

DIRECT TAXES COMMITTEE OF ICAI WEBINAR

SESSION 1 : INCOME FROM OTHER SOURCES

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Presenter

INCOME FROM OTHER SOURCES

1961 ACT ↔ 2025 ACT

CLASSIFICATION

When does a receipt enter IOS?

CHARGE & DEEMING

What exactly does the statute bring to tax?

COMPUTATION

Valuation • deductions • restrictions • recapture

CORE THEME

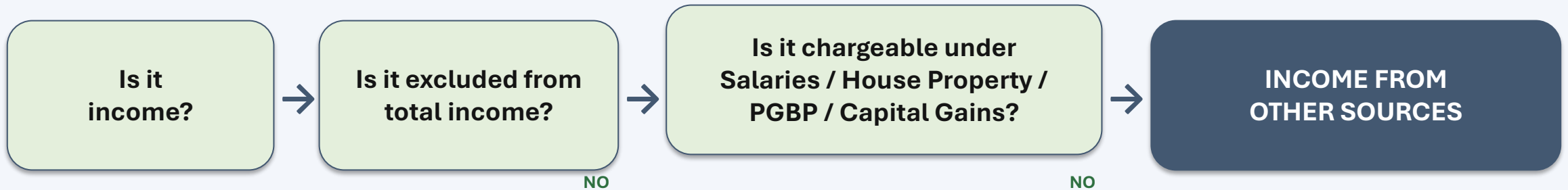
IOS IS RESIDUARY AS A HEAD — ITS COMPUTATION IS NOT RESIDUARY.

20 August 2026

Income-tax Act, 1961 • Income-tax Act, 2025 • Finance Act, 2026 changes

KEY INSIGHT — IOS IS A RESIDUARY HEAD

Neither the assessee nor the AO can simply choose IOS merely because classification under another head is inconvenient.



PRACTICAL EXAMPLE — INTEREST INCOME

Interest income is not automatically IOS. Where the interest is chargeable as business income, it must first be considered under PGBP. IOS operates only when the income is not chargeable under another head.

Section 56(1) / Section 92(1): the residuary character of IOS continues without substantive change.

SECTION 56(2) vs SECTION 92(2) — SPECIFIC INCOMES UNDER IOS

COMMON ARCHITECTURE

Both provisions operate “in particular, and without prejudice to the generality” of the residuary charge in section 56(1) / section 92(1).

Income / subject	Income-tax Act, 1961	Income-tax Act, 2025
Dividend	56(2)(i)	92(2)(a)
Winnings — lottery, races, games, gambling / betting	56(2)(ib)	92(2)(b)
Employees’ contributions to welfare funds	56(2)(ic)	92(2)(c)
Keyman Insurance Policy receipts	56(2)(iv)	92(2)(d)
Interest on securities — where not PGBP	56(2)(id)	92(2)(e)
Letting of machinery / plant / furniture	56(2)(ii)	92(2)(f)
Inseparable composite letting	56(2)(iii)	92(2)(g)
Forfeited advance for transfer of capital asset	56(2)(ix)	92(2)(h)
Interest on compensation / enhanced compensation	56(2)(viii)	92(2)(i)
Employment termination / modification compensation	56(2)(xi)	92(2)(j)
Specified business-trust receipts	56(2)(xii)	92(2)(k)
Specified life-insurance receipts	56(2)(xiii)	92(2)(l)
Money / property without or for inadequate consideration	56(2)(x)	92(2)(m) + 92(3)

HISTORICAL PROVISION NOT CARRIED FORWARD

Section 56(2)(viib) — excess share premium — ceased to apply from 1 April 2025 and therefore has no continuing counterpart in section 92(2).

SECTION 56(2) vs SECTION 92(2) — WHAT HAS CHANGED?

1 SAME BASIC STATUTORY ROLE

Section 92(2) substantially carries forward the specific categories presently taxable under section 56(2). It continues to operate without prejudice to the residuary charge under section 92(1).

2 CLEANER SEQUENTIAL STRUCTURE

The surviving provisions are reorganised into clauses (a) to (m), replacing the historically accumulated numbering in section 56(2).

3 MORE SELF-CONTAINED DRAFTING

Several old cross-references to the definition of 'income' are replaced by a direct description of the receipt itself — for example, winnings and employees' contributions.

4 NOT ALL CHANGES ARE MERELY COSMETIC

Gifts/property, business-trust receipts and life-insurance receipts require detailed comparison with the connected definitions, exceptions and computational provisions before concluding that the tax result is unchanged.

KEY INSIGHT

Section 92(2) improves the architecture of IOS, but classification still matters. A receipt specifically described in section 92(2) may itself contain a condition requiring that it is not chargeable under another head — interest on securities and machinery letting are important examples.

NEXT: DIVIDEND — SECTION 56(2)(i) / 92(2)(a) → DEFINITION UNDER SECTION 2(22) / 2(40)

Dividend — Definition | Section 2(22)(a)–(b) vs Section 2(40)(a)–(b)

Income-tax Act, 1961 — Sec. 2(22)	Income-tax Act, 2025 — Sec. 2(40)	Conclusion
(a) any distribution by a company of accumulated profits, whether capitalised or not, if such distribution entails the release by the company to its shareholders of all or any part of the assets of the company;	(a) any distribution by a company of accumulated profits, whether capitalised or not, if such distribution entails the release by the company to its shareholders of all or any part of the assets of the company;	NO SUBSTANTIVE CHANGE
(b) any distribution to its shareholders by a company of debentures, debenture-stock, or deposit certificates in any form, whether with or without interest, and any distribution to its preference shareholders of shares by way of bonus, to the extent to which the company possesses accumulated profits, whether capitalised or not;	(b) any distribution to its shareholders by a company of debentures, debenture-stock, or deposit certificates in any form, with or without interest, and any distribution to its preference shareholders of shares by way of bonus, to the extent to which the company possesses accumulated profits, whether capitalised or not;	NO SUBSTANTIVE CHANGE

Comparison based on the statutory texts of the Income-tax Act, 1961 and Income-tax Act, 2025.

Dividend — Definition | Section 2(22)(c)–(d) vs Section 2(40)(c)–(d)

Income-tax Act, 1961 — Sec. 2(22)	Income-tax Act, 2025 — Sec. 2(40)	Conclusion
(c) any distribution made to the shareholders of a company on its liquidation, to the extent to which the distribution is attributable to the accumulated profits of the company immediately before its liquidation, whether capitalised or not;	(c) any distribution made to the shareholders of a company on its liquidation, to the extent to which the distribution is attributable to the accumulated profits of the company immediately before its liquidation, whether capitalised or not;	NO SUBSTANTIVE CHANGE
(d) any distribution to its shareholders by a company on the reduction of its capital, to the extent to which the company possesses accumulated profits which arose after the end of the previous year ending next before the 1st day of April, 1933, whether such accumulated profits have been capitalised or not;	(d) any distribution to its shareholders by a company on the reduction of its capital, to the extent to which the company possesses accumulated profits, whether capitalised or not;	WORDING CHANGED — NEEDS ANALYSIS

Key change to examine: the historical 1 April 1933 limitation in old clause (d) is not reproduced in new clause (d).

KEY INSIGHT — “ACCUMULATED PROFITS”

Accumulated Profits $\neq$ P&L Balance / Taxable or Assessed Income

PRACTICAL WORKING — STATUTORY POOL

Commercial accumulated profits

- + Items which remain commercial profits despite tax deductions / exemptions (80IBA)
- + Current commercial profits up to the relevant date, where applicable
- Legitimate distributions / outgoings reducing the accumulated-profit pool (actual dividend declared / paid)
- $\pm$ Statutory adjustments under section 2(22)

= ACCUMULATED PROFITS AVAILABLE FOR DEEMED-DIVIDEND PURPOSES

Important: profits capitalised through a bonus issue are not deducted merely because they have been converted into share capital.

1 COMMERCIAL PROFITS

Look to profits in the commercial / real sense — not merely assessed income or the balance appearing in the financial statements.

2 “WHETHER CAPITALISED OR NOT” — CLAUSES (a) TO (d)

Capitalisation does not remove accumulated profits from these clauses. Example: bonus shares issued out of accumulated profits / reserves.

