A distribution of shares pursuant to a demerger by the resulting company to the shareholders of the demerged company.
- An advance or loan between two group entities, on the conditions specified.

2.6 Year of charge

Dividend is charged in the year in which it is paid, credited or distributed. An interim dividend is the income of the year in which it is unconditionally made available to the shareholder. A final dividend is the income of the year in which it is declared at the annual general meeting, that being the date on which the shareholder's right becomes absolute.

2.7 The deduction — interest, capped at 20% [Section 93(2)]

Section 93(2)

In respect of— (a) dividend income of the nature referred to in section 2(40)(f), no deduction shall be allowed; (b) any other dividend income [other than in clause (a)], or income from units of a Mutual Fund specified under Schedule VII (Table: Sl. No. 20 or 21) ... only deduction allowed shall be interest expense which, for any tax year, shall be limited to 20% of such income (included in the total income for that year, without deduction under this section).

Read the word "only"

Section 93(1)(a) allows, in terms, a reasonable sum paid as commission or remuneration to a banker for realising dividend or interest on securities. But section 93(2)(b) says that against dividend the **only** deduction is interest expense. The specific overrides the general. So collection charges are deductible against **interest on securities** but not against **dividend**.

Illustration 2.1 — the 20% cap

Gross dividend from Indian companies		**4,00,000**
Interest on the loan taken to buy those shares — actual	1,10,000	
Maximum allowable: 20% of ₹4,00,000	80,000	
Deduction allowed, being the lower		(80,000)

Collection charges of ₹5,000 — NOT allowed, section 93(2)(b)		Nil
Dividend chargeable		**3,20,000**

The disallowed ₹30,000 of interest is lost. It cannot be carried forward, and it cannot be set off against any other income.

2.8 Tax deducted at source on dividend

Item	Position	Authority
Deductor	Any domestic company	s. 393(1), Table Sl. No. 7
Rate	10%	s. 393(1), Table Sl. No. 7
Threshold — general	Nil	s. 393(1), Table Sl. No. 7
Threshold — an individual shareholder	No deduction where the dividend is paid otherwise than in cash and does not exceed ₹10,000 in the tax year	s. 393(4), Table Sl. No. 10(f)
Time of deduction	Before making any distribution or payment	Note to Table Sl. No. 7

Grossing up is not needed for dividend

The company deducts 10% and pays 90%. The shareholder includes the GROSS dividend in his total income and takes credit for the tax deducted. Where a question gives the net amount received, gross it up by dividing by 0.90.

Chapter 3

Interest on Securities, and Other Interest

3.1 The charge [Section 92(2)(e)]

> **Section 92(2)(e)**
> *… any income by way of interest on securities, if the income is not chargeable to income-tax under the head "Profits and gains of business or profession".*

Interest of every other description — on a bank deposit, on a loan given to a friend, on a post office deposit, on an employee's advance — is not within clause (e) at all. It is charged under the general words of section 92(1), and the result is the same. The distinction matters only for the deduction of collection charges under section 93(1)(a), which is confined to dividend and interest on securities.

3.2 Kinds of security

Security	Tax deducted at source	Chargeable
Securities of the Central or a State Government, other than 8% Savings (Taxable) Bonds 2003, 7.75% Savings (Taxable) Bonds 2018 and Floating Rate Savings Bonds 2020	No — s. 393(4), Table Sl. No. 6(a)(iii)	Yes
8% Savings (Taxable) Bonds, 2003 and the other named bonds	Yes, at 10% above ₹10,000	Yes
Debentures of a listed company	Yes, at 10% above ₹10,000	Yes
Debentures of an unlisted company	Yes, at 10% above ₹10,000	Yes
National Development Bonds	No — s. 393(4), Table Sl. No. 6(a)(i)	Yes
Gold Deposit Bonds, 1999; Gold Monetisation Scheme certificates, 2015	No	No — Schedule II, Table Sl. No. 12
Bonds of a local authority or a State Pooled Finance Entity	As notified	As notified — Schedule II, Table Sl. No. 13

3.3 Grossing up

> **The rule, in one line**
> What the assessee receives is the net. What he is charged on is the **gross**. The tax deducted is his tax, paid on his behalf, and he takes credit for it against his liability.

If the question gives	Gross it up by	Rate
Net interest on securities	Net ÷ 0.90	10%
Net dividend	Net ÷ 0.90	10%
Net winnings from a lottery, race, card game or betting	Net ÷ 0.70	30%
Net interest on a bank deposit	Net ÷ 0.90	10%

If the question gives	Gross it up by	Rate
Interest on a Government security, or any amount described as "received", on which no tax is deducted	No grossing up	Nil

Do not gross up twice, and do not gross up the exempt

- Where the question already gives the gross or the "due" amount, take it as it is.
- Where no tax is deductible — a Government security, interest below the threshold — there is nothing to gross up.
- Where the income is excluded from total income altogether, neither the gross nor the net enters the computation.

3.4 Accrual, and the year of charge

Interest on securities accrues on the due dates fixed by the terms of issue, and not from day to day. So a person who buys a security a week before the interest date and holds it on that date receives, and is charged on, the whole half-year's interest. Under the cash system the charge is on receipt instead. The choice is the assessee's, under section 276(1), provided it is regularly employed.

3.5 Bond washing and dividend stripping [Section 175]

Section 175 is the anti-avoidance provision, the old section 94. It has three limbs, and each is worth knowing by name.

Limb	The device	The answer of the section
Bond washing — s. 175(1)	The owner sells the security to a person with little or no income shortly before the interest date and buys it back after	The interest is deemed to be the income of the OWNER, and is not the income of the other person
Sales cum-interest — s. 175(3)	A person with a beneficial interest so arranges matters that he receives no income, or less than a day-to-day apportionment would give	The income is deemed to be his income
Dividend stripping — s. 175(8)	Units or securities are bought within three months before the record date and sold within three months (units, nine months) after, the dividend being exempt	The loss is ignored, to the extent of the exempt dividend or income received
Bonus stripping — s. 175(9)	Securities or units are bought within three months before the record date, bonus units are received, and the original is sold within nine months after	The loss is ignored; and under s. 175(10) it becomes the cost of the bonus units still held

The escape in section 175(4)

Sub-sections (1), (2) and (3) do not apply if the owner proves to the satisfaction of the Assessing Officer that there has been no avoidance of income-tax, or that the avoidance was exceptional and not systematic and that there was no such avoidance in any of the three preceding years.

3.6 Interest on compensation and enhanced compensation

Sections 92(2)(i), 278(1) and 93(1)(f)

92(2)(i) — any income by way of interest received on compensation or on enhanced compensation referred to in section 278(1).

278(1) — Any interest received by an assessee on any compensation or on enhanced compensation, shall be deemed to be the income of the tax year in which it is received, irrespective of anything to the contrary contained in section 276.

93(1)(f) — for income of the nature referred to in section 92(2)(i), an amount equal to 50% of such income and no other deduction shall be allowed under this section.

Three rules, taken together, dispose of every question on this subject.

	Rule
1	The whole of the interest is the income of the year of RECEIPT, however many years it relates to. There is no spreading back
2	A flat deduction of 50% is allowed. It is not a deduction of actual expenditure; nothing need be spent to earn it
3	No other deduction under section 93 is allowed. Legal fees, advocate's fees and court expenses incurred to obtain the enhanced compensation are not deductible

Interest is not compensation

The compensation and the enhanced compensation themselves are charged under the head Capital gains, in the year the compensation is first received. Only the INTEREST comes here. A question which gives both must be answered under two heads.

3.7 Bank and post office interest, and section 153

Item	Position
Interest on a savings bank account	Fully chargeable under section 92(1). No exemption
Interest on a fixed or recurring deposit	Fully chargeable
Interest on a post office savings account	Fully chargeable
Deduction under section 153 — an individual who is not a senior citizen, or a Hindu undivided family	Interest on a savings account, excluding time deposits, up to ₹10,000
Deduction under section 153 — a senior citizen	Interest on any deposit, including time deposits, up to ₹50,000
Tax deducted at source — bank, co-operative bank or notified post office scheme	10% above ₹1,00,000 for a senior citizen; above ₹50,000 for any other person
Tax deducted at source — any other specified payer	10% above ₹10,000

Section 153 is in Chapter VIII, and Chapter VIII is shut under the default regime

Section 202(2)(a)(xii) computes the total income under the default regime **without** any deduction under Chapter VIII, other than sections 124(1), 124(2), 125(2) and 146. Section 153 is not among them. So an assessee taxed under section 202(1) gets **no deduction at all** for savings bank interest. He gets it only if he exercises the option under section 202(4).

Chapter 4

Family Pension, Annuity, Director's Fees and Lease Rent

4.1 Family pension — the charge and the deduction

Section 93(1)(d)

... for income in the nature of family pension (a regular monthly amount payable by the employer to a family member of an employee upon the death of such employee),— (i) an amount equal to one-third of such income or ₹25000, whichever is less, where income-tax is computed under section 202(1); and (ii) an amount equal to one-third of such income or ₹15000, whichever is less, in any other case.

The definition of family pension is now in the charging words of section 93(1)(d) itself, which is new drafting. Three elements: a regular monthly amount; payable by the employer; to a family member, on the death of the employee. A lump sum paid on death is not family pension. A pension paid to the employee himself is salary, not family pension, and carries the standard deduction of section 19 instead.

Regime	Deduction	Family pension ₹2,40,000	Chargeable
Default — tax under section 202(1)	One-third, or ₹25,000, whichever is less	One-third = ₹80,000; cap = ₹25,000	₹2,15,000
Option exercised under section 202(4)	One-third, or ₹15,000, whichever is less	One-third = ₹80,000; cap = ₹15,000	₹2,25,000

The deduction is per assessee, not per pension

Where a widow receives family pension from two employers of her deceased husband, the two are added and one deduction is computed on the aggregate. The cap is a single ₹25,000, not ₹25,000 for each.

4.2 Family pension that is not charged at all

Recipient	Condition	Authority
Any member of the family of an individual who has been in the service of the Central or a State Government and has been awarded the Param Vir Chakra, Maha Vir Chakra, Vir Chakra or such other gallantry award as may be notified	Nil	Schedule III, Table Sl. No. 15
The widow, children or nominated heirs of a member of the armed forces, including the paramilitary forces, of the Union	The death occurred in the course of operational duties, in the prescribed circumstances	Schedule III, Table Sl. No. 16

An exempt family pension is outside the computation altogether

Where the pension is not to be included in the total income, there is no income under this head from which to deduct, and section 93(1)(d) has nothing to operate on. The pension does not enter the computation at all — neither the gross figure nor a deduction of ₹25,000 from it.

Two qualifications, and both are commonly needed.

- **Serial number 16 is conditional.** The death must have occurred in the course of operational duties, in such circumstances and subject to such conditions as may be prescribed. Where those conditions are not satisfied the pension is chargeable in the ordinary way, and the deduction under section 93(1)(d) is available on it. Serial number 15 carries no condition at all.
- **An exempt pension and a chargeable one may be received together.** A widow may draw an exempt pension under Schedule III and also a family pension from a private employer of her deceased husband. Only the chargeable pension enters the computation, and the one-third and the ₹25,000 are worked on that figure alone.

4.3 Annuity — the four kinds

Kind of annuity	Head	Why
Annuity from a present or a former employer	Salaries	It arises from the relationship of employer and employee
Annuity from a person other than an employer, under a will or a contract	Other sources	No other head fits
Annuity from a life insurance company under a deferred annuity plan	Other sources	Charged under the general words of section 92(1)
Annuity received by a partner from his firm under the partnership deed	Business or profession	It is a share of profit in another form

Annuity and pension are not the same thing

An annuity is a fixed sum payable periodically, whether or not there is any profit. A pension is a periodical payment made on account of past service. An annuity under a will is charged here; a pension from a former employer is salary.

4.4 Director's fees and sitting fees

The head depends on the capacity in which the director acts.

The director	Head	Deduction available
A whole-time or managing director, who is an employee	Salaries	Standard deduction under section 19
A non-executive director, receiving a fee for attending board meetings	Other sources	Actual expenditure laid out wholly and exclusively to earn it — travelling and conveyance to attend the meeting, under section 93(1)(e)
A director who also carries on the profession of a consultant, and is paid for professional services	Business or profession	The deductions of Chapter IV-D

Commission on the promotion of a company
A commission received by a promoter for arranging the incorporation or the finance of a company, where he is not carrying on the business of promotion, is charged under this head. So is a commission received by a person for standing surety.

4.5 Ground rent and lease rent

Receipt	Head	Reason
Ground rent — rent of land alone, with no building	Other sources	Section 20 charges the annual value of land APPURTENANT to a building. Bare land is not within it
Rent of open land let for parking, a hoarding or a nursery	Other sources	Same reason
Lease rent of agricultural land in India	Exempt as agricultural income	Schedule II, Table Sl. No. 1
Lease rent of agricultural land situated outside India	Other sources	The exemption is confined to agricultural income from land in India
Rent of a building of which the assessee is the owner	House property	Section 20 applies, and displaces section 92(1)
Rent of a building let with machinery, inseparably	Other sources	Section 92(2)(g) — see Chapter 6
Mining rent and royalty received by the owner of the mine	Other sources	Unless it is his business

4.6 Sub-letting

A tenant is not the owner. Section 20 charges the owner. So rent received by a tenant from a sub-tenant is charged under this head, and the rent which the tenant himself pays to his landlord is deductible from it under section 93(1)(e), as expenditure laid out wholly and exclusively for making that income. So is a proportionate part of the cost of repairs which the tenant has undertaken to bear.

4.7 Compensation on termination of employment [Section 92(2)(j)]

Section 92(2)(j)
... any compensation or other payment, due to or received by any person, by whatever name called, in connection with the termination of his employment, or the modification of its terms and conditions.

