

18/7/22

Unit - 4

INCOME FROM Capital gains

INCOME FROM Other Sources

1. profits or gains must arise on transfer
2. Transfer must be a capital asset.
3. Income of previous year.

Capital Gains

Short term Capital gains
(STCG)

before 36 months

Long term Capital gains
(LTCG)

after 36 months

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1. Explain the term Capital gain under income Tax act
Explain the types of Capital gains?

Ans Any profits or gains from the transfer of Capital assets effected in the previous year shall be chargeable through income Tax act under the head of Capital gains and shall be deemed to be the income of previous year in which the transfer took place.

The chargeability stated about under the section 45 of income Tax act which shows that the following essential features or characteristics.

1. profits or gains must arise on transfer.
2. The transfer must be a Capital asset.
3. The gain will be deemed to be the income of previous year in which the transfer took place

Types of Capital gains;

There are 2 types of Capital gains

1. Short Term Capital gains (STCG)
2. Long Term Capital gains (LTCG)

1. Short Term Capital gains (STCG):

It means Capital asset ~~held~~ held by an assessee for not more than 36 months, immediately preceding the date of transfer. Capital gains arising out of the transfer of such an asset is known as short Term Capital gains.

However in case of Securities (shares, debentures, govt bonds) held in a company and listed in a recognised stock exchange in india, units of UTI (unit trust of india) and mutual funds etc. - under section 10(23) the qualifying period is reduced to 12 months

2. Long Term Capital gains (LTCG):

It means other than short term Capital gains are also known as Long term Capital gains.

The asset held by an assessee for more than 36 months to the date of transfer is known as LTCG. Tax rates are defined from short term and Long term Capital gains.

2. What is Capital asset? Explain the assets which are not included in the term capital asset?

Ans: Capital asset means property of any kind held by the assessee whether it is connected with this business or not. It includes all kinds of property either moveable or immovable, Tangible or intangible. It is however stated in the relevant section that the following are not included in the term Capital assets.

1. Agricultural land in India, other than which is situated in the urban areas.
2. Any stock in trade, consumable stores or raw materials held for the purpose of business or profession.
3. National gold bonds 1980 or gold deposit bonds of 1999
4. Special bearer bonds 1991 issued by Central govt.
5. Any movable property held for personal use by the assessee.

3. What is Cost of inflation index number (CII)?

Ans: Long term capital gains shall be computed by deducting out of full value consideration, to the following values:

① Index cost of Acquisition

② Indexed cost of improvement

These values are determined with the help of the cost of inflation index (Numbers) and improvement in relation to previous year. Such index as the central govt

may have risen to 75% of average rises consumer price index for the urban areas for previous year given by notification in the official gazette by the central govt specifies.

In this year central govt has notified the cost of inflation index (CII) for the year 1980 for 1981-1982 financial year (base year) Rs. 100 and for 2022-2023 financial year is 331

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1. Mr. Srinadh acquires a capital asset on 1-4-2006 for Rs. 4,00,000 he converts the capital asset into stock in trade on 1-4-2012 fair market value on the date of conversion of Rs. 16,20,000 the stock is sold by him on 10-3-2022 for Rs. 58,60,000 compute his capital gains and business profit taxable for A-Y 2022-2023.

CII for the year 2006 is 122
2012-13 is 200
and

current year CII is 331

Computation of Taxable income from capital gains of Mr. Srinadh for AY 22-23

Particulars	R	A
I. Gross Sale Consideration		16,20,000
Less: Indexed cost of acquisition (4,00,000 × $\frac{200}{122}$)		6,55,738
Taxable national capital gain		9,64,262
II. Sale price of the stock in trade		58,60,000
Less: Cost of acquisition		16,20,000
Taxable business profit		42,40,000

Q) Mr. Anand purchased a building on 1st Jun - 2001 for Rs. 1,20,000 and spent Rs. 80,000 on 30th Jun - 2002. Construction of additional floor. he has transferred his building on 30th - 6 - 2016 for Rs. 21,00,000 he deposited 8,00,000 in union bank of india to purchase another building compute Taxable Capital gains for the AY 2022-23
 C I I for the year 2001 ~~2002~~ 426
 2002-03 447

Sol: Computation of Taxable income from Capital gains of Mr. Anand for AY 22-23
 Particulars 2022-23 331