3 ACCUMULATED PROFITS — UP TO WHEN?

Clauses (a), (b), (d) & (e): up to date of distribution / payment. Clause (c): accumulated profits immediately before liquidation.

CA-LEVEL INSIGHT: RESERVE $\neq$ CAPITALISATION

Mere transfer of profits to reserve is not capitalisation. If profits are actually capitalised (e.g., bonus issue), clauses 2(22)(a)–(d) still cover them because they expressly say “whether capitalised or not”. Clause 2(22)(e) requires separate treatment.

ACCUMULATED PROFITS — TRICKY ITEMS & PRACTICAL WORKING

TRICKY ITEMS

Bonus issue out of accumulated profits

Actual capitalisation (e.g., bonus issue) does not eliminate the underlying profits for clauses (a)–(d). Mere transfer to a reserve is not capitalisation.

Profit on sale of fixed asset / investment

Commercial reality governs. A real realised surplus may enter the pool; a purely statutory / deemed tax profit does not automatically do so.

Forex gain / loss

Where it forms part of ordinary commercial/business profits, include the gain or deduct the loss. Capital items require separate examination.

Tax-exempt / tax-deducted items

Tax treatment is not conclusive. If the amount remains a real commercial profit, it may still form part of accumulated profits.

Mere revaluation surplus

Unrealised appreciation does not automatically enter accumulated profits merely because the books reflect a higher value.

PRACTICAL EXAMPLE

ABC Pvt. Ltd. proposes a distribution on 30 September.

Opening commercial accumulated profits	40
(includes ₹10 lakh capitalised through bonus issue)	—
Current commercial profit to 30 Sept.	+12
Development rebate / similar reserve still representing commercial profit	+5
Realised profit on sale of investments	+8
Realised forex gain on trade receivables	+3
Dividend / distribution already made	−10
Other genuine commercial losses / outgoings	−4
Accumulated profits available	54

Result: accumulated-profit pool = ₹54 lakh. This is the ceiling for deemed-dividend purposes, subject to the specific clause and value of distribution.

SECTION 2(22)(a) — WHEN DOES DEEMED DIVIDEND ARISE?

Distribution by a company of accumulated profits, whether capitalised or not, which entails release of all or any part of the company's assets to its shareholders.

1 COMPANY

The distribution must be by a company.

2 ACCUMULATED PROFITS

There must be an accumulated-profit pool; capitalised profits are also relevant.

3 DISTRIBUTION

There must be a distribution — not merely an accounting entry or restructuring without the statutory trigger.

4 RELEASE OF ASSET

The distribution must entail release of all or part of the company's asset to its shareholder(s).

TIMING OF TAXABILITY

Old Act — section 8: year in which dividend is declared / distributed / paid, as applicable.

New Act — section 7(2): same principle.

PRACTICAL COMPUTATION

Deemed dividend = lower of:
(i) value of distribution / benefit released; or
(ii) accumulated profits available.

KEY CAUTION: Section 2(22)(a) determines dividend character in the shareholder's hands; the tax consequences of the asset transfer in the company's hands require an independent analysis.

SECTION 2(22)(a) — PRACTICAL EXAMPLE & VALUATION CAUTION

FACTS — ABC PVT. LTD.

Land cost / book value: ₹20 lakh
Accepted market value on distribution date: ₹70 lakh
Accumulated profits available: ₹54 lakh

COMPUTATION IN SHAREHOLDER'S HANDS

Accepted value of asset distributed	₹70 lakh
Accumulated profits available	₹54 lakh

ASSUMPTION FOR ILLUSTRATION

₹70 lakh is assumed to be the accepted value of the land on the date of distribution. Rule 11UA is not assumed to be statutorily applicable to section 2(22)(a).

VALUATION CAUTION

Section 2(22)(a) itself does not prescribe a specific valuation mechanism for a distribution in specie. Market / fair value is economically relevant, but the precise statutory valuation basis can be contentious. Rule 11UA should not be mechanically imported merely because dividend is ultimately taxable under IOS.

WATCH OUT — COMPANY'S HANDS

Shareholder taxation and company taxation are separate questions. The company-side analysis begins with whether there is a 'transfer' u/s 2(47); if so, section 45 and the applicable consideration / deeming machinery must be examined. The shareholder's deemed-dividend value does not automatically become the company's sale consideration.

TAKEAWAY: Value distributed may exceed accumulated profits — but section 2(22)(a) can deem dividend only to the extent of the accumulated-profit pool.

SECTION 2(22)(a) — DISTRIBUTION IN SPECIE: COMPANY'S HANDS

STARTING POINT

Section 2(22)(a) taxes the shareholder. The company's tax consequence must be analysed independently by first classifying the asset as CAPITAL ASSET or STOCK-IN-TRADE.

Asset distributed	Company-side head	Valuation / computation issue
Immovable property — capital asset	Capital Gains	s.45/48; s.50C vs s.50D requires examination where distribution is wholly without consideration.
Movable capital asset	Capital Gains	s.50D may be relevant where consideration cannot be ascertained/determined; depreciable assets require s.50 block analysis.
Shares / investments	Capital Gains	Unquoted shares: s.50CA + Rule 11UAA require examination; otherwise apply the relevant CG machinery, including s.50D where applicable
Debentures / securities	Capital Gains	Asset-specific provisions apply first; s.50D may become relevant where consideration is indeterminable.
Intangible capital asset	Capital Gains	s.50D + applicable cost provisions; acquired and self-generated intangibles may compute differently.
Land/building — stock-in-trade	PGBP	s.43CA requires examination; a wholly gratuitous distribution raises the distinction between 'no consideration' and 'inadequate consideration'.
Other stock-in-trade	PGBP	Capital-gains machinery does not apply; there is no general s.50D-equivalent FMV rule for other stock-in-trade.

IMPORTANT CHANGE FROM 01.04.2025

Section 47(iii) gift exclusion is restricted to transfers by an Individual or HUF — the general gift exclusion is therefore not available to a company.

IMMOVABLE PROPERTY — SECTION 50C vs 50D vs 43CA

CORE QUESTION

Company distributes land / building to shareholder wholly without consideration. Which provision supplies the value in the company's computation?

CAPITAL ASSET — s.50C

Text compares 'consideration received or accruing' with Stamp Duty Value.

Issue: does a wholly gratuitous distribution involve consideration of ₹Nil — or no consideration at all?

CAPITAL ASSET — s.50D

Where consideration is not ascertainable or cannot be determined, FMV on the date of transfer is deemed full value.

Post-2025, this may be the stronger valuation route — but the 'no consideration' issue remains arguable.

STOCK-IN-TRADE — s.43CA

Applies to land/building held otherwise than as capital asset where consideration is below SDV.

The same drafting issue arises if the distribution is wholly gratuitous. There is no general s.50D-equivalent for stock-in-trade.

ILLUSTRATION — LAND HELD AS CAPITAL ASSET

Cost ₹20 lakh | FMV ₹70 lakh | SDV ₹75 lakh | Consideration: NIL / none | Accumulated profits ₹54 lakh

If s.50C applies → potential CG ₹55 lakh. If s.50D applies → potential CG ₹50 lakh. If valuation machinery fails → computation becomes contentious.

TAKEAWAY

'Without consideration' and 'consideration of ₹Nil' are not necessarily interchangeable expressions. Sections 50C, 50D and 43CA address different valuation situations and must be applied according to their statutory wording.

ONE ASSET — MULTIPLE TAX CONSEQUENCES?

ILLUSTRATION

Company distributes land: Cost ₹20 lakh | Accepted FMV ₹70 lakh | Accumulated profits ₹54 lakh. Assumption: section 50D applies in the company's hands.

1 COMPANY

Deemed consideration u/s 50D: ₹70 lakh
Less: Cost: ₹20 lakh
CAPITAL GAIN: ₹50 lakh

No deduction is available merely because ₹54 lakh is taxed as dividend in shareholder's hands.

2 SHAREHOLDER — s.2(22)(a)

Value distributed: ₹70 lakh
Accumulated-profit ceiling: ₹54 lakh
DEEMED DIVIDEND: ₹54 lakh

Company-side CG and shareholder-side dividend are separate statutory consequences.

3 SHAREHOLDER — s.56(2)(x)?

Land received without consideration can prima facie enter s.56(2)(x). Whether the same receipt, already characterised as dividend u/s 2(22)(a), can again be taxed under s.56(2)(x) is a technical overlap issue; cumulative taxation cannot be regarded as a settled proposition.