This clause catches the payment which is not salary because there is no longer an employment — a payment made after the relationship has ended, or made by a person who was never the employer. Where the payment is made by the employer to an employee during the employment, it is profit in lieu of salary and is charged under section 15.

4.8 Contributions received from employees [Section 92(2)(c)]

Where an employer collects from his employees their contributions to a provident fund, a superannuation fund, an Employees' State Insurance fund or any other welfare fund, the sum collected is his income. If he carries on a business it is business income; if not — a charitable body, an association — it is charged here. Section 93(1)(b), applying section 29(1)(e), then allows a deduction of the amount actually credited to the employee's account in the fund by the due date under the relevant law. Credit it late, and the deduction is lost for ever.

4.9 Keyman insurance policy [Section 92(2)(d)]

What a Keyman policy is

Schedule II, Note 1(c): a life insurance policy taken by a person on the life of another who is or was his employee or is or was connected in any manner with his business; and it **includes** such a policy which has been assigned to a person at any time during its term, with or without consideration.

Received by	Head
The employer who took the policy, carrying on business	Business or profession
The employee, on assignment of the policy to him	Salaries
Any other person, or the employer where the sum is not business income	Other sources — section 92(2)(d)

A Keyman policy is never exempt

Schedule II, Table Sl. No. 2, clause (c)(ii), expressly denies the life-insurance exclusion to any sum received under a Keyman insurance policy. The assignment of the policy to the keyman does not change that; the words "includes such policy which has been assigned" were put there to stop exactly that device.

4.10 The miscellaneous list

None of the following is named in section 92(2). Each is charged under the general words of section 92(1), because no other head fits.

Receipt	Note
Salary and allowances of a Member of Parliament or of a State Legislature	There is no employer and no employment. The daily allowance is exempt; the salary is charged here
Remuneration of an examiner, paid by a university to a teacher of another institution	Paid by a person who is not his employer
Income of a tomb, a temple or a religious endowment, where not exempt	No other head fits
Interest on an income-tax refund	Charged in the year of receipt
Agricultural income from land situated outside India	The exemption in Schedule II is confined to land in India
Director's commission for underwriting the shares of a company	Where it is not his business
Income from undisclosed sources — unexplained cash credits, investments, money, expenditure	Charged under sections 102 to 106 and taxed at 60% with a surcharge under section 195, with no deduction of any kind
Rent of a furnished room let by an assessee who is not the owner	Sub-letting; see paragraph 4.6
Gratuity received by a director who is not an employee	Not salary, because there is no employment
Insurance commission received by a person who is not an agent by profession	Where it is casual and not a business

Chapter 5

Casual Income: Lotteries, Races, Card Games and Gambling

5.1 The charge [Section 92(2)(b)]

Section 92(2)(b)
... any winning from lotteries, crossword puzzles, races including horse races, card games and other games of any sort or from gambling or betting of any form or nature.

The clause is unconditional. Casual income is charged under this head even in the hands of a person who deals in lottery tickets — although his COMMISSION on the tickets is business income, and only his own winnings come here.

5.2 What the words cover

Word	Meaning	Where defined
Lottery	Includes winnings from prizes awarded by draw of lots, by chance, or in any other manner under any scheme or arrangement by whatever name called	s. 92(5)(e)
Card game and other game of any sort	Includes any game show, an entertainment programme on television or in electronic mode, where people compete to win prizes, or any similar game	s. 92(5)(b)
Horse race	A horse race upon which wagering or betting may be lawfully made	s. 94(6)
Online game	A game offered on the internet and accessible by a user through a computer resource, including any telecommunication device	s. 194(2)(h)

The reach of the definition
Because a “card game and other game of any sort” includes a television game show, the prize money of a quiz programme is casual income, taxed at 30% with no deduction — not salary, not business income, and not a windfall outside the charge.

5.3 The rate — 30% [Section 194]

Section 194(1)
Where the total income of an assessee ... includes income of the nature specified in column C of the said Table, the income-tax payable by such assessee, for a tax year, shall be the aggregate of — (a) income-tax calculated on income mentioned in column C, at the rate mentioned in column D ...; and (b) income-tax with which the assessee would have been chargeable had his total income been reduced by income mentioned in column C thereof.

Sl. No.	Income	Rate
1	Winnings (other than from any online game) from a lottery, a crossword puzzle, a race including a horse race (not being income from the activity of owning and maintaining race horses), a card game and other game of any sort, or gambling or betting of any form or nature	30%
5	Net winnings from any online game, computed in the manner prescribed	30%

The arithmetic of section 194(1) in two steps

- Step one — tax the casual income separately at 30%. It is not put through the slabs.
- Step two — tax the rest of the total income at the ordinary rates, as though the casual income had never existed.

The consequence is that the **basic exemption limit cannot be set against casual income**. A person whose only income is a lottery win of ₹3,00,000 pays ₹90,000 plus cess, not nil, because the ₹4,00,000 exemption belongs to step two and there is nothing in step two.

5.4 Online games

Item	Ordinary winnings	Online game winnings
Rate of tax	30% — s. 194(1), Sl. No. 1	30% on NET winnings — s. 194(1), Sl. No. 5
Tax deducted at source	Rates in force, above ₹10,000 for a single transaction	Rates in force, on the net winnings, with no monetary threshold
Deduction of expenditure	None	None; but the computation is of NET winnings, which is a different thing
Where prescribed	s. 393(1), Table Sl. No. 1 and 3	s. 393(1), Table Sl. No. 2

5.5 Grossing up, and winnings in kind

Illustration 5.1 — grossing up

Amount actually received from the lottery		**3,50,000**
That is 70% of the gross, tax having been deducted at 30%		
Gross winnings — ₹3,50,000 ÷ 0.70		5,00,000
Tax deducted at source		1,50,000
Amount included in the total income		**5,00,000**

The expenditure on buying lottery tickets — ₹12,000, or any other figure — is not deducted. Section 94(4) forbids it.

Winnings wholly or partly in kind

Where the prize is a motor car, a flat or gold, the payer must satisfy himself that the tax has been paid before releasing the prize. Where the payer bears the tax, the value of the prize is grossed up in the same way, and the winner is charged on the grossed figure and takes credit for the tax borne on his behalf.

5.6 Four things that are forbidden

	Forbidden	Authority
1	No deduction for any expenditure or allowance related to casual income	s. 94(4)

And a fifth, on the rebate

Section 156(3) caps the rebate of section 156(2) at the income-tax payable at the rates provided in section 202(1). Tax charged at the special rate of 30% under section 194 is not tax at the rates in section 202(1). Compute the special-rate tax first, keep it separate, and test the rebate against the slab-rate tax only.

5.7 Owning and maintaining race horses [Section 94(5)]

Sections 94(4) and 94(5)

94(4) — In computing the 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 or nature, no deduction for any expenditure or allowance related to such income shall be allowed under this Act.

94(5) — Sub-section (4) shall not apply in computing the income of an assessee, being the owner of horses maintained for running in horse races, from the activity of owning and maintaining such horses.

The exception is narrow and precise. It is available only to the OWNER of horses MAINTAINED for running in races, and only in respect of the activity of owning and maintaining them.

	Owning and maintaining race horses	Betting on a horse race
Deduction of expenses	Allowed — stable charges, trainer's fees, jockey's fees, feed, veterinary charges, insurance	Not allowed
Rate of tax	The ordinary slab rates	30%
A loss	May be carried forward for four tax years, and set off only against income from the same activity	No loss can arise, because no expenditure is deducted
Where the section is	s. 94(5)	s. 94(4), s. 194(1) Sl. No. 1

Read the exclusion in section 194 again

The Table in section 194(1), Sl. No. 1, charges winnings from “a race including a horse race (not being income from the activity of owning and maintaining race horses)” at 30%. So the exclusion appears twice — once in section 94(5) for the deduction, and once in section 194 for the rate. The two work together.

Chapter 6

Machinery, Plant and Furniture Let on Hire

6.1 Simple letting [Section 92(2)(f)]

Section 92(2)(f)
... any 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 "Profits and gains of business or profession".

Three requirements. The machinery, plant or furniture must BELONG to the assessee; it must be LET ON HIRE; and the income must not be business income. A person whose business is the hire of equipment is charged under section 26, not here. A person who lets out a machine which has become surplus to his needs, or who lets furniture with a room, is charged here.

6.2 Composite and inseparable letting [Section 92(2)(g)]

Section 92(2)(g)
... any income from letting on hire of machinery, plant or furniture, belonging to the assessee and also buildings, where the letting of the buildings is inseparable from the letting of such machinery, plant or furniture, if the income is not chargeable to income-tax under the head "Profits and gains of business or profession".

This clause overrides section 20
Ordinarily the rent of a building of which the assessee is the owner is charged under the head Income from house property. Clause (g) takes it out of that head altogether where the letting of the building is **inseparable** from the letting of the machinery, plant or furniture. The WHOLE of the composite rent, building included, is then charged under this head, and the deductions are those of section 93, not the 30% of section 22.

6.3 The deductions [Section 93(1)(c)]

Section 93(1)(c)
... for income of the nature referred to in section 92(2)(f) and (g), so far as may be, an amount as per section 28(1)(a), (b), (d), section 33, and subject to the provisions of section 28(2).

Provision applied	What it allows
Section 28(1)(a)	Any premium paid to insure against the risk of damage or destruction of the premises, machinery, plant or furniture
Section 28(1)(b)	Land revenue, local rates or municipal taxes paid
Section 28(1)(d)	Amounts paid on account of current repairs to the premises, not being capital expenditure, where the assessee occupies them otherwise than as a tenant
Section 28(1)(f), through the words "so far as may be"	Current repairs to the machinery, plant or furniture itself

Provision applied	What it allows
Section 33	Depreciation, at the prescribed percentage of the written down value of the block
Section 28(2)	Where the asset is only partly used for the purpose, the deduction is restricted to a fair proportionate part
Section 93(1)(e)	Any other expenditure, not being capital expenditure, laid out wholly and exclusively for making or earning the income — collection charges, watchman's wages, advertisement for a hirer

Depreciation is allowed here, and only here

Section 93(1)(c) is the single place in this head where depreciation under section 33 is allowed. There is no depreciation against dividend, against interest, against family pension or against casual income. If a question offers a depreciation figure, it belongs to the letting of machinery, plant or furniture and to nothing else.

6.4 Separable letting — the head splits

Where the two lettings are separable — the tenant could have taken the building without the machinery, or the machinery without the building — clause (g) does not apply. The composite rent must then be apportioned.

Part of the rent	Head	Deductions
Attributable to the building	House property, section 20	Municipal taxes paid, and 30% of the net annual value under section 22
Attributable to the machinery, plant or furniture	Other sources, section 92(2)(f)	Insurance, repairs, depreciation, and other expenditure, under section 93(1)(c) and (e)

Which figure to apportion on

In the absence of anything better, apportion on the ratio which the letting value of the building bears to the letting value of the machinery, or on the ratio of their written down values. Where the facts supply no basis, whichever ratio is adopted governs both parts of the rent alike.

6.5 The tests the courts apply

- **Was there a single indivisible bargain?** If the parties intended one letting at one rent, and neither part could be had alone, the letting is inseparable.
- **Could the building be enjoyed without the plant?** A cinema hall let with its projectors, seating and sound equipment; a cold store let with its refrigeration plant; a factory let with its machinery — in each the building alone would be useless for the purpose let. The letting is inseparable.
- **Is the assessee exploiting a commercial asset?** If the letting is itself the assessee's business — the systematic hire of equipment as a trade — the income is business income and both clause (f) and clause (g) are displaced by their own closing words.
- **Who bears the risk?** Where the owner runs the plant, employs the staff and takes the commercial risk, and the "hirer" merely takes a share, the arrangement is a business, not a letting.

Chapter 7

Gifts: Money and Property Without Consideration

7.1 The charge [Section 92(2)(m)]

Section 92(2)(m)

... where any person receives in any tax year, from any person or persons— (i) any sum of money without consideration, the total of which exceeds ₹50000, the whole of such sum; (ii) any immovable property— (A) without consideration, the stamp duty value of which exceeds ₹50000, the stamp duty value of such property; (B) for a consideration, the stamp duty value of such property that exceeds such consideration, if this excess amount is more than the higher of the following amounts:— (I) ₹50000; or (II) 10% of the consideration; (iii) any property, other than immovable property,— (A) without consideration, the aggregate fair market value of which exceeds ₹50000, the whole of the aggregate fair market value of such property; (B) for a consideration which is less than the aggregate fair market value of the property by an amount exceeding ₹50000, the aggregate fair market value of such property as exceeds such consideration.

The clause applies to every person

The old section 56(2)(vii) was confined to an individual and a Hindu undivided family. Section 92(2)(m), like the section 56(2)(x) which it replaces, applies to ANY person — a company, a firm, an association, a trust. The exclusions in section 92(3) then take out the cases that should not be caught.

7.2 Sums of money [Clause (m)(i)]

	Rule
1	The receipt must be WITHOUT consideration. A sum received for consideration, however inadequate, is outside clause (i); inadequacy is dealt with only for property
2	The test is on the TOTAL of all such sums received in the tax year from all persons, not on each sum separately
3	Once the total exceeds ₹50,000, the WHOLE of it is charged, not merely the excess over ₹50,000
4	₹50,000 exactly is not “exceeds ₹50,000”. Nothing is charged

Illustration 7.1 — the threshold is a cliff, not a step

Received from A, a friend		21,000
Received from B, a friend		35,000
Total sums of money received without consideration		56,000
Exceeds ₹50,000 — therefore the WHOLE is charged		**56,000**

Had the second sum been ₹29,000, the total would have been ₹50,000 exactly and nothing would have been charged.