	Rs	Rs
Sale proceeds on transfer of building		21,00,000
less: Indexed cost of acquisition (1,20,000 x $\frac{331}{426}$)	93,239	
less: Indexed cost of improvement (80,000 x $\frac{331}{447}$)	59,239	152,478
long term Capital gain		19,47,522
less: Deduction u/s 54 amount deposited into UBI		8,00,000
Taxable Capital gain		11,47,522

1. Index Cost of Acquisition :-

It means the cost of acquisition adjusted according to the price level of the year of sale as per the IT act Section 48 ICA (Index Cost Acquisition) is an amount which bears to the cost of acquisition, the same proportion has cost of inflation index (CII) for the year in which the asset is transferred. bears to the CII for the 1st year in which the asset was held by the assessee or for the year beginning on 1-4-2001

$$\begin{aligned} \text{Indexed Cost of Acquisition} &= \text{Cost of Acquisition} \\ &= \text{Cost of Acquisition} \times \frac{\text{Index of the year of transfer}}{\text{Index of the year of acquisition}} \end{aligned}$$

2. Index Cost of Improvement :-

It means the cost of improvement adjusted according to the price level of year of sale as per Section (48) index cost of improvement is an amount, which bears to the cost of improvement of the same asset.

$$\text{Index cost of improvement} = \text{Cost of improvement} \times \frac{\text{Index of Year of Transfer}}{\text{Index of year of Improvement}}$$

3. Mr. Dinesh yet purchased a golden ring as on 17-8-2020 for Rs. 20,000 on 1-5-2021 we has seen a diamond costing Rs. 25,000 on 1-8-2021 he sold such ring for Rs. 80,000 and paid progress for Rs. 5000 compute capital gain.

Sol:

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Computation of Capital gain of Dinesh for 2022-23

Particulars	Rs	Rs
Gold Ring Sale		80,000
Consideration		
<u>Less:</u> expenses		5000
Net Sale Consideration	→	75000
<u>Less:</u>		
Cost of acquisition	20,000	
Cost of improvement	25,000	
		45,000
Short term Capital gain	→	30,000

5.

4. On 23rd-Dec-2021 Rajesh sold 300 grams gold the same consideration of Rs. 13,50,000 he had acquired the gold on 28-Aug-2000 for Rs. 4,00,000 fair market value of 300 grams gold on 1-April-2021 for Rs. 3,60,000 to find out the amount of capital gain chargeable to tax for the Assessment Year CII 2022-23 331 Base year-2100

Sol:

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Sol: Computation of Capital gain for the AY 2022-23

Particulars	R	R
Sale Consideration of gold		13,50,000
<u>Less:</u> expenses		0
Net Sale Consideration		13,50,000
Index cost of Acquisition (4,00,000 × $\frac{331}{100}$)	13,24,000	
		13,24,000
Long term Capital gain →		26,000

5. "A" purchased a building on 1-6-2001 for Rs 1,20,000 and spent 90,000 on 30/06/2002 for additional floor he has transferred this building on 30/06/2021 for Rs. 21,50,000 Commission charges Rs. 50,000 he deposits 7,00,000 in a bank for purchase another house on 31/03/2022 compute Taxable gain CII

2001 - 02	426
2002 - 03	447
2022 - 2023	331

Sol:

Computation of ~~Income~~ Income from Capital gains for AY 2022-23

Particulars	Rs	Rs
Sale proceeds on transfer of building		21,50,000
<u>Less:</u> Commission charges		50,000
Net consideration value		21,00,000
<u>Less:-</u> Indexed cost of acquisition (1,20,000 × $\frac{331}{421}$)	93,239	
<u>Less:</u> Indexed cost of improvement (40000 × $\frac{331}{447}$)	66,644	1,59,883
		19,40,117
<u>Less:</u> <u>exemption u/s 54</u> Bank deposit		7,00,000
		12,40,117
Taxable capital gain (x)		12,40,117

6. Mr. Venkat inherited the house during 1984-85 from his father purchased it for Rs. 1,00,000 on 1-6-1972. Venkat spent Rs. 60,000 on its improvement during 1986-87 and sold it on 30th June - 2022 for Rs. 25,00,000. Compute taxable capital gain assuming FMV as Rs. 1,50,000 CII for year
- | | | |
|-----------|---|-----|
| 1981-82 | → | 100 |
| 1984-85 | → | 125 |
| 1986-87 | → | 140 |
| 2022-2023 | → | 331 |