ECONOMIC OVERLAP — EVEN BEFORE s.56(2)(x)

Company CG ₹50 lakh + Shareholder dividend ₹54 lakh = ₹104 lakh of aggregate taxable amounts against an asset value of ₹70 lakh.

Potential economic overlap: ₹34 lakh.

WHY CLAUSE (c) WILL MATTER

There is no clause-(a) mechanism allowing the company to deduct shareholder's deemed dividend from its capital gain.

On liquidation, section 46 contains express coordination with dividend u/s 2(22)(c).

QUESTION

Can the same economic value be taxed in different hands under different charging provisions? Yes, potentially — unless the Act supplies a relieving / coordinating mechanism. Clause (c) gives us an important statutory contrast.

SECTION 2(22)(b) — TWO DISTINCT DEEMING SITUATIONS

STATUTORY TRIGGER

Distribution to shareholders of debentures / debenture-stock / deposit certificates (with or without interest), AND distribution to preference shareholders of shares by way of bonus — restricted to accumulated profits, whether capitalised or not.

LIMB I — DEBT INSTRUMENTS

Recipient: ANY shareholder.

Company distributes its own debentures, debenture-stock or deposit certificates. Unlike clause (a), an existing company asset need not be released — the company may create a debt/security in favour of shareholders.

LIMB II — BONUS SHARES

Recipient: PREFERENCE shareholder.

The wording focuses on who receives the bonus shares. A bonus issue to equity shareholders is not caught merely because the bonus security itself is a preference share.

ACCUMULATED-PROFIT CEILING

Value of distribution ₹40 lakh; accumulated profits ₹25 lakh → deemed dividend cannot exceed ₹25 lakh. Current commercial profits up to the date of distribution are relevant.

COMPANY-SIDE DISTINCTION

Issue of the company's OWN debenture/share is creation/issue of a security — not ordinarily a transfer of an existing capital asset owned by the company. The clause-(a) s.45/50D analysis therefore does not mechanically extend to clause (b).

KEY QUESTION

Company issues bonus preference shares. Is s.2(22)(b) automatically attracted? NO — first ask: were the recipients preference shareholders?

SECTION 2(22)(b) — PRACTICAL COMPUTATION & VALUATION

EXAMPLE A — DEBENTURES

Face value: ₹50 lakh
Market / accepted value: ₹42 lakh
Accumulated profits: ₹35 lakh

Illustrative deemed dividend: ₹35 lakh — lower of value distributed and accumulated profits.

EXAMPLE B — BONUS TO PREFERENCE HOLDERS

Market / accepted value of bonus shares: ₹40 lakh
Accumulated profits: ₹60 lakh

Illustrative deemed dividend: ₹40 lakh.

Bonus to equity shareholders → clause (b) not attracted merely by the bonus issue.

VALUATION CAUTION

Section 2(22)(b) itself does not prescribe a specific valuation mechanism for determining the value of debentures, debenture-stock, deposit certificates or bonus shares distributed to shareholders. Accordingly, the market value / value of the benefit distributed may require determination on recognised valuation principles. Rule 11UA should not be mechanically applied in the absence of a specific statutory reference.

s.56(2)(x) — ANOTHER OVERLAP ISSUE

Shares and securities are specified 'property'. Receipt without consideration can therefore raise a literal s.56(2)(x) question. However, cumulative taxation under sections 2(22)(b) and 56(2)(x) cannot presently be regarded as a settled proposition; the interaction between the two provisions requires careful examination.

CA-LEVEL INSIGHT

Specific character first: where the same security receipt is already characterised as deemed dividend, its taxation again under another IOS provision requires careful examination. Direct authority on the precise section 2(22)(b) / 56(2)(x) overlap is limited.

SECTION 2(22)(b) — TAXED TODAY ≠ AUTOMATICALLY COST TOMORROW

BONUS SHARES — DOWNSTREAM COST

Illustration: value taxed as deemed dividend ₹40 lakh.

For an additional financial asset allotted without payment on the basis of an existing financial asset, s.55(2)(aa) generally gives NIL cost (subject to special provisions such as grandfathering where relevant).

Later sale can therefore create a fresh capital-gains computation.

CONTRAST — PROPERTY TAXED u/s 56(2)(x)

Where property is actually taxed under specified s.56(2) provisions, the Act contains consequential cost machinery (s.49(4)).

There is no general rule saying: 'value taxed as deemed dividend u/s 2(22)(b) automatically becomes cost'.

DEBENTURE — SALE / REDEMPTION

The earlier deemed-dividend value does not, merely on equitable grounds, become the cost of acquisition. Subsequent sale/redemption requires examination of the nature of the instrument and the capital-gains provisions applicable at that time.

DOUBLE-TAX CONCERN

Judicial principle cautions against taxing the identical receipt twice in the same assessee's hands under different heads. That principle, however, does not itself create a statutory cost step-up for every security received under clause (b).

KEY TAKEAWAY

DEEMED DIVIDEND TAXATION AND FUTURE CAPITAL-GAINS COST ARE SEPARATE QUESTIONS. The specific statutory cost provision applicable to the security governs its subsequent sale or redemption.

SECTION 2(22)(c) — LIQUIDATION: TAX ARCHITECTURE

STATUTORY TRIGGER

Distribution to shareholders on liquidation, to the extent attributable to accumulated profits immediately before liquidation, whether capitalised or not.

COMPANY IN LIQUIDATION

Distribution of assets to shareholders on liquidation is not regarded as a transfer by the company for capital-gains purposes.

1961 Act: section 46(1)

2025 Act: section 68(1)

SHAREHOLDER

First identify dividend under section 2(22)(c) / section 2(40)(c).

The balance enters capital-gains computation under section 46(2) / section 68(2).

COORDINATION MECHANISM

Money received + market value of assets received

– amount assessed as dividend

= full value of consideration for shareholder's capital gains.

WHY THIS MATTERS

Unlike clause (a), liquidation has a complete statutory machinery: no transfer in company's hands, dividend in shareholder's hands, and an express reduction while computing shareholder's capital gains.

KEY POINT

Clause (c) is not merely a dividend rule; it is a coordinated dividend-and-capital-gains mechanism.

SECTION 2(22)(c) — PRACTICAL COMPUTATION

FACTS

Cash received ₹20 lakh | FMV of property ₹80 lakh | Accumulated profits ₹45 lakh | Cost of shares ₹30 lakh

STEP 1 — DEEMED DIVIDEND

Total value received: ₹100 lakh
Accumulated-profit component: ₹45 lakh

Dividend u/s 2(22)(c): ₹45 lakh

STEP 2 — CAPITAL GAINS

Money + FMV of assets: ₹100 lakh
Less: dividend assessed: ₹45 lakh
Full value for CG: ₹55 lakh
Less: cost of shares: ₹30 lakh
Capital gain: ₹25 lakh

Particulars	₹ lakh
Cash received	20
FMV of property received	80
Total value received	100
Less: dividend u/s 2(22)(c)	(45)
Full value of consideration u/s 46(2)	55
Less: cost of shares	(30)
Capital gain	25

RESULT

Dividend taxable under IOS: ₹45 lakh | Capital gain: ₹25 lakh | Dividend component is expressly reduced from capital-gains consideration.

LIQUIDATION — STCG OR LTCG?

CENTRAL PROPOSITION

The asset distributed on liquidation does not determine whether the shareholder's section 46(2) gain is short-term or long-term.
The relevant capital asset is the shareholder's shares.

DEPRECIABLE ASSET RECEIVED

If the company distributes depreciable machinery, that fact does not make the shareholder's liquidation gain automatically STCG.

Section 50 is not triggered merely because the distributed asset was depreciable in the company's hands.

HOLDING PERIOD TEST

Determine whether the shares held by the shareholder are short-term or long-term.

The period after the company goes into liquidation is excluded while computing the holding period of shares.

TIMELINE EXAMPLE

Shares acquired: 1 April 2022 → Company goes into liquidation: 30 June 2025 → Assets distributed: 30 September 2027

Relevant holding period for shares: 1 April 2022 to 30 June 2025. The post-liquidation period is excluded.