7.3 Immovable property [Clause (m)(ii)]

Case	Test	Amount charged
Received without consideration	Stamp duty value exceeds ₹50,000	The whole of the stamp duty value
Received for a consideration	The excess of the stamp duty value over the consideration is more than the higher of ₹50,000 and 10% of the consideration	The whole of that excess

Illustration 7.2 — the 10% tolerance

Stamp duty value of the flat		**44,20,000**
Consideration paid		40,00,000
Excess		4,20,000
The tolerance: higher of ₹50,000 and 10% of ₹40,00,000		4,00,000
The excess exceeds the tolerance, so the WHOLE excess is charged		**4,20,000**

Had the stamp duty value been ₹43,80,000, the excess of ₹3,80,000 would have been within the tolerance and nothing would have been charged — not even the ₹3,80,000 less ₹4,00,000.

The 10% tolerance is not a deduction

It is a threshold. Once it is crossed, the whole of the excess is charged, and the tolerance is not subtracted from it. This is the same cliff as in clause (i), and it is the most frequently mishandled point in the whole head.

Why the tolerance exists

Every State fixes a minimum value for immovable property, area by area — the circle rate or ready reckoner rate. Section 2(105) calls it the stamp duty value, and defines it as the value adopted, assessed or assessable by any authority of the Central or a State Government for the payment of stamp duty on an immovable property.

That figure is an administrative average, revised at intervals, and between revisions it drifts from what property actually fetches. A ground-floor flat facing a drain, a plot with a boundary dispute, a distress sale, a locality where the circle rate was fixed high and the market then fell — in each of them the honest price is below the circle rate. The law presumes that the difference has passed in cash and taxes it. The tolerance is the band of difference it agrees to ignore, so that a genuine transaction falling a little below the circle rate is not caught.

The tolerance is not new

Period	The buyer's tolerance	Made by
1 April 2014 to 31 March 2018	₹50,000 only	Finance Act, 2013, inserting s. 56(2)(vii)(b) of the 1961 Act
Assessment Year 2019-20	Higher of ₹50,000 and 5% of the consideration	Finance Act, 2018
Assessment Year 2021-22 onwards	Higher of ₹50,000 and 10% of the consideration	Finance Act, 2020
Tax Year 2026-27	Higher of ₹50,000 and 10% of the consideration	Income-tax Act, 2025, s. 92(2)(m)(ii)(B) — carried forward unchanged

The two limbs, and where they cross

The two limbs protect transactions of different size. On a plot bought for ₹4,00,000, 10% is ₹40,000 but ₹50,000 is more, so ₹50,000 governs. On a flat bought for ₹40,00,000, ₹50,000 is trivial and the 10% — ₹4,00,000 — governs.

The crossover is at a consideration of **₹5,00,000**, where 10% is exactly ₹50,000. Below that figure the ₹50,000 limb always governs; above it, the 10% limb always does.

7.4 Property other than immovable property [Clause (m)(iii)]

Case	Test	Amount charged
Received without consideration	The AGGREGATE fair market value of all such property received in the year exceeds ₹50,000	The whole of the aggregate fair market value
Received for a consideration	The aggregate fair market value exceeds the consideration by more than ₹50,000	The excess of the aggregate fair market value over the consideration

There is no 10% tolerance for movable property

For immovable property the tolerance is the higher of ₹50,000 and 10% of the consideration. For movable property it is a flat ₹50,000. The percentage does not appear in clause (iii) at all.

7.5 What is “property” [Section 92(5)(f)]

The word is exhaustively defined, and it means the following CAPITAL ASSETS of the assessee, and nothing else.

	Item		Item
(i)	Immovable property, being land or building or both	(vi)	Paintings
(ii)	Shares and securities	(vii)	Sculptures
(iii)	Jewellery	(viii)	Any work of art
(iv)	Archaeological collections	(ix)	Bullion
(v)	Drawings	(x)	Virtual digital asset

Two consequences of the words “capital asset”

- A motor car, a television set, a refrigerator, a wristwatch, livestock, agricultural produce — none is in the list, so a gift of any of them is not charged, however valuable.
- The property must be a CAPITAL ASSET in the hands of the recipient. Shares received by a dealer in shares as his stock-in-trade are not caught by clause (m); they are dealt with by section 26(2)(j) under the head Business or profession.

7.6 The exclusions [Section 92(3)]

Section 92(2)(m) does not apply to any sum of money or any property received in the nine cases set out in section 92(3). They are unconditional; no monetary limit applies to any of them.

	Received —
(a)	from any relative — see paragraph 7.7
(b)	on the occasion of the marriage of the individual
(c)	under a will or by way of inheritance
(d)	in contemplation of the death of the payer or donor
(e)	from any local authority as defined in Schedule III, Note 6
(f)	from or by any registered non-profit organisation as defined in section 355(g), except when received by a person referred to in section 355(h)
(g)	by way of a transaction not regarded as a transfer under the specified clauses of section 70(1) — amalgamation, demerger, conversion of a firm into a company, and the rest
(h)	from an individual, by a trust created or established solely for the benefit of a relative of that individual
(i)	from such class of persons and subject to such conditions as may be prescribed — see paragraph 7.10

Read exclusion (b) exactly

The exclusion is for a gift received on the occasion of the marriage of **the individual himself**. A gift received on the occasion of the marriage of his son, his daughter, his brother or his friend is NOT excluded. Nor is a gift received on any other occasion — a birthday, an anniversary, a festival, the birth of a child.

7.7 Who is a "relative" [Section 92(5)(g)]

	In the case of an individual, "relative" means —
(A)	spouse
(B)	brother or sister
(C)	brother or sister of the spouse
(D)	brother or sister of either of the parents
(E)	any lineal ascendant or descendant, maternal as well as paternal
(F)	any lineal ascendant or descendant of the spouse, maternal as well as paternal
(G)	the spouse of any person referred to in items (B) to (F)

And for a Hindu undivided family, "relative" means any member of it. So a gift by the family to a member, or by a member to the family, is outside the charge.

The definition is not symmetrical — it runs from the RECIPIENT'S side

The list describes the persons who are relatives **of the person receiving the gift**. The relationship runs in that direction, and in that direction only.

- **Uncle to nephew — EXEMPT.** The uncle is the brother of a parent of the nephew, item (D). He is therefore a relative of the recipient.
- **Nephew to uncle — TAXABLE.** The nephew is not the uncle's spouse, brother or sister, brother or sister of his spouse, brother or sister of either of his parents, or any lineal ascendant or descendant. He is not in the list at all.

Not relatives, in either direction: a cousin, a friend, a fiancé or fiancée, an employer, a father-in-law's brother, and the husband-and-wife of a niece.

7.8 The date of the agreement [Section 92(4)(a)]

Section 92(4)(a)

If the date of agreement fixing the amount of consideration for the transfer of immovable property and the date of registration are not the same, the stamp duty value on the date of agreement shall apply, provided the consideration, in whole or in part, has been paid in specified banking or online mode as defined in section 66(32) on or before the date of agreement for transfer of such immovable property.

The condition is strict. Some part of the consideration must have been paid, and paid by account payee cheque, account payee bank draft, electronic clearing system or another prescribed electronic mode, on or before the date of the agreement. Cash will not do. If it has not been so paid, the stamp duty value on the date of REGISTRATION applies, however long ago the agreement was made and however much the value has risen since.

Section 92(4)(b) then allows the assessee who disputes the stamp duty value to have the property referred to a Valuation Officer, on the grounds mentioned in section 78(2), and applies sections 78(2) and 288(1) to that reference.

7.9 Fair market value — Rules 56 and 57

Section 92(5)(c) defines the fair market value of property other than immovable property as the value determined by such method as may be prescribed. Rule 57 prescribes it, and Rule 56(i) fixes the valuation date as the date on which the property or the consideration is received by the assessee.

Property	Fair market value
Jewellery	The price it would fetch if sold in the open market on the valuation date; or, where received by purchase from a registered dealer on that date, the invoice value; or, where received by any other mode and the value exceeds ₹50,000, the assessee may obtain a registered valuer's report
Quoted shares and securities	The transaction value, or the quoted price on the recognised stock exchange, on the valuation date
Unquoted equity shares	The book value formula prescribed by Rule 57, worked on the audited balance sheet as on the valuation date
Any other property in the list	The price it would fetch in the open market on the valuation date, or a registered valuer's report

7.10 The prescribed class of persons — Rule 58

Section 92(3)(i) exempts receipts by such class of persons as may be prescribed. Rule 58(1) prescribes five, and each is narrow.

	Class of person	Asset
1	A resident of an unauthorised colony in the National Capital Territory of Delhi, where the Central Government has regularised the transaction	Immovable property, being land or building or both
2	A shareholder of a company whose Board has been suspended by the Tribunal under section 241 of the Companies Act, 2013, where the shares are received under an approved resolution plan	Unquoted shares
3	An investor or investor bank under the Yes Bank Limited Reconstruction Scheme, 2020	Equity shares of the reconstructed bank
4	Any person receiving shares under a strategic disinvestment from a public sector company or a Government	Equity shares of the public sector company
5	The fund management entity of a resultant fund, on a relocation	Shares, units or interest in the resultant fund

7.11 The same transaction, seen from the seller's side

One sale of immovable property below the stamp duty value is looked at from both ends, under three different provisions. The tolerances are not identical, and the difference is worth knowing.

Who is charged	Section, 2025 Act	Old section	The tolerance
The BUYER — he receives the property	92(2)(m)(ii)(B)	56(2)(x)	The excess must be more than the higher of ₹50,000 and 10% of the consideration
The SELLER — the property was a capital asset in his hands	78(1)(b)	50C	The stamp duty value must not exceed 110% of the consideration
The SELLER — the property was stock-in-trade in his hands	53(2)	43CA	The stamp duty value must not exceed 110% of the consideration

Above ₹5,00,000 the two bands coincide exactly

The buyer is charged where the excess is more than 10% of the consideration — that is, where the stamp duty value is more than 110% of it. The seller is charged on the same test. So for any consideration above ₹5,00,000 the two provisions bite at precisely the same point.

Below ₹5,00,000 they part company, because the **buyer has a ₹50,000 floor and the seller has none**.

Illustration 7.3 — a small plot, and the asymmetry

Consideration paid		**4,00,000**
Stamp duty value		**4,45,000**
Excess		45,000
THE BUYER — tolerance is the higher of ₹50,000 and 10% of ₹4,00,000 (₹40,000), so ₹50,000. The excess of ₹45,000 does not exceed it		Nil
THE SELLER — 110% of ₹4,00,000 is ₹4,40,000. The stamp duty value of ₹4,45,000 exceeds it, so the stamp duty value is substituted as the full value of the consideration under s. 78(1)		**4,45,000**

Same transaction, opposite results. Had the consideration been ₹40,00,000 and the stamp duty value ₹44,20,000, both would have been caught — the buyer on ₹4,20,000 under section 92(2)(m) and the seller on a deemed consideration of ₹44,20,000 under section 78.

The same difference can be taxed twice, in two hands

Where the excess crosses both bands, the seller pays capital gains tax on a consideration he never received, and the buyer pays tax under section 92(2)(m) on an income he never received. Neither section gives any relief against the other. That is the deliberate design, and it is why the two reliefs below matter so much in practice.

The relief	The buyer	The seller
Take the stamp duty value on the date of the AGREEMENT rather than of registration, where the two differ	s. 92(4)(a)	s. 78(1)(a); s. 53(3)
The condition — part or the whole of the consideration must have been paid by a specified banking or online mode under section 66(32) on or before the date of the agreement. Cash will not do	s. 92(4)(a)	s. 78(1)(a)(ii); s. 53(4)
Refer the property to a Valuation Officer where the stamp duty value is disputed as exceeding the fair market value	s. 92(4)(b)	s. 78(2)
Where the Valuation Officer's figure comes out HIGHER than the stamp duty value, the stamp duty value is retained — the reference can only help	s. 92(4)(b), applying s. 78	s. 78(3)

Chapter 8

Life Insurance Sums and Forfeited Advances

8.1 When a life insurance sum is not charged at all

Schedule II, Table Sl. No. 2 excludes from total income any sum received under a life insurance policy, including a bonus, provided the conditions for the period in which the policy was issued are satisfied. A sum received ON THE DEATH of the person insured is excluded in every case, whatever the ratio and whatever the aggregate premium.

Policy issued	Condition for the exclusion
1 April 2003 to 31 March 2012	Premium to sum assured ratio not more than 20%
1 April 2012 to 31 March 2013	Ratio not more than 10%
1 April 2013 to 31 January 2021	Ratio not more than 15% for a special policy; not more than 10% for any other
1 February 2021 to 31 March 2023	A unit linked policy: ratio not more than 15% (special) or 10% (other), AND aggregate premium for all such policies not more than ₹2,50,000. Any other policy: the ratio test only
On or after 1 April 2023	A unit linked policy: the ratio test, AND aggregate premium not more than ₹2,50,000. Any other policy: the ratio test, AND aggregate premium not more than ₹5,00,000

Three definitions to keep to hand

- **Premium to sum assured ratio** — the HIGHEST percentage of annual premium payable to the actual capital sum assured, during the term of the policy [Schedule II, Note 1(d)].
- **Special policy** — a policy on the life of a person with a disability or a severe disability under section 154, or suffering from a disease specified in the rules made under section 128 [Note 1(e)].
- **The ₹2,50,000 and ₹5,00,000 aggregate premium conditions** do not apply to a policy issued on or after 1 April 2025 by an International Financial Services Centre Insurance Office [clause (b)].

8.2 When it is charged [Section 92(2)(l)] and Rule 59

Section 92(2)(l)

... where any sum, including bonus allocated, is received, during a tax year, under a life insurance policy, other than— (a) sums received under a unit linked insurance policy; or (b) income referred to in clause (d), and such sum is not to be excluded from the total income of that tax year under Schedule II (Table: Sl. No. 2), the sum exceeding the aggregate of the premium paid, during the term of such life insurance policy, and not claimed as a deduction under this Act, computed in such manner, as may be prescribed.