Solⁿ

Computation of income from capital gains for 2022-23

particulars	₹	₹
Sale proceeds on transfer of house		25,00,000
<u>Less:</u> <u>Index Cost of Acquisition</u>		
owner cost - 1,00,000		
fmv - 1,50,000		
which ever is higher		
(1,50,000 × $\frac{331}{140}$)	4,96,500	
<u>Less:</u> <u>Index cost of improvement</u>		
(60,000 × $\frac{331}{140}$)	1,41,857	6,38,357
Long term capital gain (x)	→	18,61,643

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7.

Compute Capital gain or Loss from the ^{Information} ~~output~~ for the A.Y 2022-2023.

Date of purchasing of building 1-6-1987

Cost of purchase of building 2,75,000

Construction of another floor on 5-3-2017 for R. 6,00,000

Date of Sale of building 10-3-2022

Sale proceeds for R. 30,00,000

Commission on Sale of building 1½%

CII 1987-88 = 150

2016-2017 = 1125

2022-2023 = 331

Computation of income from capital gains for AY 2022-23

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Particulars	R	R
Sale proceeds on transfer of building		30,00,000
<u>Less:</u> Commission on Sale (1.5%)		45,000
Net Sales consideration		29,55,000
<u>Less:</u> Indexed cost of acquisition (2,75,000 × $\frac{331}{150}$)	6,06,833	
<u>Less:</u> indexed cost of improvement (600,000 × $\frac{331}{1125}$)	1,76,533	7,83,366
Taxable Longterm Capital gain		21,71,634

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UNIT - IV [part - B]

INCOME FROM OTHER SOURCES

Income from other Sources

I. General Income

II. Specific Income

I. General Income

1. Agriculture Land Situated outside India.
2. Salaries of MP/MLA/MLC
3. Family pension - deceased employee
4. URPF → Interest
5. meeting fee, director fee
6. Lecturer - Remuneration
7. NSC (withdrawal amount)
8. Gratuity received
9. Casual income
10. Annuity pension
11. Interests

1. What are the general incomes under the head of income from other sources?

Ans

under Section 56(1) of income tax act 1961
The general incomes chargeable to tax under the head income from other sources are as follows :-

1. Agricultural income from land situated outside of india.
2. Salary received by MP/MLA/MLE, but daily allowance received by them are fully exempted.
3. Family pension received by the members of the family of deceased employee.
4. Interest on own contribution to URPF (unrecognised provident fund) in case of refund only.
5. Royalty for writing books, Mining royalty.
6. Remuneration received for delivering Lectures.
7. Withdrawal from NSS (National Savings scheme) 1986.
8. Commission received by a director for standing as
9. Commission received by a director for under writing the shares of a New Company.
10. Gratuity received by a non-employee director.
11. All types of casual incomes except winning from Lotteries, races, cross word puzzles, card games,

2.

Ans

gambling etc.---

2. All types of interests except interest on security which is taxable under section 56(2).

2. What are the specific incomes under the head income from other sources?

The following are specific income chargeable to tax

u/s 56(2) of 1961 income Tax Act.

1. Dividends

It can be received on equity or preference shares of a company, units of UTI (unit trust of India) or other mutual funds, share of a cooperative society.

Dividend is exempted received by an Indian company on or after 1-4-2003. If it is fully taxable it is declared by a foreign company.

2. Interest on Securities:

Security is a document acknowledging ~~that~~ Debt taken by a specific authority from general public.

The central government, state government or a company may issue a security. it may be issued under the name of Bond, Loan paper, Debenture certificate etc.---

It is Taxable in the hands of that person on whose name is accrued.

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3. Winning from lotteries, puzzles, games, rares, gambling
or T.V game show etc - -

No expenditure is allowed to be deducted out of these incomes.

Taxes deducted source from winnings from Lotteries, puzzles, games etc - - -

4. Letting of plant and Machinery:-

Income from Letting of plant & Machinery where it is non-regularly basis.

5. Composite rent:-

Income from Letting of building along with plant & machinery and furniture if rent is inseparable.