STAGE 1 — RECEIPT ON LIQUIDATION

Capital-gains character follows the shares. The distributed asset may be land, machinery, securities or an intangible asset.

STAGE 2 — LATER SALE OF ASSET

After receipt, future tax treatment depends on the nature and use of that asset in the shareholder's hands. Section 50 may become relevant later if depreciation is allowed.

CLAUSE (a) vs CLAUSE (c) — WHY THE OUTCOME DIFFERS

Point	Clause (a): ordinary distribution	Clause (c): liquidation
Nature of event	Distribution involving release of company asset	Distribution to shareholders on liquidation
Company's hands	Possible transfer / CG or PGBP analysis required	No transfer by company under s.46(1) / s.68(1)
Shareholder's dividend	Deemed dividend to extent of accumulated profits	Deemed dividend to extent attributable to accumulated profits immediately before liquidation
Capital-gains coordination	No express mechanism reducing company-side gain by shareholder dividend	Dividend assessed is expressly reduced while computing shareholder's capital-gains consideration
Overlap issue	Potential economic overlap can arise	Statutory coordination reduces the risk of double counting in shareholder's computation
Valuation design	Valuation basis may be contentious for distribution in specie	Money + market value of assets is expressly used in shareholder's computation

KEY TAKEAWAY

Clause (c) is a more complete statutory code for liquidation: it identifies dividend, excludes company-side transfer, and coordinates the shareholder's capital-gains computation.

SECTION 2(22)(d) — REDUCTION OF CAPITAL: WHEN DOES IT APPLY?

STATUTORY TRIGGER

Distribution to shareholders by a company on reduction of its capital, to the extent the company possesses accumulated profits, whether capitalised or not.

DIVIDEND COMPONENT

The distribution is deemed dividend only to the extent of accumulated profits. Under the 1961 Act, clause (d) retains the historical post-1933 wording; section 2(40)(d) of the 2025 Act omits that historical cut-off.

CAPITAL-GAINS COMPONENT

There is NO section equivalent to section 46(2) for ordinary capital reduction. Capital gains arise, where applicable, through the general provisions: extinguishment / transfer → section 2(47) → section 45 → section 48.

TRANSFER TEST

Cancellation of shares, reduction in face value or other extinguishment of shareholder rights can constitute a 'transfer'. The shareholder's percentage ownership remaining unchanged is not, by itself, decisive.

NO CONSIDERATION?

No consideration does not necessarily mean no transfer. But once transfer is established, the computation question is separate: what consideration was received or accrued under section 48?

KEY DISTINCTION

LIQUIDATION HAS A SPECIAL CAPITAL-GAINS CODE — ORDINARY CAPITAL REDUCTION DOES NOT.

SECTION 2(22)(d) — DIVIDEND vs CAPITAL GAIN

ILLUSTRATION

Amount received on reduction ₹100 lakh | Accumulated profits ₹45 lakh | Cost attributable to shares / rights extinguished ₹30 lakh

STEP 1 — DEEMED DIVIDEND

Distribution received: ₹100 lakh

Accumulated-profit component: ₹45 lakh

Dividend u/s 2(22)(d): ₹45 lakh

STEP 2 — CAPITAL COMPONENT

Total receipt: ₹100 lakh

Less: dividend component: ₹45 lakh

Capital receipt: ₹55 lakh

Less: attributable cost: ₹30 lakh

Illustrative capital gain: ₹25 lakh

Particulars	₹ lakh
Amount received on reduction	100
Deemed dividend u/s 2(22)(d)	(45)
Capital component	55
Less: attributable cost of shares / rights extinguished	(30)
Capital gain	25

JUDICIAL PRINCIPLE

The dividend component and capital component must be separated; the same amount should not be subjected again as capital consideration.
The capital-gains route is ss.2(47), 45 & 48, read with the judicial principles governing capital reduction.

REDUCTION ≠ REDEMPTION ≠ BUY-BACK

Transaction	Dividend treatment	Capital-gains route	Core point
Liquidation	s.2(22)(c)	Special s.46	Special code: company-side no-transfer rule + shareholder computation
Ordinary capital reduction	s.2(22)(d)	General ss.2(47), 45 & 48	No section equivalent to s.46(2)
Buy-back 01-to 31-03-2026to 31-03-2026	s.2(22)(f)	Special s.46A	Buy-back receipt is dividend; consideration for CG is deemed Nil

REDEMPTION OF PREFERENCE SHARES

Redemption is not automatically a reduction of capital merely because money is returned to shareholders. The corporate-law mechanism and the actual extinguishment / reduction of rights must be identified before invoking clause (d).

POST-1 OCTOBER 2024 BUY-BACK

Where section 2(22)(f) applies: buy-back amount is dividend. For section 46A, consideration is deemed Nil; the shareholder's cost can therefore generate a capital loss under the capital-gains computation.

PRACTITIONER CHECK

Do not classify the receipt merely from the commercial label. First identify the Companies Act transaction; then apply the corresponding Income-tax mechanism.

CAPITAL REDUCTION — PRACTICAL FORMS & TRANSFER ISSUES

Form of reduction	Transfer / extinguishment issue	Tax point
Cancellation of some shares	Strong case of extinguishment of shareholder rights	General capital-gains provisions become relevant
Reduction in face value with payment	Part of the rights represented by the share is reduced / extinguished	Split dividend component and capital component
Proportionate cancellation; ownership % unchanged	Same percentage ownership is not decisive if rights are actually extinguished	Examine substance of rights extinguished
Reduction with no payment	Transfer may still exist; consideration is a separate computation question	Nil consideration ≠ automatically no transfer
Accounting reclassification only	If shareholder rights are not extinguished or reduced, 'reduction' terminology alone is insufficient	Examine legal effect, not label

SECTION 50D — CAUTION

Section 50D addresses cases where consideration cannot be ascertained or determined. It should not be invoked mechanically where the legally ascertainable consideration is genuinely Nil.

KEY INSIGHT

TRANSFER and COMPUTATION are separate questions. First determine whether shareholder rights have been extinguished; then determine the consideration and resulting gain or loss.

SECTION 2(22)(e) — LOANS & ADVANCES: 1961 ACT vs 2025 ACT

Point	1961 Act — s.2(22)(e)	2025 Act — s.2(40)(e): BARE TEXT	What has Changed
Company / payment	Payment by a company in which the public are not substantially interested.	“any payment by a company, not being a company in which the public are substantially interested, of any sum...”	Same core trigger.
Limb 1 — shareholder	Advance / loan to beneficial owner of relevant shares carrying ≥10% voting power.	“as an advance or loan to a shareholder, being a person who is the beneficial owner of shares ... holding not less than 10% of the voting power”	No substantive change.
Limb 2 — concern	Advance / loan to concern in which such shareholder is member / partner and has substantial interest.	“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”	No substantive change.
Limb 3 — individual benefit	Payment on behalf of / for individual benefit of such shareholder.	“made on behalf, or for the individual benefit, of any such shareholder”	Independent route; need not be labelled a loan.
Ceiling	To extent company possesses accumulated profits.	“to the extent to which the company in either case possesses accumulated profits”	Same ceiling; historical 31-05-1987 cut-off omitted.

ANATOMY OF DEEMED DIVIDEND — WHEN DOES CLAUSE (e) APPLY?

STEP 1 — PAYER

Company NOT being a company in which the public are substantially interested

ROUTE 1 — SHAREHOLDER

Loan / advance to qualifying shareholder
≥10% voting power

ROUTE 2 — CONCERN

Loan / advance to concern in which the same
shareholder has substantial interest

ROUTE 3 — PERSONAL BENEFIT

Payment on behalf of / for individual benefit
of qualifying shareholder

ACCUMULATED-PROFITS CEILING

Deemed dividend cannot exceed accumulated profits available on the relevant payment date.

KEY INSIGHT — FORM IS NOT DECISIVE

Clause (e) is an anti-avoidance deeming rule: accumulated profits may be taxed as dividend even without a formal dividend declaration.

QUALIFYING SHAREHOLDER — 10% VOTING POWER & BENEFICIAL OWNERSHIP

10% TEST

Threshold is $\geq 10\%$ of VOTING POWER — not merely 10% of nominal share capital.

TIMING — IMPORTANT

Test the qualifying shareholding on the DATE OF THE LOAN / ADVANCE / PAYMENT — not merely at year-end.