Rule 59(1) — the two formulae

Where the sum is received for the FIRST time under the policy during the tax year (the first tax year), the income is —

$$A - B$$

A = the sum or aggregate of sums received under the policy during the first tax year;

B = the aggregate of the premium paid during the term of the policy till the date of receipt in the first tax year, that has not been claimed as a deduction under any other provision of the Act.

Where the sum is received in a SUBSEQUENT tax year, the income is —

$$C - D$$

C = the sum or aggregate of sums received during the subsequent tax year;

D = the aggregate of the premium paid till the date of that receipt, not being premium which has been claimed as a deduction under any other provision of the Act, or which is already included in amount B or amount D of any preceding year.

What Rule 59 is doing

It is making sure that each rupee of premium is set off once, and once only, over the whole life of the policy. Premium already used in B, or in the D of an earlier year, cannot be used again. And premium which has been claimed as a deduction under section 123 — the old section 80C — cannot be used at all, because the assessee has already had relief for it.

Illustration 8.1 — a policy taken in July 2014

Sum assured		**10,00,000**
Annual premium — ratio 15%, exceeding the 10% allowed for a policy issued between 1 April 2013 and 31 January 2021		1,50,000
The exclusion in Schedule II is therefore NOT available		
A — maturity proceeds received in the Tax Year 2026-27		22,50,000
B — 12 annual premiums of ₹1,50,000, none claimed as a deduction		(18,00,000)
Chargeable under section 92(2)(l)		**4,50,000**

If a further ₹1,00,000 of bonus is received in the Tax Year 2027-28, D is nil, all the premium having been absorbed in B. The whole ₹1,00,000 is then charged.

8.3 Unit linked insurance policies

A unit linked policy is never charged under this head

Section 92(2)(l)(a) takes it out expressly. Where the exclusion in Schedule II is not available, a unit linked insurance policy is a **capital asset** under the definition in section 2(22), and the sum received is charged under the head **Capital gains**, not here. See Unit 3 Part B.

8.4 Keyman policies

Section 92(2)(l)(b) also takes out any sum which is income referred to in clause (d) — a Keyman insurance policy. That is charged under clause (d) of section 92(2), or as business income, or as salary, according to who receives it. See paragraph 4.9.

8.5 Advance money forfeited [Section 92(2)(h)]

Section 92(2)(h)

... any sum of money received as an advance or otherwise during negotiations for the transfer of a capital asset, if— (i) such sum is forfeited; and (ii) the negotiations do not result in transfer of such capital asset.

	Rule
1	Both conditions must be satisfied. If the negotiations succeed and the transfer takes place, the advance is part of the consideration and nothing arises here
2	The charge is in the year of FORFEITURE
3	The whole sum is charged. No deduction is allowed against it
4	The asset must be a CAPITAL asset. An advance forfeited on negotiations for the sale of stock-in-trade is business income
5	Because the sum is charged here, it is NOT deducted from the cost of acquisition when the asset is later sold. Section 81(b) says so expressly, for a sum included in the total income under section 92(2)(h) of this Act or under section 56(2)(ix) of the 1961 Act. An older forfeiture, never charged as income, still reduces the cost under section 81(a)

Chapter 9

Deductions, and Amounts Not Deductible

9.1 Section 93(1) — the eight deductions

The income of this head is computed AFTER making the following deductions, and no others.

	Deduction	Against which income
(a)	Any reasonable sum paid as commission or remuneration to a banker or any other person for the purpose of realising the income on behalf of the assessee	Dividend [other than section 2(40)(f)] and interest on securities — but see section 93(2)(b), which shuts this out for dividend
(b)	An amount as per section 29(1)(e) — the employees' contribution credited to the fund by the due date	Contributions received from employees, section 92(2)(c)
(c)	An amount as per section 28(1)(a), (b) and (d), and section 33, subject to section 28(2) — insurance, rates and taxes, current repairs and depreciation	Machinery, plant or furniture let on hire, and composite letting — section 92(2)(f) and (g)
(d)	One-third of the family pension, or ₹25,000 where tax is computed under section 202(1) and ₹15,000 in any other case, whichever is less	Family pension
(e)	Any other expenditure, not being capital expenditure, laid out or expended wholly and exclusively for making or earning such income	Any income of this head, subject to sections 93(2) and 94
(f)	50% of the income, and no other deduction under section 93	Interest on compensation or enhanced compensation — section 92(2)(i)
(g)	The entire amount	Commutation of pension received from a fund specified in Schedule VII, Table Sl. No. 3
(h)	The entire amount	Gratuity referred to in section 19(2)(g), received on the death of the employee

Clause (e) is the workhorse

Everything not specifically provided for is claimed under clause (e), and the three words that govern it are “wholly and exclusively”. The expenditure need not be necessary, and it need not have produced any income; but it must have been laid out for the purpose of earning that income and for no other purpose. Examples: a director's travelling to attend a board meeting; rent paid by a sub-letting tenant to his own landlord; the salary of a clerk employed to look after investments; collection charges on interest that is not interest on securities.

9.2 Section 93(2) — the two restrictions on dividend

Income	Deduction allowed
Dividend of the nature referred to in section 2(40)(f) — the buy-back of shares	NONE

Income	Deduction allowed
Any other dividend; income from units of a Mutual Fund specified in Schedule VII, Table Sl. No. 20 or 21; income from units of a specified company under the Unit Trust of India (Transfer of Undertaking and Repeal) Act, 2002	ONLY interest expense, and that limited to 20% of such income included in the total income for the year, computed without this deduction

9.3 Section 94 — amounts not deductible

Sub-section	What it forbids
94(1)(a)	Any personal expenses of the assessee
94(1)(b)	Any interest chargeable under the Act, payable outside India, on which tax has not been paid or deducted under Chapter XIX-B
94(1)(c)	Any payment chargeable under the head Salaries, payable outside India, unless tax has been paid or deducted under Chapter XIX-B
94(2)	Applies sections 29, 35(b)(i) and 36 to this head as they apply to business — so 30% of a sum payable to a resident on which tax was deductible and not deducted is disallowed, and a payment to a specified person which is excessive or unreasonable is disallowed to that extent
94(3)	For a foreign company, applies section 59 — royalty and fees for technical services
94(4)	No deduction whatsoever for any expenditure or allowance related to winnings from lotteries, crossword puzzles, races including horse races, card games and other games of any sort, or gambling or betting
94(5)	Sub-section (4) does not apply to the activity of owning and maintaining horses for running in horse races
94(6)	Defines "horse race" as a race upon which wagering or betting may be lawfully made

9.4 Section 95 — profits chargeable to tax

> **Section 95**
> *The provision of section 38(1), (2), (3) and (4) shall apply in computing the income of an assessee under section 92, as they apply in computing the income of an assessee under the head "Profits and gains of business or profession".*

Section 38 is the deemed-profits provision. Applied here it means that where a deduction has been allowed under section 93 in respect of a loss, an expenditure or a trading liability, and the assessee later recovers the amount or the liability ceases, the recovery is charged as income of the year of recovery — whether or not the source from which the deduction was allowed still exists. The same applies to the balancing charge on the sale of an asset on which depreciation has been allowed under section 93(1)(c).

9.5 Allowed and not allowed, on one page

Expenditure	Allowed?	Authority
Commission to a banker for realising interest on securities	Yes	s. 93(1)(a)
Commission to a banker for realising dividend	No	s. 93(2)(b) — "only ... interest expense"

Expenditure	Allowed?	Authority
Interest on a loan taken to buy shares	Yes, up to 20% of the dividend	s. 93(2)(b)
Interest on a loan taken to buy shares later bought back	No	s. 93(2)(a)
Interest on a loan taken to buy a fixed deposit or a debenture	Yes, in full	s. 93(1)(e)
Depreciation on machinery let on hire	Yes	s. 93(1)(c), s. 33
Insurance, rates, taxes and current repairs on the let building and machinery	Yes	s. 93(1)(c), s. 28(1)
Travelling to attend a board meeting, by a non-executive director	Yes	s. 93(1)(e)
Rent paid by a sub-letting tenant to his own landlord	Yes	s. 93(1)(e)
Cost of lottery tickets bought	No	s. 94(4)
Expenses of a punter betting on horses	No	s. 94(4)
Stable, trainer, jockey and feed charges of a person owning and maintaining race horses	Yes	s. 94(5)
Legal expenses of obtaining enhanced compensation	No — only the flat 50%	s. 93(1)(f)
Personal expenses of the assessee	No	s. 94(1)(a)
Capital expenditure	No	s. 93(1)(e), the words “not being in the nature of capital expenditure”
Any expenditure incurred to earn an income which does not form part of the total income	No	s. 14(1)

Chapter 10

The Computation, and Twelve Practical Problems

10.1 The format

Every problem under this head is answered in the same four steps. Set them out in this order and nothing is left out.

The four steps

Step	Authority
1. Identify each receipt, and rule out the other four heads	s. 13, s. 92(1)
2. Gross up where tax has been deducted at source	s. 393, s. 194
3. Deduct what section 93 allows, and nothing else	s. 93, s. 94
4. Keep casual income apart and tax it at 30%	s. 194(1)
INCOME FROM OTHER SOURCES	

Four habits worth forming

- Show the gross figure and the tax deducted separately. Never enter the net.
- Show a disallowed item in the computation with the word "Nil" against it, and a one-line reason. An item silently omitted cannot be told apart from an item overlooked.
- Show the working of every cap — the 20% on dividend, the one-third on family pension, the 10% tolerance on immovable property — as two figures and the choice between them.
- State the regime. Every figure in this chapter is worked under section 202(1), the default regime, unless the problem says otherwise.

10.2 Problem 1 — Interest on Securities

The facts

Mr. Arun held the following investments throughout the Tax Year 2026-27:

- 10% Debentures of X Ltd., a listed company — face value ₹5,00,000;
- 9% Central Government Security — face value ₹2,00,000;
- 8% Savings (Taxable) Bonds, 2003 — face value ₹2,00,000.

He paid his bank ₹1,200 as commission for collecting the interest. Compute his income from other sources and the tax deducted at source.

Solution

Interest on the 10% debentures — 10% of ₹5,00,000		50,000
Interest on the 9% Government security — 9% of ₹2,00,000		18,000
Interest on the 8% Savings (Taxable) Bonds — 8% of ₹2,00,000		16,000
Gross interest on securities		84,000
Less: commission to the bank for realising the interest — s. 93(1)(a)		(1,200)
INCOME FROM OTHER SOURCES		**82,800**

Working notes

- Interest accrues on the due dates fixed by the terms of issue, not from day to day. The whole year's interest is taken.
- Tax deducted at source: on the debentures, 10% of ₹50,000 = ₹5,000; on the 8% Savings Bonds, 10% of ₹16,000 = ₹1,600. Total ₹6,600. Both exceed the ₹10,000 threshold in section 393(1), Table Sl. No. 5(i).
- No tax is deducted on the 9% Central Government security. Section 393(4), Table Sl. No. 6(a)(iii) exempts securities of the Central and State Governments other than the three named Savings Bonds. The 8% Savings (Taxable) Bonds, 2003 are one of the three named, so tax IS deducted on them.
- The commission is deductible because this is interest on securities. Had it been dividend, section 93(2)(b) would have shut it out.

10.3 Problem 2 — Dividend, the 20% Cap, and a Buy-Back

The facts

During the Tax Year 2026-27 Mrs. Bela received:

- gross dividend of ₹4,00,000 from Indian companies, the shares having been bought with a loan on which she paid interest of ₹1,10,000 during the year;
- ₹5,000 paid to her bank as collection charges on the dividend;
- ₹1,50,000 from Y Ltd. on the buy-back of 1,000 of its shares under section 68 of the Companies Act, 2013, which she had bought for ₹90,000.

Solution

Gross dividend from Indian companies		4,00,000
Less: interest on the loan — actual ₹1,10,000, restricted to 20% of ₹4,00,000		(80,000)
Less: collection charges — NOT allowed, s. 93(2)(b)		Nil
		3,20,000
Add: buy-back consideration, dividend under s. 2(40)(f) — no deduction of any kind, s. 93(2)(a)		1,50,000
INCOME FROM OTHER SOURCES		**4,70,000**

The two traps in this problem

- The ₹30,000 of interest disallowed by the 20% cap is lost for ever. It is not carried forward and it is not set off against anything else.
- The ₹90,000 cost of the shares bought back is NOT deducted here. It is a capital loss under the head Capital gains, the full value of the consideration being taken as nil, and it is set off and carried forward under the rules in Unit 3 Part B.

10.4 Problem 3 — Deemed Dividend

The facts

Z Pvt. Ltd. is a company in which the public are not substantially interested. On 1 April 2026 its accumulated profits stood at ₹6,00,000. During the Tax Year 2026-27 it made the following payments:

- a loan of ₹8,00,000 to Mr. Chetan, who beneficially owns equity shares carrying 15% of the voting power;
- a further loan of ₹2,00,000 to a firm in which Mr. Chetan is a partner with a 40% share;
- a loan of ₹5,00,000 to Mr. Deep, who beneficially owns equity shares carrying 8% of the voting power.

Solution

Loan to Mr. Chetan — ₹8,00,000, limited to accumulated profits of ₹6,00,000		6,00,000
Accumulated profits remaining after that loan		Nil
Loan to the firm in which Mr. Chetan has a substantial interest — no accumulated profits left		Nil
Loan to Mr. Deep — he holds only 8%, below the 10% required		Nil
DEEMED DIVIDEND, chargeable in the hands of Mr. Chetan		**6,00,000**

A 40% share in the profits of the firm is a substantial interest, 20% being the test; but the accumulated profits were exhausted by the first loan, and section 2(40)(e) charges only "to the extent to which the company ... possesses accumulated profits".