6. Contributions of employee:-

employees contributions to provident fund or employees state insurance (ESI) fund is deemed as income of the year.

7. Amount received as gift to be treated as income;
Sec 56(2)(b)

Where any sum of money, the aggregate value of which exceeds Rs. 50,000 is received by a person on or after 2009 it is deemed as income on the previous year.

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3. What are the deductions allowed from income from other sources?

deductions allowed u/s 57 from income from other sources are as follows:-

1. Bank Commission or Collection charges to realize interest on dividend, actual amount spent by the assessee is fully allowed
2. Interest on loan taken to acquire an asset whose income is taxable under this Act. fully interest is allowed as deduction.
3. A standard deduction $\frac{1}{3}$ of Rs. 15,000 per annum whichever is less is allowed out of family pension.
4. Depreciation, expenses on current repairs, fire insurance premium, ground rent relating to those assets which are let out under this head.
5. Any other expenditure incurred to earn an income taxable under
6. Any amount deposited with appropriate authority before due date as employer's contribution to PF & ESI

4) explain types of securities?

Ans There are 3 securities

I. Securities exempted from Tax

II. Tax free securities

III. Less Tax securities

I. Securities exempted from Tax

Interest on securities is fully exempted $\frac{1}{3}$ to $\frac{15}{100}$. hence interest on securities is not added in total income. These are:

(A) Interest on National plan Certificate (NPC)

(B) Interest on National defense Certificate (NDC)

(C) Interest on post office Tax saving Certificates

(D) Interest on National Relief bonds (NRB)

(E) Interest on Treasury savings Certificates

(F) Interest on National savings Certificates

(G) Interest on special bearer bonds.

(H) Interest on capital investment bonds

II. Tax free Securities

(A) Tax free government securities:-

These securities are not issued these days.

(B) Non-government securities:-

Tax on interest of these securities is paid to government by issuing authority. Assessee gets full ~~gross~~ interest as it is

mentioned on the face of a security and it is treated as net interest. It has to be grossed up

III - Less Tax Securities

It is the most common form of securities in india. Tax is deducted at source.

Ex: Rs. 90,000 10%

$$\text{gross interest} = 90,000 \times \frac{10}{100} = 9,000$$

$$\text{TDS} = 10\% = 9000 \times \frac{10}{100} = 900$$

$$\text{Net} = 90000 - 9000 = 81000$$

$$\text{net} = 9000$$

$$\text{Int} = \frac{900}{8100}$$

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1. Calculate interest on Securities

(a) Rs. 1,00,000 → 12% Tax free Govt of india Loan

(b) Rs. 80,000 → 8% debentures of X Ltd

(c) Rs. 90,000 → 10% debentures of Y Ltd (Tax free listed)

(d) Rs. 80,000 → 15% debentures of Z Ltd (Tax free unlisted)

Sol: Calculate interest on securities for A.Y 2022-2023

Particulars	Amount
① interest on 12% Tax govt of india $(1,00,000 \times \frac{12}{100})$	12000
② interest on 8% debentures of X Ltd $(80,000 \times \frac{8}{100})$	6400
③ interest on 10% debentures of Y Ltd $(90,000 \times \frac{10}{100})$	9000
④ interest on 15% debentures of Z Ltd $(80,000 \times \frac{15}{100})$	12000
	39,400

2. Calculate interest on Securities

1. 80,000 , 18% govt of india dept
2. 60,000 , 16% Tax free bonds of govt of AP.
3. 40,000 , 14% Tax free bonds of airport authority of india.
4. 30,000 , 13% Less tax Securities x Ltd.

Sol Calculate interest on securities.

Particulars	Amount
Interest on 18% govt of india (80,000 × $\frac{18}{100}$)	14,400
Interest on 16% tax free bonds of govt of AP (60,000 × $\frac{16}{100}$)	9,600
Interest on 14% tax free bonds of ^{airport authority} govt of india. (40,000 × $\frac{14}{100}$)	5,600
Interest on 13% less tax Securities of x Ltd. (30,000 × $\frac{13}{100}$)	3,900
	33,500

3. Calculate interest on Securities

A) Rs. 1,00,000 , 8% Tax free govt Securities.

B) Rs. 90,000 , 10% Tax free ~~debt~~ ^{debt} of A Ltd.

C) Rs. 80,000 , 12% Tax free ~~debt~~ ^{debt} of B Ltd.