REGISTERED OWNER

Person whose name appears in the company's register of members.

BENEFICIAL OWNER

Person for whose benefit the shares are actually held and who enjoys the relevant beneficial interest therein.

FAMILY TRUST — SIMPLE EXAMPLE

Shares stand in the name of X as trustee → X is the registered holder.

If the trust deed gives A the relevant beneficial interest → A may be the beneficial owner.

⚠ CAUTION

A trust beneficiary is NOT automatically the beneficial owner of the underlying shares.
Examine the trust deed and nature of rights.

REGISTERED vs BENEFICIAL OWNER — JUDICIAL CONTROVERSY

C.P. SARATHY MUDALIAR

Traditional approach:
“shareholder” understood as
registered shareholder.

ANKITECH

Beneficial ownership treated as an
additional condition; registered
shareholder requirement retained.

MADHUR HOUSING

Supreme Court approved the
Ankitech line in the appeal before
it.

NATIONAL TRAVEL

Later Bench doubted the
reasoning and referred the issue
for reconsideration.

WORKING JUDICIAL POSITION

Ankitech / Madhur Housing support REGISTERED SHAREHOLDER + BENEFICIAL OWNER. National Travel Services questioned that construction; the referred issue did not culminate in a final larger-Bench ruling.

NEW ACT — MISSED OPPORTUNITY?

Section 2(40)(e) retains the same expression — “a shareholder, being a person who is the beneficial owner...” — and therefore does not expressly resolve the old controversy.

LOAN TO A CONCERN — THE 10% + 20% TESTS

TEST 1 — PAYER COMPANY

Same shareholder must hold $\geq 10\%$ voting power in the closely held payer company.

TEST 2 — RECIPIENT CONCERN

Same shareholder must have $\geq 20\%$ substantial interest in the recipient concern.

WHAT IS A “CONCERN”?

HUF • Firm / LLP • AOP • BOI • Company

20% MEANS

Non-company concern: $\geq 20\%$ beneficial entitlement to income.
Company concern: $\geq 20\%$ voting power.

TIMING TRAP

For a non-company concern, the statute expressly tests substantial interest “at any time during the tax year”.

EXAMPLE

A holds 15% voting power in ABC Pvt. Ltd. + 25% profit share in XYZ LLP.
ABC advances ₹40 lakh to XYZ → both threshold tests are met.

PAYMENT RECIPIENT ≠ NECESSARILY TAXABLE PERSON

ILLUSTRATION

ABC Pvt. Ltd. → ₹40 lakh loan → XYZ LLP | A holds 15% in ABC and 25% profit share in XYZ

TRIGGER OF CLAUSE (e)

The payment to XYZ may satisfy limb (ii) because A meets both the 10% payer-company test and the 20% concern test.

WHO IS TAXED?

Under Ankitech / Madhur Housing, if XYZ itself is not a shareholder of ABC, deemed dividend is not simply assessed in XYZ's hands.

CRITICAL DISTINCTION

TRIGGER OF s.2(22)(e) ≠ PERSON IN WHOSE HANDS IT IS TAXABLE

The Revenue may instead examine taxability in the hands of the qualifying shareholder.

WHAT IS A “LOAN OR ADVANCE”? — COMMERCIAL TRANSACTIONS

NOSCITUR A SOCIIS

“A word is understood from the company it keeps.” Since “advance” appears alongside “loan”, it should not be given its widest possible meaning.

GRATUITOUS SHAREHOLDER FINANCING

Money made available merely because the recipient is a shareholder
→ potentially within clause (e).

GENUINE COMMERCIAL RECIPROCITY

Payment arising from genuine commercial obligations / reciprocal business dealing → examine substance; may not constitute the contemplated “loan or advance”.

RAJ KUMAR

“Advance” is read in context with “loan”; not every payment is caught.

CREATIVE DYEING

Job-work / commercial advance adjustable against business dues held outside the mischief.

PRADIP K. MALHOTRA

Commercial advantage / consideration to company can distinguish a business payment from gratuitous financing.

TRADE ADVANCE, CURRENT ACCOUNT & PERSONAL UTILISATION

CBDT CIRCULAR NO. 19/2017

CBDT accepted the judicial view that trade advances in the nature of commercial transactions would not fall within section 2(22)(e).

LEDGER NAME IS NOT DECISIVE

Calling an account “Director Current Account” or “Business Advance” does not determine taxability. Examine purpose, substance and surrounding obligations.

GENUINE CURRENT / BUSINESS ACCOUNT

Reciprocal commercial dealings, payments and adjustments may be distinguishable from a shareholder loan. Examine the account as a whole.

JAYKUMAR B. PATIL — BOM HC

Business-labelled advance actually used for shareholder’s personal tax liability was held taxable. Actual utilisation and substance mattered.

PRACTITIONER TEST

COMMERCIAL LABEL + COMMERCIAL DOCUMENTATION + ACTUAL BUSINESS UTILISATION must tell the same story.

ACCUMULATED PROFITS, REPAYMENT & TIMING

COMMERCIAL PROFITS

Accumulated profits means commercial profits in the real sense — not merely assessed / taxable income.

PAYMENT-DATE CUT-OFF

Include profits earned up to the DATE OF EACH PAYMENT.

POOL IS CONSUMED

Earlier amounts already absorbed as deemed dividend reduce the pool available for later payments.

CAPITALISED PROFITS — CAUTION

Clause (e) does not itself use “whether capitalised or not”. Genuine capitalisation therefore requires separate analysis; do not automatically import the rule applicable to clauses (a)–(d).

REPAYMENT DOES NOT CURE

Once the qualifying payment becomes deemed dividend, repayment in the same year — even shortly thereafter — does not reverse the consequence.

TIMELINE EXAMPLE

Opening accumulated profits ₹50L → 1 June loan ₹30L → pool left ₹20L → further commercial profit to 1 Dec ₹10L → available pool ₹30L → 1 Dec loan ₹40L → further deemed dividend capped at ₹30L.

CLAUSE (e) — EXCEPTIONS & TAX CONSEQUENCES

MONEY-LENDING EXCEPTION

BOTH conditions:

1. Loan in ordinary course of business; AND
2. Lending of money is a substantial part of company's business.

GROUP TREASURY EXCLUSION

Special cross-border group-entity exclusion for qualifying Finance Company / Finance Unit structures — NOT a general exemption for group-company loans.

SUBSEQUENT DIVIDEND SET-OFF

Actual dividend later set off against an earlier sum already treated as deemed dividend is excluded to the extent of the set-off.

RESIDENT RECIPIENT

Dividend TDS: generally 10%.

Final tax: at applicable income-tax rate.

10% TDS ≠ 10% FINAL TAX.

NON-RESIDENT RECIPIENT

Apply non-resident withholding / taxation provisions and then examine the applicable DTAA. Domestic “deemed dividend” characterisation does not end the treaty inquiry.

FINAL CLAUSE (e) CHECKLIST

PAYER → QUALIFYING SHAREHOLDER → NATURE OF PAYMENT → CONCERN / PERSONAL BENEFIT → EXCEPTIONS → ACCUMULATED PROFITS
→ PERSON TAXABLE → TDS / FINAL TAX

SECTION 2(22)(f) — BUY-BACK: SHORT-LIVED DIVIDEND REGIME

UP TO 30-09-2024

Buy-back was outside shareholder-side dividend treatment under clause (f).
Separate buy-back tax / capital-gains framework applied as per then law.

01-10-2024 TO 31-03-2026

Buy-back payment = dividend under s.2(22)(f).
For s.46A, consideration is deemed Nil; shareholder’s cost may generate capital loss.

FROM 01-04-2026

s.2(40)(f) omitted.
Buy-back returns to capital gains under s.69 of the 2025 Act, with additional tax for promoters.

IOS TAKEAWAY

Buy-back is relevant to IOS only for the transitional dividend window: 01-10-2024 to 31-03-2026.

Capital gain on buy-back from 01-04-2026	Promoter = Domestic company	Promoter = Other person
Short-term capital gains	Additional tax: 2%	Additional tax: 10%
Long-term capital gains	Additional tax: 9.5%	Additional tax: 17.5%

PRACTITIONER CHECK

For buy-back, first identify the transaction date; then identify whether the shareholder is a promoter under the applicable statutory definition.