10.5 Problem 4 — Family Pension

The facts

Mrs. Esha, whose husband died while in the service of a company, received family pension of ₹20,000 per month throughout the Tax Year 2026-27. Compute the amount chargeable (a) where her tax is computed under section 202(1), and (b) where she has exercised the option under section 202(4).

Solution (a) — tax computed under section 202(1)

Family pension received — ₹20,000 × 12		2,40,000
Less: deduction under s. 93(1)(d)(i) — one-third of ₹2,40,000 = ₹80,000, or ₹25,000, whichever is less		(25,000)
INCOME FROM OTHER SOURCES		**2,15,000**

Solution (b) — where the option under section 202(4) is exercised

Family pension received		2,40,000
Less: deduction under s. 93(1)(d)(ii) — one-third of ₹2,40,000 = ₹80,000, or ₹15,000, whichever is less		(15,000)
INCOME FROM OTHER SOURCES		**2,25,000**

Had Mrs. Esha been the widow of a member of the armed forces of the Union whose death occurred in the course of operational duties, the whole pension would have been outside the total income under Schedule III, Table Sl. No. 16, and no deduction would have arisen.

10.6 Problem 5 — Casual Income and Grossing Up

The facts

During the Tax Year 2026-27 Mr. Farid:

- received ₹3,50,000 from a State lottery, after deduction of tax at source;
- won ₹60,000 (gross) on a horse race at a licensed race course;
- spent ₹12,000 on lottery tickets and ₹8,000 on race cards and travel to the race course.

He had no other income. Compute his income from other sources and his tax liability.

Solution

Lottery — net received ₹3,50,000, grossed up: ₹3,50,000 ÷ 0.70		5,00,000
Winnings from the horse race, gross		60,000
Less: cost of lottery tickets ₹12,000 and race expenses ₹8,000 — NOT allowed, s. 94(4)		Nil
INCOME FROM OTHER SOURCES, being casual income		**5,60,000**

Tax liability

Tax on the casual income at 30% — s. 194(1), Table Sl. No. 1		1,68,000
Tax on the balance of the total income, which is nil		Nil
Tax before cess		1,68,000
Add: health and education cess at 4%		6,720
TOTAL TAX		**1,74,720**

The basic exemption of ₹4,00,000 is of no help. Section 194(1)(a) charges the casual income at 30% on its own, and section 194(1)(b) charges the rest of the total income — here nil — at the ordinary rates. Tax deducted at source: ₹1,50,000 on the lottery and ₹18,000 on the horse race, together ₹1,68,000.

10.7 Problem 6 — Owning and Maintaining Race Horses

The facts

Mr. Gopal owns four horses which he maintains for running in races. During the Tax Year 2026-27 the stake money he received was ₹3,00,000, and he spent ₹4,20,000 on the stable, the trainer, the jockeys, feed and veterinary charges. He also won ₹50,000 by betting on a horse owned by another person.

Solution

A. The activity of owning and maintaining race horses		
Stake money received		3,00,000
Less: expenses of owning and maintaining the horses — allowed, s. 94(5)		(4,20,000)
Loss of the activity		(1,20,000)
B. Winnings from betting		
Gross winnings, no deduction of any kind — s. 94(4)		50,000
Tax on the winnings at 30% — s. 194(1)		**15,000**

The loss of ₹1,20,000 cannot be set off against the ₹50,000 of betting winnings. It may be carried forward for four tax years and set off only against income from the same activity of owning and maintaining race horses.

10.8 Problem 7 — Composite Letting of a Building with Machinery

The facts

Mr. Harish owns a cold store. He let the building together with the refrigeration plant to a single tenant at a composite rent of ₹80,000 a month, the letting of the building being inseparable from the letting of the plant. During the Tax Year 2026-27 he paid:

- insurance on the building and the plant — ₹24,000;
- municipal taxes — ₹40,000;
- current repairs — ₹36,000;
- collection charges to his agent — ₹6,000.

The written down value of the building was ₹20,00,000 (rate 10%) and of the plant ₹12,00,000 (rate 15%).

Solution

Composite rent — ₹80,000 × 12		**9,60,000**
Less: deductions under s. 93(1)(c) and (e)		
Insurance premium — s. 28(1)(a)	24,000	
Municipal taxes paid — s. 28(1)(b)	40,000	
Current repairs — s. 28(1)(d) and (f)	36,000	
Depreciation on the building — 10% of ₹20,00,000	2,00,000	
Depreciation on the plant — 15% of ₹12,00,000	1,80,000	
Collection charges — s. 93(1)(e)	6,000	
		(4,86,000)
INCOME FROM OTHER SOURCES		**4,74,000**

Note what has NOT been claimed: the 30% standard deduction of section 22. That belongs to the head Income from house property, and section 92(2)(g) has taken the whole composite rent out of that head.

10.9 Problem 8 — Gifts — Every Limb of Section 92(2)(m)

The facts

During the Tax Year 2026-27 Mr. Ishaan received the following. Compute the amount chargeable under section 92(2)(m).

- ₹21,000 in cash from a friend on his birthday;
- ₹35,000 in cash from another friend;
- ₹1,00,000 in cash from his maternal uncle;
- ₹51,000 in cash from his employer's managing director on the occasion of his own marriage;
- a plot of land as a gift from a friend, stamp duty value ₹6,00,000;
- a flat purchased from a stranger for ₹40,00,000, the stamp duty value being ₹44,20,000;
- jewellery as a gift from a friend, fair market value ₹45,000, and 500 shares as a gift from another friend, fair market value ₹30,000;
- a painting purchased from a collector for ₹1,80,000, its fair market value being ₹2,50,000;
- a second-hand motor car as a gift from a friend, fair market value ₹4,00,000.

Solution

A. Sums of money without consideration — s. 92(2)(m)(i)		
From a friend, on his birthday	21,000	
From another friend	35,000	

From the maternal uncle — brother of a parent, a relative under s. 92(5)(g)(D): EXEMPT	Nil	
On the occasion of his own marriage — EXEMPT, s. 92(3)(b)	Nil	
Aggregate ₹56,000, which exceeds ₹50,000, so the WHOLE is charged		56,000
B. Immovable property — s. 92(2)(m)(ii)		
Plot received without consideration, stamp duty value exceeding ₹50,000		6,00,000
Flat — stamp duty value ₹44,20,000 less consideration ₹40,00,000 = ₹4,20,000; tolerance is the higher of ₹50,000 and 10% of ₹40,00,000 = ₹4,00,000; the excess is greater, so the WHOLE excess is charged		4,20,000
C. Property other than immovable — s. 92(2)(m)(iii)		
Jewellery ₹45,000 and shares ₹30,000, aggregate fair market value ₹75,000, exceeding ₹50,000, so the WHOLE aggregate is charged		75,000
Painting — fair market value ₹2,50,000 less consideration ₹1,80,000 = ₹70,000, exceeding ₹50,000		70,000
Motor car — not "property" as defined in s. 92(5)(f)		Nil
INCOME FROM OTHER SOURCES		**12,21,000**

Five points this problem turns on

- The ₹50,000 test on money is on the TOTAL received in the year, and once crossed the whole is charged.
- The maternal uncle is the brother of a parent, and so a relative. Had the nephew made the gift to the uncle, it would have been taxable in the uncle's hands.
- The marriage exclusion is for the marriage of the recipient himself, and applies whoever the donor is.
- The 10% tolerance is a threshold, not a deduction. Had the stamp duty value been ₹43,80,000, nothing would have been charged.
- A motor car is not in the list of ten items in section 92(5)(f), so a gift of it is outside the charge altogether.

10.10 Problem 9 — A Sum Received Under a Life Insurance Policy

The facts

Mr. Jatin took a life insurance policy on 1 July 2014 for a sum assured of ₹10,00,000, the annual premium being ₹1,50,000. He paid twelve annual premiums and has never claimed any part of them as a deduction under any provision of the Act. The policy matured during the Tax Year 2026-27 and he received ₹22,50,000. In the following year he received a further ₹1,00,000 by way of bonus under the same policy.

Step 1 — is the exclusion in Schedule II available?

Annual premium		1,50,000
Actual capital sum assured		10,00,000
Premium to sum assured ratio		15%
The policy was issued between 1 April 2013 and 31 January 2021, when the condition was a ratio of not more than 10% for a policy other than a special policy		
The exclusion is NOT available; the sum is charged under s. 92(2)(l)		

Step 2 — Rule 59(1)(i), the first tax year

A — sum received during the Tax Year 2026-27		22,50,000
B — premiums paid during the term till the date of receipt, not claimed as a deduction: ₹1,50,000 × 12		(18,00,000)
INCOME FROM OTHER SOURCES, Tax Year 2026-27		**4,50,000**

Step 3 — Rule 59(1)(ii), the subsequent tax year

C — bonus received during the Tax Year 2027-28		1,00,000
D — premium not already included in B and not claimed as a deduction		Nil
INCOME FROM OTHER SOURCES, Tax Year 2027-28		**1,00,000**

Had the whole ₹22,50,000 been received on the death of Mr. Jatin, the exclusion in Schedule II, Table Sl. No. 2 would have applied whatever the ratio, and nothing would have been charged.

10.11 Problem 10 — Interest on Enhanced Compensation

The facts

Land belonging to Mr. Kabir was compulsorily acquired in 2019. On an appeal decided in the Tax Year 2026-27 he received enhanced compensation of ₹30,00,000 together with interest of ₹12,00,000, the interest relating to the six years from 2020-21 onwards. He spent ₹80,000 on advocate's fees and court expenses in pursuing the appeal.

Solution — the interest only

Interest received on the enhanced compensation, deemed by s. 278(1) to be the income of the year of RECEIPT, whatever the years it relates to		12,00,000
Less: deduction under s. 93(1)(f) — 50% of the interest		(6,00,000)
Less: advocate's fees and court expenses — NOT allowed, because s. 93(1)(f) says "and no other deduction shall be allowed under this section"		Nil
INCOME FROM OTHER SOURCES		**6,00,000**

The enhanced compensation of ₹30,00,000 itself is not touched here. It is charged under the head Capital gains, in the year of receipt, the cost of acquisition and the cost of improvement being taken as nil. Only the INTEREST comes under this head.

10.12 Problem 11 — The Whole Head, Aggregated

The facts

Mr. Lalit, aged 45 and resident in India, furnishes the following for the Tax Year 2026-27. His tax is computed under section 202(1). Compute his income from other sources.

- Gross dividend from Indian companies ₹1,80,000; interest paid on the loan taken to buy those shares ₹50,000;
- Interest credited to his savings bank account ₹14,000;
- Interest on fixed deposits with a bank, gross ₹1,20,000;
- Interest on debentures, gross ₹36,000; bank collection charges ₹900;
- Family pension ₹15,000 a month;
- Winnings from a card game, gross ₹70,000;
- Director's sitting fees ₹90,000, to earn which he spent ₹15,000 on travelling to board meetings;
- A gift of ₹75,000 in cash from a friend;
- Hire of a generator belonging to him ₹1,44,000; repairs to it ₹9,000; depreciation on it ₹28,000.

Solution — Income from other sources, Tax Year 2026-27

Gross dividend from Indian companies	1,80,000	
Less: interest on the loan — actual ₹50,000, restricted to 20% of ₹1,80,000	(36,000)	1,44,000
Interest on the savings bank account — fully chargeable		14,000
Interest on fixed deposits, gross		1,20,000
Interest on debentures ₹36,000, less collection charges ₹900 — s. 93(1)(a)		35,100
Family pension ₹15,000 × 12 = ₹1,80,000, less the deduction under s. 93(1)(d)(i): one-third = ₹60,000 or ₹25,000, whichever is less		1,55,000
Winnings from the card game, gross — no deduction, s. 94(4)		70,000
Director's sitting fees ₹90,000, less travelling of ₹15,000 laid out wholly and exclusively — s. 93(1)(e)		75,000
Gift of ₹75,000 from a friend — exceeds ₹50,000, so the whole is charged, s. 92(2)(m)(i)		75,000
Hire of the generator ₹1,44,000, less repairs ₹9,000 and depreciation ₹28,000 — s. 93(1)(c)		1,07,000
INCOME FROM OTHER SOURCES		**7,95,100**

Two deductions deliberately NOT taken

- **Section 153.** It would have given ₹10,000 against the savings bank interest. It is in Chapter VIII, and section 202(2)(a)(xii) shuts Chapter VIII out under the default regime. Had Mr. Lalit exercised the option under section 202(4), he would have had it — and the family pension deduction would then have been ₹15,000, not ₹25,000.
- **The ₹14,000 of interest.** It is not grossed up, because tax is deducted on savings bank interest only above ₹50,000, and no tax has been deducted.

10.13 Problem 12 — Total Income and Tax, with Casual Income

The facts

Mr. Mohan, aged 52 and resident in India, had for the Tax Year 2026-27:

- income from salary, after the standard deduction — ₹9,60,000;
- winnings from a television game show, gross ₹4,00,000;
- interest on bank fixed deposits, gross ₹1,50,000;
- gross dividend from an Indian company ₹90,000, paid by electronic transfer.

His tax is computed under section 202(1). Compute his total income and the tax payable.