D) Rs. 80,000 , 14% Less tax Securities of C Ltd.

Calculate interest on Securities:

Particulars	Amount
Interest on 8% tax free govt Securities ($1,00,000 \times \frac{8}{100}$)	8000
Interest on 10% tax free debt of A Ltd. ($90,000 \times \frac{10}{100}$)	9000
Interest on 12% tax free debt of B Ltd. ($80,000 \times \frac{12}{100}$)	9600
Interest on 14% less tax Securities of C Ltd. ($80,000 \times \frac{14}{100}$)	11,200
	<hr/> 37,800

Taxable income on Securities

4. Compute income from other sources.

- 1. Dividend from india company 90,000
- 2. Interest on tax free debenture of X Ltd 9000
- 3. Interest on tax free debenture of Y Ltd 8000
- 4. Lottery Winning Rs. 70,000 (Net)

Sol:

Income from other sources for AY
particulars

Rs

Dividend from indian company
(exempted)

-

Interest on tax free listed debenture of X Ltd

9000

Interest on tax free debenture of Y Ltd

8000

Lottery winnings $(70,000 \times \frac{100}{70})$

1,00,000

1,17,000

Q

Compute income from other sources:

- (i) Interest on Tax free bonds of govt. of AP Rs. 15,000 (Net).
- (ii) Interest on 'A' Ltd. debentures Rs. 15,000.
- (iii) Interest on 'B' Ltd. Tax free debentures Rs. 30,000 (Listed)
- (iv) Dividends from UTI Rs. 15,000 (Net).
- (v) Dividends from foreign Companies Rs. 48,000 (gross)
- (vi) Rent from Letting of plant, Machinery, furniture etc,
Rs. 78,000 (Repairs Rs. 2,000. Insurance Rs. 6,000)
- (vii) Directors fee received Rs. 62,000.
- (viii) Examiner's fee received Rs. 36,000.
- (ix) Royalty from Sulphur mines Rs. 64,000.
- (x) Interest on bank deposits Rs. 44,000.

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Income from other sources for the A.Y 2022-23

Particulars	Rs
(i) Interest on Tax free Bonds of govt of AP	15,000
(ii) Interest on A Ltd. debentures	15,000
(iii) Interest on B Ltd. Tax free debentures	30,000
(iv) Dividends from UTI (exempted)	-
(v) Dividend from foreign companies	48,000
(vi) Rent from Letting of P & M	78,000
(-) Repairs	2,000
(-) Insurance	6,000
	80,000
(vii) Directors fee received	62,000

(viii) Examiners' fee received	36,000
(ix) Royalty from sulphur mines	64,000
(x) Interest on bank deposits	64,000
Taxable income from other sources	384,000

② From the following particulars calculate income from other sources?

- Interest on Tax free government Securities Rs. 15,000
- Interest on Tax free Listed Company debentures 20,000.
- Dividends from Indian Companies 24,000 (Net).
- Dividends from foreign Companies Rs. 36,000 (gross)
- Royalty on publication of books Rs. 38,000
- Rent from letting of plant, machinery, buildings, furniture Rs. 68,000 [repairs 6000
Insurance 4000
Collection charges 1200]
- Lottery winnings ~~50,000~~ 52,500
- Commission from LIC of India as an agent Rs. 19,200.
- Collection charges of interest and dividends 1,500

Solⁿ

Income from other sources for the AY 2022-2023.

Particulars	Rs	Rs
1. Interest on Tax free Govt, Securities		15,000
2. Interest on Tax free listed Company deductions.		20,000
3. dividends from indian Companies (exempted)		-
4. dividends from foreign companies		36,000
5. Royalty from publication of books		38,000
6. Rent from letting of plant & machinery	68,000	
<u>Less!</u> Repairs (6000 + 4000 + 1200)	11,200	56,800
7. Lottery winnings ($52,500 \times \frac{100}{70}$)		75,000
8. Commission from L.I.C of india	19,200	
<u>Less!</u> Deductions ($19,200 \times \frac{1}{3}$)	6,400	12,800
		<hr/>
		2,53,600
		1,500
9. <u>Less!</u> Collection charges of interest and dividends		<hr/>
Taxable income from other sources →		2,52,100

12,800 or 20,000
(whichever is less)