WINNINGS — s.56(2)(ib) vs s.92(2)(b)

1961 ACT — s.56(2)(ib)

“income referred to in sub-clause (ix) of clause (24) of section 2”

→ Requires cross-reference to s.2(24)(ix)

2025 ACT — s.92(2)(b): BARE TEXT

“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”

CONCLUSION

No substantive change.

Cross-reference replaced by direct drafting.

WHAT IS COVERED?

Lottery • Crossword puzzle • Races including horse races • Card games / other games • Gambling • Betting

TAX RATE

Special-rate taxation applies to these winnings.
Online-game winnings follow a separate statutory regime.

IMPORTANT DISTINCTION

Online gaming winnings are separately dealt with; they should not be mechanically clubbed with the general winnings provision.

LECTURE POINT: This is primarily a drafting simplification in the 2025 Act — the subject matter is stated directly in s.92(2)(b).

EMPLOYEES' CONTRIBUTIONS — PGBP vs IOS & DEDUCTION

WHERE IS THE RECEIPT TAXED?

Business employer → ordinarily PGBP.
IOS applies only where the employee-contribution income is NOT chargeable under PGBP.

WHY DOES IOS COVER IT?

Residual route for an EMPLOYER whose receipt is not chargeable under PGBP — e.g. depending on facts, a club / association / society employing staff.

Issue	1961 Act	2025 Act — from 01-04-2026
Income provision	PGBP normally; otherwise s.56(2)(ic)	PGBP normally; otherwise s.92(2)(c)
Deduction — PGBP	s.36(1)(va)	s.29(1)(e)
Deduction — IOS	s.57(ia) → s.36(1)(va)	s.93(1)(b) → s.29(1)(e)
Deposit deadline	Due date under relevant PF / ESI / welfare law	ROI filing due date u/s 263(1)

SUBSTANTIVE RELAXATION FROM 01-04-2026

Finance Act, 2026 substitutes s.29(1)(e): deduction if credited to the relevant fund on or before ROI due date u/s 263(1). The same rule flows into IOS through s.93(1)(b).

KEYMAN INSURANCE & INTEREST ON SECURITIES — HEAD-OF-INCOME OVERRIDES

KEYMAN INSURANCE — s.56(2)(iv) → s.92(2)(d)

HEAD-OF-INCOME TEST

Business receipt → PGBP | Employment-linked receipt → Salaries |
Otherwise → IOS

ASSIGNMENT

Assigned Keyman policy continues to remain Keyman under the post-2013 law. Earlier assignment controversy is therefore largely statutorily closed.

POINT OF TAXATION

Mere assignment does not itself tax the surrender / maturity value in the assignee's hands; receipt under the policy is the relevant event.

CAUTION

Employer/entity maturity receipt: ordinarily gross receipt under PGBP; premiums belong to the years in which deductible. Assignee's own unrecovered cost / premiums require separate examination.

INTEREST ON SECURITIES — s.56(2)(id) → s.92(2)(e)

HEAD-OF-INCOME TEST — IMPORTANT

Securities held as part of business / trading activity → PGBP
Investment securities → IOS, where not otherwise business income

WHAT IS "INTEREST ON SECURITIES"?

Government securities + debentures / other securities for money issued by local authority, company or statutory corporation.

PRACTICAL DISTINCTION

Company debenture interest → potentially this clause.
Bank FD interest → IOS generally, but NOT "interest on securities".

DEDUCTION

Where taxed under IOS, reasonable commission / remuneration paid to a banker or other person for realising the interest is specifically deductible.

COMMON PRINCIPLE: FIRST TEST THE PRIMARY HEAD — IOS OPERATES RESIDUALLY.

LETTING OF PLANT / MACHINERY / FURNITURE & COMPOSITE LETTING

s.56(2)(ii) → s.92(2)(f)

Machinery / plant / furniture belonging to assessee let on hire
→ IOS only if the income is NOT chargeable under PGBP.

s.56(2)(iii) → s.92(2)(g)

Building + machinery / plant / furniture
→ composite income falls together where letting of building is
INSEPARABLE and is not PGBP.

SULTAN BROTHERS (SC) — INSEPARABILITY IS A TEST OF INTENTION, NOT PHYSICAL SEPARABILITY

1

**Were the building and machinery / plant /
furniture intended to be ENJOYED
TOGETHER?**

2

**Was the intention to make the two lettings
PRACTICALLY ONE LETTING?**

3

**Would either have been let / taken on lease
WITHOUT THE OTHER?**

If 1 = YES, 2 = YES and 3 = NO → letting is INSEPARABLE.

**BUSINESS LETTING
→ PGBP**

**NON-BUSINESS + INSEPARABLE
→ Entire composite receipt: IOS**

**SEPARABLE
→ Building: test House Property
→ Plant / machinery / furniture: test IOS**

DEDUCTION: s.57(ii) / s.93(1)(c) — specified deductions including repairs / insurance / depreciation, as applicable.

FORFEITED ADVANCE — TRANSFER OF A CAPITAL ASSET

1961 ACT — s.56(2)(ix)	2025 ACT — s.92(2)(h): BARE TEXT	CONCLUSION
Advance / other money received in negotiations for transfer of a capital asset: • sum forfeited; and • negotiations do not result in transfer.	“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”	NO SUBSTANTIVE CHANGE “In the course of” → “during” + renumbering

PRACTITIONER TEST — ALL CONDITIONS MATTER

1 Money received “as advance or otherwise”	2 During negotiations for transfer	3 Underlying asset = CAPITAL ASSET of the recipient	4 Amount is ACTUALLY FORFEITED	5 Negotiations do NOT result in transfer
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CAPITAL ASSET TEST — CRITICAL
Capital / investment WIP may potentially qualify.
Developer’s inventory / business WIP / stock-in-trade → NOT a capital asset → s.56(2)(ix) does not apply.

FAILURE OF s.56(2)(ix) ≠ AUTOMATIC EXEMPTION
Example: forfeited booking amount arising from developer’s ordinary business may require examination under PGBP.

s.51 → s.81 INTERACTION

Once the forfeited amount has already been included in income u/s 56(2)(ix) / 92(2)(h), it is NOT again deducted from the asset’s cost when capital gains are later computed.

CAUTION: Mere retention / pending dispute is not enough — there must be an actual forfeiture.

INTEREST ON COMPENSATION / ENHANCED COMPENSATION

1961 ACT s.56(2)(viii)	2025 ACT s.92(2)(i)	2025 ACT — BARE TEXT	READING
Income by way of interest received on compensation / enhanced compensation referred to in s.145B(1).	Corresponding specific IOS item; cross-reference shifts to s.278(1).	“any income by way of interest received on compensation or on enhanced compensation referred to in section 278(1)”	NO SUBSTANTIVE CHANGE Specific IOS charge continues.

TIMING
s.145B(1) → s.278(1)
Taxable in the year of RECEIPT.

DEDUCTION
s.57(iv) → s.93(1)(f)
50% statutory deduction; no other deduction under the IOS deduction section.

LAND ACQUISITION INTEREST — DO NOT TREAT ALL ‘INTEREST’ ALIKE

LAND ACQUISITION ACT, 1894 — s.28 INTEREST
PRE-01.04.2010: Ghanshyam (HUF) → part of enhanced compensation → CAPITAL GAINS u/s 45(5), not IOS.
POST-01.04.2010: conflicting jurisprudence; safer/current statutory reading → IOS u/s 56(2)(viii) r.w.s. 145B(1) + 50% deduction u/s 57(iv).

LAND ACQUISITION ACT, 1894 — s.34 INTEREST
Compensation for delay in payment.
Ordinarily IOS → receipt basis → 50% deduction.

RFCTLARR AWARD
FIRST test the RFCTLARR exemption.
Do NOT mechanically apply the IOS interest provision merely because the award contains an interest component.

UP TO 31.03.2026
RFCTLARR s.96 + CBDT Circular 36/2016 govern the exemption analysis.
Tribunal authority supports protection of interest forming part of the RFCTLARR award.

FROM 01.04.2026
Income-tax Act, 2025 (Finance Act, 2026): express Schedule III exemption for qualifying RFCTLARR compulsory-acquisition income — subject to statutory eligible-person / s.46 conditions.

PRACTITIONER SEQUENCE: RFCTLARR exemption first → only then test s.92(2)(i) / normal IOS treatment.