Step 1 — total income

Income from salaries		9,60,000
Income from other sources		
Winnings from the game show — a "card game and other game of any sort" under s. 92(5)(b)	4,00,000	
Interest on the fixed deposits	1,50,000	
Dividend	90,000	6,40,000
GROSS TOTAL INCOME		16,00,000

Less: deductions under Chapter VIII — none, s. 202(2)(a)(xii)		Nil
TOTAL INCOME		**16,00,000**

Step 2 — tax, under section 194(1)

(a) On the winnings of ₹4,00,000, at 30%		1,20,000
(b) On the balance of ₹12,00,000, at the rates in s. 202(1):		
Up to ₹4,00,000 — nil	Nil	
₹4,00,001 to ₹8,00,000 — 5% of ₹4,00,000	20,000	
₹8,00,001 to ₹12,00,000 — 10% of ₹4,00,000	40,000	60,000
Tax before rebate		1,80,000
Less: rebate under s. 156(2) — the total income exceeds ₹12,00,000, and the tax of ₹1,80,000 does not exceed the excess of ₹4,00,000, so no rebate is due		Nil
		1,80,000
Add: health and education cess at 4%		7,200
TOTAL TAX		**1,87,200**

Step 3 — tax already paid, and the balance

Tax deducted on the winnings — 30% of ₹4,00,000		1,20,000
Tax deducted on the fixed deposit interest — 10% of ₹1,50,000, the amount exceeding ₹50,000		15,000
Tax deducted on the dividend — 10% of ₹90,000, the amount exceeding ₹10,000 and paid otherwise than in cash		9,000
Total prepaid		1,44,000
BALANCE PAYABLE		**43,200**

Surcharge does not arise: the total income does not exceed ₹50,00,000.

10.14 The twelve problems at a glance

	What it tests	Answer
1	Interest on securities; which securities bear tax at source; collection charges	₹82,800
2	Dividend; the 20% interest cap; collection charges disallowed; buy-back	₹4,70,000
3	Deemed dividend; accumulated profits; the 10% voting power test	₹6,00,000
4	Family pension; the two caps, ₹25,000 and ₹15,000	₹2,15,000 and ₹2,25,000
5	Casual income; grossing up at 0.70; no expenditure; no basic exemption	₹5,60,000; tax ₹1,74,720
6	Owning and maintaining race horses; the exception in section 94(5)	Loss ₹1,20,000; tax ₹15,000
7	Composite inseparable letting; depreciation; the 30% of section 22 not available	₹4,74,000
8	Gifts — money, immovable property, movable property, relatives, marriage, the 10% tolerance	₹12,21,000
9	Life insurance; the ratio test; Rule 59, formulae A−B and C−D	₹4,50,000 and ₹1,00,000
10	Interest on enhanced compensation; year of receipt; the flat 50%	₹6,00,000
11	The whole head aggregated; Chapter VIII shut under the default regime	₹7,95,100
12	Total income and tax; section 194(1) in two limbs; the rebate; prepaid tax	Tax ₹1,87,200; payable ₹43,200

Chapter 11

Revision, Ready Reckoner and Question Bank

11.1 Old section to new section

Almost every row reads "unchanged", because the 2025 Act renumbered this head rather than rewriting it. The one figure that has moved is the family pension cap, and that was moved by the Finance Act, 2025 under the 1961 Act, not by the consolidating Act.

Income-tax Act, 1961	Income-tax Act, 2025	Substance
56(1)	92(1)	The general charge — unchanged
56(2)(i)	92(2)(a)	Dividend — unchanged
56(2)(ib)	92(2)(b)	Winnings from lotteries and the rest — unchanged
56(2)(ic)	92(2)(c)	Employees' contributions — unchanged
56(2)(id)	92(2)(e)	Interest on securities — unchanged
56(2)(ii)	92(2)(f)	Machinery, plant or furniture let on hire — unchanged
56(2)(iii)	92(2)(g)	Composite inseparable letting — unchanged
56(2)(iv)	92(2)(d)	Keyman insurance policy — unchanged
56(2)(viii)	92(2)(i)	Interest on compensation — unchanged
56(2)(ix)	92(2)(h)	Advance forfeited on negotiations — unchanged
56(2)(x)	92(2)(m)	Money and property without consideration — unchanged in substance; virtual digital asset now in the body of the section
56(2)(xi)	92(2)(j)	Compensation on termination of employment — unchanged
56(2)(xii)	92(2)(k)	Specified sum from a business trust — unchanged
56(2)(xiii)	92(2)(l)	Life insurance sums not excluded — unchanged
Proviso to 56(2)(x)	92(3)	The nine exclusions — unchanged
Provisos to 56(2)(x)	92(4)	Date of agreement; Valuation Officer — unchanged
Explanation to 56(2)(x)	92(5)	Property, relative, jewellery, lottery, fair market value — unchanged
57	93(1)	The deductions — unchanged, except that the family pension cap is now ₹25,000 under the default regime
57(i) proviso	93(2)(b)	Interest against dividend capped at 20% — unchanged
57(i) second proviso	93(2)(a)	Nothing against buy-back dividend — unchanged
57(ii)	93(1)(c)	Repairs, insurance and depreciation on plant let on hire — unchanged
57(iia)	93(1)(d)	Family pension — the cap is now two figures
57(iii)	93(1)(e)	Any other expenditure — unchanged
57(iv)	93(1)(f)	50% of interest on compensation — unchanged
58(1)(a)	94(1)(a)	Personal expenses — unchanged
58(1)(a)(ii)	94(1)(b)	Interest payable outside India — unchanged

Income-tax Act, 1961	Income-tax Act, 2025	Substance
58(1)(a)(iii)	94(1)(c)	Salary payable outside India — unchanged
58(2)	94(2)	Sections 40A and 40(a)(ia) applied — now sections 36 and 35(b)(i)
58(4)	94(4)	No deduction against casual income — unchanged
Proviso to 58(4)	94(5)	Owning and maintaining race horses — unchanged
59	95	Section 41(1) applied to this head — now section 38
2(22)	2(40)	Dividend, including deemed dividend — unchanged
2(22)(e)	2(40)(e)	Loans and advances to a substantial shareholder — unchanged
2(22)(f)	2(40)(f)	Buy-back of shares — unchanged
115BB	194(1), Table Sl. No. 1	30% on casual income — unchanged
115BBJ	194(1), Table Sl. No. 5	30% on net winnings from an online game — unchanged
115BBE	195	60% on unexplained income — unchanged
145	276	Method of accounting, cash or mercantile — unchanged
145B(1)	278(1)	Interest on compensation taxed on receipt — unchanged
94	175	Bond washing, dividend stripping, bonus stripping — unchanged
80TTA and 80TTB	153	₹10,000 and ₹50,000 on deposit interest — unchanged, and both shut out under the default regime
87A	156	The rebate — ₹60,000 under the default regime
115BAC	202	The default regime, with the option in 202(4)
10(10D)	Schedule II, Table Sl. No. 2	Life insurance sums — unchanged
10(18) and 10(19)	Schedule III, Table Sl. Nos. 15 and 16	Gallantry award and armed forces family pension — unchanged
10(1)	Schedule II, Table Sl. No. 1	Agricultural income — unchanged
Rule 11UA	Rules 56 and 57	Fair market value — unchanged
Rule 11UAC	Rule 58	The prescribed class of persons — unchanged
Rule 11UACA	Rule 59	Computation of the life insurance sum — unchanged

11.2 The head on two pages

The computation

Step	Authority
Is it income, and is it excluded from total income?	s. 92(1), Sch. II, III
Is it chargeable under any of the first four heads?	s. 13
Gross up where tax has been deducted at source	s. 393, s. 194
Dividend, less interest capped at 20%	s. 92(2)(a), s. 93(2)
Interest on securities, less collection charges	s. 92(2)(e), s. 93(1)(a)
Family pension, less one-third or ₹25,000	s. 93(1)(d)
Machinery or plant let on hire, less repairs, insurance, taxes and depreciation	s. 92(2)(f), (g), s. 93(1)(c)
Gifts of money and property, if over the thresholds	s. 92(2)(m)
Life insurance sums, A – B or C – D	s. 92(2)(l), Rule 59
Interest on compensation, less the flat 50%	s. 93(1)(f)
Any other income, less expenditure wholly and exclusively laid out	s. 92(1), s. 93(1)(e)
Casual income — kept apart, and taxed at 30%	s. 92(2)(b), s. 194
INCOME FROM OTHER SOURCES	

The figures to remember	Where
₹50,000 — the gift threshold, for money, for immovable property and for movable property	s. 92(2)(m)
10% of the consideration — the additional tolerance, for immovable property only	s. 92(2)(m)(ii)(B)
10% of the voting power — the deemed dividend test	s. 2(40)(e)
20% — a substantial interest in a concern	s. 2(40)(e)
20% of the dividend — the cap on interest expenditure	s. 93(2)(b)
One-third, or ₹25,000 — family pension under the default regime	s. 93(1)(d)(i)
One-third, or ₹15,000 — family pension in any other case	s. 93(1)(d)(ii)
50% — interest on compensation or enhanced compensation	s. 93(1)(f)
30% — casual income, and net winnings from an online game	s. 194(1), Sl. Nos. 1 and 5
₹10,000 — tax deducted on winnings, on interest on securities, and on dividend to an individual paid otherwise than in cash	s. 393
₹50,000 and ₹1,00,000 — the deposit interest thresholds for tax at source, other persons and senior citizens	s. 393(1), Sl. No. 5(ii)
₹10,000 and ₹50,000 — the section 153 deduction, shut out under the default regime	s. 153, s. 202(2)(a)(xii)
Four years — the carry forward of a loss from owning and maintaining race horses	The set-off provisions
Ten items — the exhaustive meaning of “property”	s. 92(5)(f)
Nine exclusions from the deemed-gift charge	s. 92(3)
Thirteen specific inclusions	s. 92(2)

11.3 64 multiple choice questions, with answers

Cover the right-hand column. Each answer states the rule, so the table doubles as a revision sheet.

	Question	Answer
1	Income from other sources is charged under —	Section 92
2	The head "Income from other sources" is —	Residual; it applies only if the first four heads do not
3	The list in section 92(2) is —	Illustrative, not exhaustive; section 92(2) is "without prejudice to the generality" of section 92(1)
4	Dividend received by a dealer in shares who holds the shares as stock-in-trade is charged under —	Income from other sources; clause (a) has no business-income proviso
5	Deemed dividend on a loan to a shareholder is dealt with by —	Section 2(40)(e)
6	The minimum voting power a shareholder must hold before a loan to him is a deemed dividend is —	10%
7	The minimum interest that makes a concern one in which a shareholder has a substantial interest is —	20%
8	A deemed dividend under section 2(40)(e) is limited to —	The accumulated profits the company possesses
9	Bonus shares issued to equity shareholders are —	Not a dividend
10	Bonus shares issued to preference shareholders are —	A dividend under section 2(40)(b), to the extent of accumulated profits
11	The consideration on a buy-back of shares is —	Dividend under section 2(40)(f), and no deduction is allowed against it
12	Interest expenditure allowed against dividend is limited to —	20% of the dividend included in the total income
13	Collection charges paid to a bank for realising dividend are —	Not deductible; section 93(2)(b) allows interest expense only
14	Collection charges paid to a bank for realising interest on securities are —	Deductible under section 93(1)(a)
15	Tax is deducted on dividend paid by a domestic company at —	10%
16	No tax is deducted on dividend paid to an individual, otherwise than in cash, up to —	₹10,000 in the tax year
17	Interest on a 9% Central Government security bears tax at source at —	Nil; section 393(4), Table Sl. No. 6(a)(iii)
18	Interest on 8% Savings (Taxable) Bonds, 2003 bears tax at source —	Yes, at 10% above ₹10,000
19	Net interest on securities of ₹9,000 is grossed up to —	₹10,000, by dividing by 0.90
20	Net lottery winnings of ₹1,40,000 are grossed up to —	₹2,00,000, by dividing by 0.70
21	The method of accounting for this head may be —	Cash or mercantile, as regularly employed — section 276(1)
22	Interest on enhanced compensation is charged in the year of —	Receipt, always — section 278(1)
23	The deduction against interest on compensation is —	50%, flat, and no other deduction under section 93
24	Advocate's fees paid to obtain enhanced compensation are —	Not deductible
25	Bond washing transactions are dealt with by —	Section 175

	Question	Answer
26	Under section 175(8), the loss on dividend stripping is ignored where the securities are bought within —	Three months before the record date and sold within three months after
27	Under section 175(9), bonus stripping applies where the original securities are sold within —	Nine months after the record date
28	Family pension is —	A regular monthly amount payable by the employer to a family member on the death of the employee
29	The deduction from family pension where tax is computed under section 202(1) is —	One-third or ₹25,000, whichever is less
30	The deduction from family pension in any other case is —	One-third or ₹15,000, whichever is less
31	Family pension received by the widow of a member of the armed forces who died in operational duties is —	Not included in total income — Schedule III, Table Sl. No. 16
32	An annuity received from a present employer is charged under —	Salaries
33	An annuity received under a will from a person who is not an employer is charged under —	Income from other sources
34	Sitting fees received by a non-executive director are charged under —	Income from other sources
35	Travelling expenses incurred by a non-executive director to attend a board meeting are —	Deductible under section 93(1)(e)
36	Ground rent — the rent of bare land — is charged under —	Income from other sources; section 20 needs a building
37	Rent received by a tenant from a sub-tenant is charged under —	Income from other sources, the tenant not being the owner
38	Agricultural income from land situated outside India is —	Chargeable under income from other sources
39	Salary received by a Member of Parliament is charged under —	Income from other sources
40	The rate of tax on winnings from a lottery is —	30%
41	The rate of tax on net winnings from an online game is —	30%
42	The basic exemption limit may be set against casual income —	No; section 194(1)(a) taxes it separately
43	Expenditure on buying lottery tickets is —	Not deductible — section 94(4)
44	Expenses of owning and maintaining horses for running in races are —	Deductible — section 94(5)
45	A loss from owning and maintaining race horses may be carried forward for —	Four tax years, and set off only against the same activity
46	Tax is deducted on lottery winnings above —	₹10,000 in a single transaction
47	Tax is deducted on the commission of a lottery agent at —	2%, above ₹20,000
48	A television game show is —	A "card game and other game of any sort" under section 92(5)(b)
49	Rent of machinery let on hire, where letting is not the assessee's business, is charged under —	Section 92(2)(f)
50	Where a building is let inseparably with machinery, the whole composite rent is charged under —	Section 92(2)(g), Income from other sources