IMMOVABLE PROPERTY — s.56(2)(x)(b) / s.92(2)(m)(ii)

WITHOUT CONSIDERATION

SDV > ₹50,000
→ **WHOLE SDV taxable.**
₹50,000 is a threshold — not a deduction.

INADEQUATE CONSIDERATION

SDV – consideration taxable only if difference exceeds **HIGHER OF:**
₹50,000 OR 10% of consideration.

CAPITAL-ASSET TEST — DON'T MISS IT

“Property” = capital asset of assessee.
Character tested in **RECIPIENT'S** hands.
Stock-in-trade → strong case outside this limb.

AGREEMENT DATE ≠ REGISTRATION DATE — PRACTICAL EXAMPLE

15.06.2024
Agreement ₹1.00 Cr
SDV ₹1.04 Cr
₹5 lakh paid by qualifying banking mode

20.06.2026
Registration
SDV ₹1.30 Cr
Agreement-date protection available

TEST
₹1.04 Cr – ₹1.00 Cr
= ₹4 lakh
10% = ₹10 lakh

RESULT
₹4 lakh < ₹10 lakh
→ **NIL addition**

IF NO QUALIFYING PAYMENT ON / BEFORE AGREEMENT DATE
Agreement-date SDV protection fails.
₹1.30 Cr – ₹1.00 Cr = ₹30 lakh > ₹10 lakh tolerance
→ ₹30 lakh taxable — **NOT** merely ₹20 lakh.

10% IS A SAFE-HARBOUR THRESHOLD — NOT A DEDUCTION
Once threshold is crossed, the whole SDV–consideration difference is brought to tax.

SDV DISPUTED?
Seek DVO reference.

Example: SDV ₹1.30 Cr
DVO ₹1.08 Cr → difference 8%
→ within 10% → **NIL**

DVO ₹1.40 Cr?
Adopt ₹1.30 Cr — DVO cannot worsen position beyond original SDV.

2025 ACT — s.92(4)(a): agreement-date SDV “SHALL APPLY” where payment condition is met | s.92(4)(b): DVO safeguard continues.

SPECIFIED MOVABLE PROPERTY — s.56(2)(x)(c) / s.92(2)(m)(iii)

WITHOUT CONSIDERATION	INADEQUATE CONSIDERATION	WHAT PROPERTY IS COVERED?
Aggregate FMV > ₹50,000 → WHOLE aggregate FMV taxable. ₹50,000 is a threshold — not a deduction.	FMV – consideration > ₹50,000 → WHOLE difference taxable. No 10% safe harbour for movable property.	Only specified “property”: shares / securities, jewellery, archaeological collections, drawings, paintings, sculptures, work of art, bullion, VDA.

PRACTICAL EXAMPLES — AGGREGATE TEST & VALUATION

GIFT EXAMPLE Shares ₹30,000 + Jewellery ₹25,000 Aggregate FMV ₹55,000 → Taxable ₹55,000, not ₹5,000	UNDERVALUED SHARES Consideration ₹4.00 lakh Rule 11UA FMV ₹4.80 lakh Difference ₹80,000 → taxable ₹80,000	VALUATION ROUTE FMV is under Rule 11UA / corresponding rules — quoted shares, unquoted equity, jewellery and art have different methods.
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CAPITAL-ASSET TEST — CRITICAL “Property” means specified CAPITAL ASSET of the assessee. If shares / jewellery etc. are genuinely acquired as stock-in-trade, s.56(2)(x) application is strongly arguable against.	NOT EVERY VALUABLE MOVABLE ASSET IS COVERED Cars, furniture, machinery, watches, electronics etc. are not covered merely because they are valuable, unless they fall within the defined list.
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SUBSEQUENT SALE — COST COORDINATION

TAXED ON RECEIPT → COST STEP-UP Paid ₹10 lakh FMV ₹25 lakh ₹15 lakh taxed as IOS Later sale ₹30 lakh → Cost ₹25 lakh → CG ₹5 lakh	EXEMPT RELATIVE GIFT → NO FMV STEP-UP Father’s cost ₹6 lakh FMV ₹25 lakh Gift to son exempt Later sale ₹30 lakh → Cost generally ₹6 lakh, not ₹25 lakh
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CORE MESSAGE: s.49(4) / 2025 s.73 step-up applies only where the value was actually subjected to IOS taxation.

EXCEPTIONS TO s.56(2)(x) / s.92(2)(m)

1961 ACT
Exceptions embedded in proviso to s.56(2)(x)

2025 ACT
Exceptions reorganised in s.92(3)

EXCEPTION BUCKETS — READ BEFORE COMPUTING DEEMED INCOME

1 FAMILY / PERSONAL
Relative; marriage of the individual; will / inheritance; contemplation of death.
Example: unrelated gift to bride on her marriage → protected.

2 GOVERNMENT / NPO
Local authority; qualifying registered / approved NPO receipts.
Example: receipt from qualifying registered NPO → test specific conditions.

3 REORGANISATION
Only specified tax-neutral transactions.
Example: amalgamation / demerger clauses listed in the exception.

4 TRUST / PRESCRIBED
Family trust solely for relatives; prescribed classes.
Example: individual → trust solely for statutory relatives.

DON'T MISS — PRACTITIONER CAUTIONS

HUF → MEMBER
Literal relative definition is asymmetric, but Tribunal jurisprudence supports non-taxability based on pre-existing HUF interest / collective family character.

RELATED COMPANIES ≠ RELATIVES
Common shareholders / group relationship does not create a relative exception.
Check specific reorganisation clause.

DONOR'S s.47 EXEMPTION ≠ RECIPIENT'S EXEMPTION
Ordinary gift may be non-transfer for donor, but recipient must independently satisfy s.56 exception.

FIRM / PROPRIETORSHIP → PVT LTD
s.47(xiii)/(xiv) may protect transferor's capital gains if conditions are met.
But these clauses are not automatically mirrored in s.56(2)(x) / s.92(3).
Defence generally starts with: genuine succession for consideration, not gratuitous receipt.

FAMILY TRUST — WORD "SOLELY" IS CRITICAL
Donor must be an individual; recipient must be a trust; beneficiaries must be solely statutory relatives of that individual.
Unrelated / discretionary wider beneficiaries can disturb the exception.

CORE MESSAGE: EXCEPTIONS ARE SPECIFIC — DO NOT ASSUME THAT EVERY FAMILY, GROUP OR TAX-NEUTRAL TRANSACTION IS AUTOMATICALLY OUTSIDE s.56(2)(x).

EMPLOYMENT TERMINATION / MODIFICATION COMPENSATION

1961 ACT — s.56(2)(xi)	2025 ACT — s.92(2)(j): BARE TEXT	CONCLUSION
Compensation / other payment, by whatever name called, in connection with termination of employment or modification of employment terms.	“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”	No substantive change. But head-of-income and exemption tests are crucial.

CLASSIFICATION FLOW — FIRST IDENTIFY THE PAYER & RELATIONSHIP

EMPLOYER / FORMER EMPLOYER → Salary / profits in lieu of salary	PROSPECTIVE EMPLOYER / POST-CESSATION PAYMENT → May still fall under Salary	GENUINE THIRD-PARTY PAYMENT → IOS u/s 56(2)(xi) / 92(2)(j)	BUSINESS / PROFESSIONAL NON-COMPETE → PGBP u/s 28(va)
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EXAMPLE — THIRD-PARTY PAYMENT

Company A acquires Company B. A senior employee of B receives ₹30 lakh directly from A for agreeing to termination / modification of his employment with B.

A is not his employer / former employer → examine IOS.

DO NOT START WITH TAXABILITY

First test exemption. Termination-related receipt may be partly / fully exempt depending on the provision and conditions.