	Question	Answer
51	The 30% standard deduction of section 22 is available against composite rent under section 92(2)(g) —	No
52	Depreciation is allowed under this head —	Only against machinery, plant or furniture let on hire — section 93(1)(c)
53	A gift of money from a friend is charged if the total received in the year exceeds —	₹50,000
54	Where the total sums of money received without consideration exceed ₹50,000, the amount charged is —	The whole of the total, not the excess
55	The tolerance on the purchase of immovable property below the stamp duty value is —	The higher of ₹50,000 and 10% of the consideration
56	The tolerance on the purchase of movable property below the fair market value is —	₹50,000; there is no percentage
57	A gift of a motor car worth ₹5,00,000 from a friend is —	Not charged; a motor car is not “property” under section 92(5)(f)
58	A gift received on the occasion of the marriage of the assessee's son is —	Charged; the exclusion is for the marriage of the individual himself
59	A gift from a maternal uncle to his nephew is —	Exempt; the uncle is the brother of a parent
60	A gift from a nephew to his uncle is —	Charged; the nephew is not in the list of relatives
61	The tolerance on the purchase of immovable property below the stamp duty value was raised from 5% to 10% by —	The Finance Act, 2020, with effect from the Assessment Year 2021-22; s. 92(2)(m)(ii)(B) carries it forward
62	The buyer's tolerance and the seller's tolerance coincide where the consideration exceeds —	₹5,00,000; below that the buyer alone has the ₹50,000 floor
63	The seller of land or a building for less than the stamp duty value is charged under —	Section 78, unless the stamp duty value does not exceed 110% of the consideration
64	Where the property sold was stock-in-trade of the seller, the corresponding provision is —	Section 53

11.4 54 fill in the blanks, with answers

	Statement	The blank
1	Income from other sources is charged by section ___ of the Income-tax Act, 2025.	92
2	The general charge is in section ___ and the specific charge in section ___.	92(1); 92(2)
3	The deductions allowed under this head are in section ___.	93
4	The amounts not deductible are in section ___.	94
5	Section ___ applies section 38 to this head.	95
6	Section 92 replaces section ___ of the Income-tax Act, 1961.	56
7	Dividend is defined in section ___.	2(40)
8	A loan by a closely held company to a shareholder holding not less than ___ of the voting power is a deemed dividend.	10%
9	A deemed dividend is limited to the ___ the company possesses.	accumulated profits
10	A person has a substantial interest in a concern if he is entitled to not less than ___ of its income.	20%
11	The consideration on a buy-back of shares is dividend under section ___.	2(40)(f)
12	Against dividend the only deduction allowed is ___, limited to ___ of the dividend.	interest expense; 20%
13	Against dividend of the buy-back kind the deduction allowed is ___.	nil
14	Tax is deducted on dividend by a domestic company at ___.	10%
15	Tax is not deducted on a dividend paid otherwise than in cash to an individual up to ___.	₹10,000
16	Interest on securities is charged by section ___.	92(2)(e)
17	Net interest on securities is grossed up by dividing by ___.	0.90
18	Net lottery winnings are grossed up by dividing by ___.	0.70
19	The method of accounting for this head is governed by section ___.	276(1)
20	Interest on enhanced compensation is the income of the year of ___.	receipt
21	Interest on enhanced compensation is taxed in the year of receipt by section ___.	278(1)
22	The deduction against interest on compensation is ___ of it.	50%
23	Bond washing transactions are dealt with by section ___.	175
24	Under section 175(8), the loss on dividend stripping is ignored to the extent of the ___ received.	exempt dividend or income
25	Family pension is a regular ___ amount payable by the employer to a family member on the death of the employee.	monthly
26	The deduction from family pension under the default regime is one-third or ___, whichever is less.	₹25,000
27	The deduction from family pension in any other case is one-third or ___, whichever is less.	₹15,000
28	Family pension received by the widow of a member of the armed forces killed in operational duties is exempt under Schedule ___.	III
29	An annuity received from a former employer is charged under the head ___.	Salaries

	Statement	The blank
30	Sitting fees of a non-executive director are charged under the head ___.	Income from other sources
31	The rent of bare land, with no building, is charged under the head ___.	Income from other sources
32	The rate of tax on casual income is ___.	30%
33	The rate of tax on net winnings from an online game is ___.	30%
34	The section that charges casual income at a special rate is ___.	194
35	No deduction for expenditure related to casual income is allowed by section ___.	94(4)
36	The exception for a person owning and maintaining race horses is in section ___.	94(5)
37	A loss from owning and maintaining race horses may be carried forward for ___ tax years.	four
38	Tax is deducted on lottery winnings above ___ in a single transaction.	₹10,000
39	The commission of a lottery agent bears tax at source at ___ above ₹20,000.	2%
40	Machinery, plant or furniture let on hire is charged by section ___.	92(2)(f)
41	Composite letting where the building is inseparable is charged by section ___.	92(2)(g)
42	Depreciation against machinery let on hire is allowed by section 93(1)(c), which applies section ___.	33
43	Money or property received without consideration is charged by section ___.	92(2)(m)
44	The monetary threshold in section 92(2)(m) is ___.	₹50,000
45	The tolerance on immovable property is the higher of ₹50,000 and ___ of the consideration.	10%
46	The exclusions from the deemed-gift charge are in section ___.	92(3)
47	“Relative” and “property” are defined in section ___.	92(5)
48	The last of the ten items of “property” is a ___.	virtual digital asset
49	The computation of a taxable life insurance sum is prescribed by Rule ___.	59
50	Under Rule 59, the income in the first tax year is ___ minus ___.	A; B
51	“Stamp duty value” is defined in section ___.	2(105)
52	The tolerance on immovable property was ___ for the Assessment Year 2019-20 and ___ from the Assessment Year 2021-22.	5%; 10%
53	The two limbs of the buyer's tolerance are equal where the consideration is ___.	₹5,00,000
54	The seller of a capital asset is protected where the stamp duty value does not exceed ___ of the consideration.	110%

11.5 Six long questions, with full answers

These six cover the whole of the prescribed content of this Part.

Question 1

> **Explain the basis of charge of income under the head "Income from other sources". Why is it called the residual head? Enumerate the incomes which section 92(2) specifically brings under it.**

The charge. Section 92(1) provides that income of every kind which is not to be excluded from the total income under the Act shall be chargeable under the head "Income from other sources", if it is not chargeable under any of the heads specified in section 13(a) to (d) — Salaries, Income from house property, Profits and gains of business or profession, and Capital gains.

Three conditions. First, there must be an income. Second, it must not be excluded from total income by Schedule II, Schedule III or Schedule VII. Third, it must not be chargeable under any of the first four heads. All three must be satisfied together.

Why residual. Section 13 classifies all income under five heads, and the heads are mutually exclusive. The first four are defined by what they are; the fifth is defined by what it is not. An income therefore falls here only when the other four have been ruled out. That is the sense in which the head is residual, and it is why the correct question in a problem is not "does this look like other sources?" but "have the other four been excluded?"

The specific inclusions. Section 92(2) opens with the words "In particular, and without prejudice to the generality of the provisions of sub-section (1)". The list is therefore illustrative and not exhaustive; an income outside it is still charged if it answers section 92(1). The thirteen clauses are: (a) any dividend; (b) winnings from lotteries, crossword puzzles, races including horse races, card games and other games of any sort, and gambling or betting; (c) sums received from employees as contributions to a provident, superannuation, Employees' State Insurance or other welfare fund; (d) sums under a Keyman insurance policy; (e) interest on securities; (f) income from machinery, plant or furniture let on hire; (g) income from letting such assets together with a building where the letting of the building is inseparable; (h) an advance received during negotiations for the transfer of a capital asset and forfeited; (i) interest on compensation or enhanced compensation; (j) compensation in connection with the termination or modification of employment; (k) the specified sum received by a unit holder from a business trust; (l) sums received under a life insurance policy which are not excluded under Schedule II; and (m) money or property received without consideration or for inadequate consideration.

Clauses (c) to (g) apply only where the income is not chargeable as business income; clause (d) also yields to the head Salaries. The remaining clauses are unconditional. Examples of incomes charged under section 92(1) though not listed are ground rent, the sitting fees of a non-executive director, an annuity under a will, the salary of a Member of Parliament, the remuneration of an examiner, agricultural income from land outside India, and interest on an income-tax refund.

Question 2

> **What is meant by “dividend” under section 2(40)? Explain deemed dividend, and state the deductions allowable against dividend income.**

The definition is inclusive. Section 2(40) brings six things within “dividend”: (a) any distribution of accumulated profits, capitalised or not, which entails the release of the company's assets to its shareholders; (b) any distribution of debentures, debenture-stock or deposit certificates, and any distribution to preference shareholders of shares by way of bonus, to the extent of accumulated profits; (c) any distribution on liquidation, to the extent attributable to accumulated profits immediately before liquidation; (d) any distribution on a reduction of capital, to the extent of accumulated profits; (e) deemed dividend on loans and advances; and (f) any payment on the buy-back of its own shares under section 68 of the Companies Act, 2013.

Bonus shares. Bonus shares issued to equity shareholders are not a dividend, nothing leaving the company and the shareholder's proportionate interest being unchanged. Bonus shares issued to PREFERENCE shareholders are a dividend under clause (b).

Deemed dividend — section 2(40)(e). Any payment by a company in which the public are not substantially interested, by way of advance or loan (i) to a shareholder who is the beneficial owner of shares, other than shares carrying a fixed rate of dividend, carrying not less than 10% of the voting power; or (ii) to any concern in which such a shareholder is a member or partner and has a substantial interest; or (iii) made on behalf or for the individual benefit of such a shareholder, is a dividend to the extent to which the company possesses accumulated profits. A substantial interest means an entitlement to not less than 20% of the income of the concern, or the beneficial ownership of shares carrying not less than 20% of the voting power.

Two exclusions matter. A loan made in the ordinary course of a business in which the lending of money is a substantial part is not a deemed dividend. And a later dividend set off against a sum already treated as a deemed dividend is excluded to the extent so set off, so that the same money is not taxed twice.

The deductions. Section 93(2)(b) provides that against dividend income — other than buy-back dividend — the ONLY deduction allowed is interest expense, and that interest is limited to 20% of the dividend included in the total income for the year, computed without this deduction. Because the word used is “only”, the collection charges which section 93(1)(a) allows against interest on securities are NOT allowed against dividend. Section 93(2)(a) allows no deduction of any kind against dividend of the nature of section 2(40)(f), so that on a buy-back the whole consideration is charged and the cost of the shares is not set against it — that cost becomes a capital loss instead.

Tax deducted at source. A domestic company deducts tax at 10% before making any distribution or payment of dividend. No deduction is made where the dividend is paid to an individual otherwise than in cash and does not exceed ₹10,000 in the tax year. The shareholder includes the gross dividend in his total income and takes credit for the tax deducted.

Question 3

> **Write a note on the taxation of casual income. What is the rate, what deductions are allowed, and what is the position of a person who owns and maintains horses for racing?**

The charge. Section 92(2)(b) charges any winning from lotteries, crossword puzzles, races including horse races, card games and other games of any sort, or from gambling or betting of any form or nature. The clause is unconditional; casual income is charged under this head even in the hands of a dealer in lottery tickets, though his commission on the tickets is business income.

What the words cover. Section 92(5)(e) defines a lottery to include winnings from prizes awarded by a draw of lots, by chance or in any other manner under any scheme or arrangement by whatever name called. Section 92(5)(b) defines a card game and other game of any sort to include a game show or an entertainment programme on television or in electronic mode where people compete for prizes. So the prize money of a quiz programme is casual income.

The rate. Section 194(1), Table Sl. No. 1, charges winnings other than from an online game at 30%, and Sl. No. 5 charges net winnings from an online game at 30%. The section works in two limbs: the casual income is taxed separately at 30%, and the rest of the total income is taxed at the ordinary rates as though the casual income did not exist. The practical consequence is that the basic exemption limit cannot be set against casual income. A person whose only income is a lottery win of ₹3,00,000 pays ₹90,000 and cess, not nil.

The prohibitions. Section 94(4) forbids any deduction for expenditure or allowance related to casual income — the cost of lottery tickets, race cards, travel to the course. No deduction under Chapter VIII is available against it, those deductions being from and limited to the gross total income. No loss may be set off against it. And section 156(3) caps the rebate of section 156(2) at the income-tax payable at the rates in section 202(1), so the special-rate tax is not wiped out by the rebate.

Grossing up. Tax is deducted at 30% on winnings above ₹10,000 in a single transaction. What the winner receives is 70% of the gross. The gross is therefore the net divided by 0.70, and it is the gross that enters the total income, the tax deducted being credited against the liability. Where the prize is in kind, the payer must satisfy himself that the tax has been paid before releasing it.

Owning and maintaining race horses. Section 94(5) provides that section 94(4) shall not apply in computing the income of an assessee being the owner of horses maintained for running in horse races, from the activity of owning and maintaining such horses. So the stable charges, the trainer's and jockey's fees, feed, veterinary charges and insurance are all deductible; the resulting income is taxed at the ordinary slab rates and not at 30%; and a loss may be carried forward for four tax years and set off only against income from the same activity. The exclusion appears a second time, in the Table to section 194(1), which excepts "income from the activity of owning and maintaining race horses" from the 30% rate. Betting on a horse owned by somebody else remains casual income, taxed at 30% with no deduction.

Question 4

> **Explain the provisions of section 92(2)(m) relating to money and property received without consideration or for inadequate consideration. State the exclusions.**

The charge has three limbs. Where any person receives in a tax year, from any person or persons: (i) any SUM OF MONEY without consideration, the total of which exceeds ₹50,000, the whole of that sum is charged; (ii) any IMMOVABLE PROPERTY — without consideration, where the stamp duty value exceeds ₹50,000, the whole stamp duty value; and for a consideration, the excess of the stamp duty value over the consideration, if that excess is more than the higher of ₹50,000 and 10% of the consideration; (iii) any PROPERTY OTHER THAN IMMOVABLE — without consideration, where the aggregate fair market value exceeds ₹50,000, the whole aggregate fair market value; and for a consideration less than the aggregate fair market value by more than ₹50,000, the excess of that value over the consideration.

The thresholds are cliffs, not steps. Once the ₹50,000 is exceeded, the whole amount is charged and the ₹50,000 is not deducted from it. The same is true of the 10% tolerance on immovable property: once the excess exceeds the tolerance, the whole excess is charged. Note also that there is no percentage tolerance for movable property; it is a flat ₹50,000.

"Property" is exhaustively defined. Section 92(5)(f) confines it to the following CAPITAL ASSETS: immovable property being land or building or both; shares and securities; jewellery; archaeological collections; drawings; paintings; sculptures; any work of art; bullion; and virtual digital assets. A motor car, a television set, livestock and agricultural produce are not in the list, so a gift of any of them is outside the charge however valuable. And because the items must be capital assets, shares received by a dealer as stock-in-trade are dealt with by section 26(2)(j) instead.

The exclusions — section 92(3). The charge does not apply to money or property received: (a) from any relative; (b) on the occasion of the marriage of the individual; (c) under a will or by way of inheritance; (d) in contemplation of the death of the payer or donor; (e) from any local authority; (f) from or by any registered non-profit organisation as defined in section 355(g), except when received by a person referred to in section 355(h); (g) by way of a transaction not regarded as a transfer under the specified clauses of section 70(1); (h) from an individual, by a trust created solely for the benefit of a relative of that individual; and (i) from such class of persons and on such conditions as may be prescribed — Rule 58 prescribes five classes. No monetary limit applies to any of the exclusions.

"Relative". For an individual, section 92(5)(g) means the spouse; a brother or sister; a brother or sister of the spouse; a brother or sister of either of the parents; any lineal ascendant or descendant, maternal as well as paternal; any lineal ascendant or descendant of the spouse; and the spouse of any of those. For a Hindu undivided family it means any member of it. The list must be worked from the RECIPIENT'S side. A gift by an uncle to his nephew is exempt, the uncle being the brother of a parent; a gift by the nephew to the uncle is charged, because a nephew is nowhere in the list. A cousin is not a relative.

Two supporting rules. Section 92(4)(a) allows the stamp duty value on the date of the AGREEMENT to be taken where the dates of agreement and registration differ, but only if part of the consideration was paid by a specified banking or online mode on or before the date of the agreement; cash will not do. Section 92(4)(b) allows a disputed stamp duty value to be referred to a Valuation Officer.

Question 5

> **What deductions are allowed under section 93 in computing income from other sources, and what amounts are expressly not deductible under section 94?**

Section 93(1) — the eight deductions. (a) Any reasonable sum paid as commission or remuneration to a banker or other person for realising dividend or interest on securities on the assessee's behalf. (b) Against contributions received from employees, an amount as per section 29(1)(e) — that is, the sum credited to the employee's account in the relevant fund by the due date. (c) Against machinery, plant or furniture let on hire and against composite inseparable letting, an amount as per section 28(1)(a), (b) and (d) and section 33, subject to section 28(2) — insurance, land revenue and municipal taxes, current repairs, and depreciation, restricted proportionately where the asset is only partly so used. (d) Against family pension, one-third of it or ₹25,000 where tax is computed under section 202(1), and one-third or ₹15,000 in any other case, whichever is less. (e) Any other expenditure, not being capital expenditure, laid out or expended wholly and exclusively for making or earning such income. (f) Against interest on compensation or enhanced compensation, 50% of it, and no other deduction under the section. (g) Against the commutation of pension from a fund specified in Schedule VII, Table Sl. No. 3, the entire amount. (h) Against gratuity referred to in section 19(2)(g) received on the death of the employee, the entire amount.

Section 93(2) — the two restrictions on dividend. Against buy-back dividend under section 2(40)(f), no deduction at all. Against any other dividend, and against income from units of a specified Mutual Fund or a specified company, the only deduction is interest expense, limited to 20% of that income included in the total income.

Section 94 — amounts not deductible. (1)(a) any personal expenses of the assessee; (1)(b) any interest chargeable under the Act, payable outside India, on which tax has not been paid or deducted under Chapter XIX-B; (1)(c) any payment chargeable under the head Salaries, payable outside India, unless tax has been paid or deducted. Sub-section (2) applies sections 29, 35(b)(i) and 36 to this head as they apply to business, so that 30% of a sum payable to a resident on which tax was deductible but not deducted is disallowed, and an excessive or unreasonable payment to a specified person is disallowed to that extent. Sub-section (3) applies section 59 to a foreign company. Sub-section (4) forbids any deduction for expenditure or allowance related to casual income, and sub-section (5) excepts from that the activity of owning and maintaining race horses.

Section 95. It applies section 38(1) to (4) to this head. So where a deduction has been allowed under section 93 for a loss, an expenditure or a trading liability, and the amount is later recovered or the liability ceases, the recovery is charged as income of the year of recovery, whether or not the source still exists. The balancing charge on the sale of an asset on which depreciation was allowed under section 93(1)(c) is charged in the same way.

One general limit. Section 14(1) disallows any expenditure incurred in relation to income which does not form part of the total income. And section 93(1)(e) itself excludes capital expenditure.

Question 6

> **Distinguish between the letting of machinery, plant or furniture alone and the letting of such assets together with a building. How is the income computed in each case?**

Two clauses, two situations. Section 92(2)(f) charges income from machinery, plant or furniture belonging to the assessee and let on hire. Section 92(2)(g) charges income from the letting of such assets together with buildings, where the letting of the buildings is INSEPARABLE from the letting of the machinery, plant or furniture. Both clauses yield where the income is chargeable as business income — that is, where the letting is itself the assessee's trade.

Why clause (g) matters. Ordinarily the rent of a building owned by the assessee is charged under the head Income from house property, and the deductions are the municipal taxes paid and 30% of the net annual value. Clause (g) takes the composite rent out of that head altogether. The WHOLE of it, building included, is charged under Income from other sources, and the 30% standard deduction is not available.

Separable letting. Where the two lettings are separable — the tenant could have taken one without the other — clause (g) does not apply and the composite rent is apportioned. The part attributable to the building is charged under section 20 with the deductions of section 22; the part attributable to the machinery, plant or furniture is charged under section 92(2)(f) with the deductions of section 93. In the absence of a better basis, apportion on the ratio of the letting values or of the written down values, and state the basis chosen.

The tests. Was there a single indivisible bargain at one rent? Could the building be enjoyed without the plant — a cinema hall without its projectors, a cold store without its refrigeration plant, a factory without its machinery? Is the assessee exploiting a commercial asset as a business? Who bears the commercial risk? Where the owner runs the plant, employs the staff and takes the risk, the arrangement is a business and not a letting at all.

The computation. Section 93(1)(c) allows, so far as may be, an amount as per section 28(1)(a), (b) and (d) and section 33, subject to section 28(2). That means the insurance premium against damage or destruction; land revenue, local rates and municipal taxes paid; current repairs to the premises where the assessee occupies them otherwise than as a tenant, and to the machinery, plant or furniture itself; and depreciation at the prescribed percentage of the written down value of the block. Where the asset is only partly used for the purpose, the deduction is restricted to a fair proportionate part. Section 93(1)(e) then allows any other revenue expenditure laid out wholly and exclusively — collection charges, a watchman's wages, advertisement for a hirer. This is the ONLY place in the head where depreciation is allowed.

11.6 Twelve unsolved problems, with answers

Work each one on paper before looking at the answer. All are for the Tax Year 2026-27, and tax is computed under section 202(1) unless the problem says otherwise.

	Problem	Answer
1	Mr. A holds 12% Debentures of a listed company of face value ₹5,00,000 and 9% Debentures of an unlisted company of face value ₹3,00,000. He paid ₹900 as collection charges. Compute his income from other sources.	₹86,100. Gross ₹60,000 + ₹27,000 = ₹87,000, less ₹900.
2	Mrs. B received gross dividend of ₹2,50,000 from Indian companies and paid ₹70,000 as interest on the loan taken to buy the shares. Compute her income.	₹2,00,000. The interest is restricted to 20% of ₹2,50,000 = ₹50,000.
3	P Pvt. Ltd., in which the public are not substantially interested, has accumulated profits of ₹4,50,000 and lends ₹10,00,000 to Mr. C, who holds 20% of the voting power. What is the deemed dividend?	₹4,50,000, being the accumulated profits.
4	Mrs. D receives family pension of ₹25,000 a month. Her tax is computed under section 202(1). Compute the amount chargeable.	₹2,75,000. One-third of ₹3,00,000 is ₹1,00,000; the cap of ₹25,000 applies.
5	Mr. E received ₹2,10,000 from a lottery after deduction of tax. He had no other income. Compute his income and the tax on it, before cess.	Income ₹3,00,000; tax ₹90,000. The gross is ₹2,10,000 ÷ 0.70.
6	Mr. F let a building inseparably with machinery for a composite rent of ₹60,000 a month. He paid insurance ₹18,000, municipal taxes ₹30,000 and current repairs ₹22,000, and collection charges ₹4,000. Depreciation is ₹1,50,000 on the building and ₹90,000 on the machinery. Compute his income.	₹4,06,000. Rent ₹7,20,000 less deductions of ₹3,14,000.
7	Mr. G received during the year ₹30,000 from one friend and ₹25,000 from another, both without consideration; bought a flat for ₹60,00,000 whose stamp duty value was ₹63,00,000; and bought bullion for ₹3,00,000 whose fair market value was ₹4,00,000. Compute the amount chargeable under section 92(2)(m).	₹1,55,000. Money ₹55,000, the total exceeding ₹50,000; the flat nil, the excess of ₹3,00,000 being within the tolerance of ₹6,00,000; bullion ₹1,00,000, the shortfall exceeding ₹50,000.
8	Mr. H received ₹16,00,000 on the maturity of a life insurance policy which does not qualify for the exclusion in Schedule II. He had paid premiums of ₹10,00,000 in all, none claimed as a deduction, and this is the first receipt under the policy. Compute the amount chargeable.	₹6,00,000, being A – B under Rule 59(1)(i).
9	Mr. I received interest of ₹9,00,000 on enhanced compensation, and spent ₹60,000 on legal fees. Compute the amount chargeable.	₹4,50,000. The flat 50% is allowed; the legal fees are not.
10	Mr. J has a total income of ₹10,00,000, none of it casual. Compute the tax at the rates in section 202(1), before rebate and cess.	₹40,000. Nil on the first ₹4,00,000, 5% on the next ₹4,00,000, 10% on ₹2,00,000.
11	Mr. K has winnings from a card game of ₹2,00,000 and other income of ₹9,00,000. Compute the tax under each limb of section 194(1), before rebate and cess.	₹60,000 on the winnings at 30%, and ₹30,000 on the balance at the slab rates; ₹90,000 in all.
12	Mr. L, a senior citizen aged 68, has interest on bank deposits of ₹46,000. What deduction is available under section 153 (a) if he exercises the option under section 202(4), and (b) if he does not?	(a) ₹46,000, the whole, being within the ₹50,000 limit for a senior citizen; (b) nil, Chapter VIII being shut out under section 202(1).

11.7 Where to go next

Unit 4 Part B takes the clubbing of income — sections 96 to 101 — and the set-off and carry forward of losses. Two things in this Part connect directly to it.

- **The loss from owning and maintaining race horses.** Carried forward for four tax years, and set off only against income from the same activity. See paragraph 5.7.

- **The income of a minor child.** Most of what a minor earns is income of this head — interest on a bank deposit made in his name, interest on securities bought for him, a gift caught by section 92(2)(m). Section 99(1)(c) includes it in the total income of a parent, and section 99(5)(b) says which parent: the one whose total income before the inclusion is greater, or, where the marriage does not subsist, the one who maintains the child.

Three points on the minor child that are easily misstated

- **Three kinds of income are NOT clubbed at all.** Section 99(1)(c) excepts income accruing or arising on account of work done by the child; income from activities where his skill, talent, specialised knowledge or experience is applied; and any income of a minor child suffering from a disability of the nature specified in section 154. That income is assessed in the child's own hands.
- **The ₹1,500 is per minor child WHOSE INCOME IS CLUBBED.** Schedule III, Table Sl. No. 17 excludes the income includible under section 99(1)(c) "to the extent such income does not exceed ₹1,500 in respect of each minor child whose income is so includible". A child who has no income contributes nothing, and no ₹1,500 arises for him.
- **It is a "lower of", not a flat figure.** Where a minor's clubbed income is ₹900, the exclusion is ₹900 and not ₹1,500. Where it is ₹40,000, the exclusion is ₹1,500 and ₹38,500 is added to the parent's total income.

Unit 5 takes up the deductions of Chapter VIII, rebates and reliefs, the computation of total income and tax liability, and the filing of returns and tax deducted at source.

This booklet was drafted from the bare text of the Income-tax Act, 2025 and the Income-tax Rules, 2026 as downloaded from incometaxindia.gov.in, prepared with the assistance of Claude Opus 5 (Anthropic).

Corrections, suggestions and questions are welcome, and are acted on. The material is free, and is meant to stay free.

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