RETRENCHMENT COMPENSATION — s.10(10B)

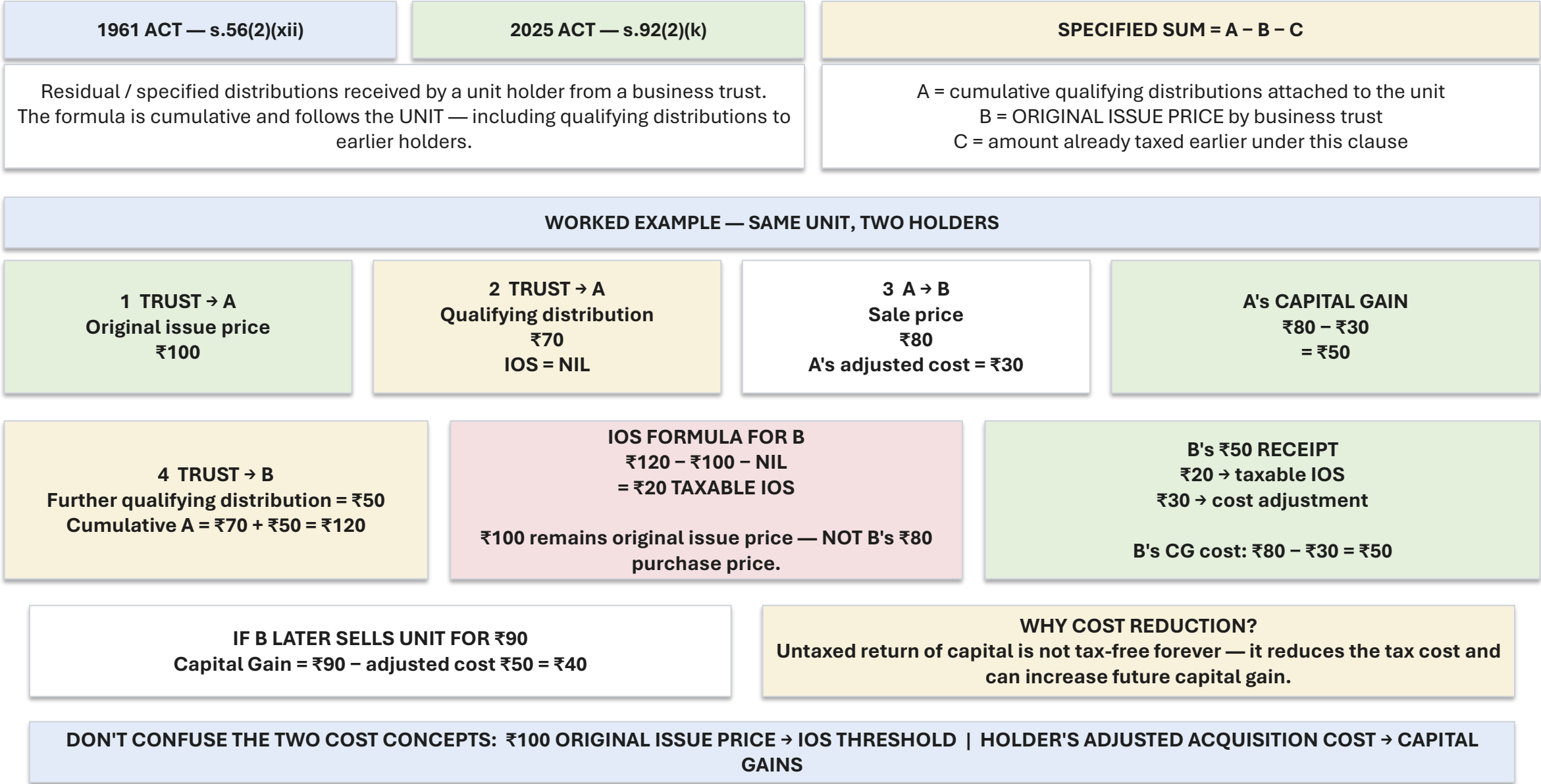
Exempt to the statutory / prescribed extent; ordinary ceiling presently ₹5 lakh.

VRS / VOLUNTARY SEPARATION — s.10(10C)

Qualifying compensation exempt up to ₹5 lakh, subject to conditions.

CORE MESSAGE: TERMINATION COMPENSATION ≠ AUTOMATIC IOS — TEST SALARY, PGBP, EXEMPTION AND ONLY THEN IOS.

BUSINESS TRUST — SPECIFIED SUM & COST ADJUSTMENT



SPECIFIED LIFE-INSURANCE RECEIPTS — WHEN s.10(10D) FAILS

1961 ACT — s.56(2)(xiii)

Non-exempt life-policy receipt (other than ULIP / Keyman category): tax the amount received, including bonus, after reducing eligible premium not already claimed as deduction.

2025 ACT — s.92(2)(l)

CORE RULE

FAILURE OF s.10(10D) EXEMPTION ≠ GROSS PROCEEDS TAXABLE
Only the income component enters IOS.

DECISION TREE — CLASSIFY BEFORE COMPUTING IOS

DEATH RECEIPT?

₹5 lakh high-premium restriction does not apply.
Test s.10(10D) death exception.

ULIP?

Separate ULIP regime.
NOT s.56(2)(xiii) / s.92(2)(l).

KEYMAN?

Separate specific IOS / Keyman provision.
Do not use this clause.

OTHER LIFE POLICY

Proceed to full s.10(10D) exemption test.

s.10(10D) — TWO DISTINCT TESTS

- 1 Premium as % of actual capital sum assured — applicable historical 20% / 10% / 15% limits.
- 2 Policy issued on/after 01.04.2023 — ₹5 lakh premium test, including aggregation rules.

MULTIPLE POLICIES

₹5 lakh test applies to aggregate premium of policies selected for exemption. CBDT Circular 15/2023 permits the exemption combination to be worked in the manner beneficial to the assessee, subject to conditions.

IF EXEMPTION FAILS — NET INCOME

Example: maturity ₹55 lakh
Eligible premiums ₹40 lakh
Taxable IOS = ₹15 lakh

NO DOUBLE DEDUCTION OF PREMIUM

If part of premium has already been claimed as a deduction under the Act, that portion cannot again reduce the policy receipt for IOS computation.

PRACTITIONER CAUTION: ₹5 LAKH TEST ≠ THE ONLY s.10(10D) TEST — CHECK ALL EXEMPTION CONDITIONS FIRST.

DEDUCTIONS FROM IOS — s.57 / s.93

SPECIFIC DEDUCTIONS — OLD ACT ↔ NEW ACT

INTEREST ON SECURITIES

Reasonable collection commission / remuneration.
2025 Act s.93(1)(a).

EMPLOYEES' CONTRIBUTION

IOS receipt → deduction through s.36(1)(va) / new s.29(1)(e).
Timely deposit condition applies.

PLANT / MACHINERY LETTING

Repairs, insurance, depreciation etc. through the cross-referenced business deduction provisions.

FAMILY PENSION

1/3 or ₹15,000, lower.
₹25,000 where applicable under new-regime computation.

COMPENSATION INTEREST

50% deduction.
No other deduction under this section against such income.

NEW ACT — OTHER ITEMS

Specified pension-fund commutation and death gratuity: entire amount deductible under s.93(1)(g)/(h).

FINANCE ACT, 2026 — MAJOR CHANGE FOR DIVIDEND / MUTUAL-FUND UNIT INCOME

1961 ACT / EARLIER NEW-ACT POSITION

Interest expense against ordinary dividend/unit income was restricted to 20% of gross income (subject to statutory wording).

FROM 01.04.2026 — s.93(2)

NO deduction against dividend income or specified MF / UTI unit income.
The earlier 20% interest deduction is removed.

PRACTICAL: Dividend ₹1,00,000 + attributable interest ₹25,000 → earlier cap ₹20,000; under amended s.93 from TY 2026-27 → deduction NIL.

GENERAL DEDUCTION — s.57(iii) / s.93(1)(e)

BARE TEST: non-capital expenditure laid out or expended **WHOLLY AND EXCLUSIVELY** for the purpose of **MAKING OR EARNING SUCH INCOME**.

1 PURPOSE TEST

Was the expenditure incurred with the object of earning the particular IOS?
Actual income need not necessarily arise in that year.

2 NEXUS TEST

Link expenditure to the IOS source / earning activity.
Merely being an assessee's expenditure is insufficient.

3 CAPITAL TEST

Expense to acquire / establish title to the capital asset is ordinarily outside s.57(iii).
Expense to earn/recover income may qualify.

RAJENDRA PRASAD MOODY — SC

Borrowing used for income-producing investment; interest deduction does not fail merely because no income was actually received in that year.

BUT SPECIFIC RESTRICTIONS OVERRIDE

A general s.57(iii) argument cannot defeat an express statutory bar / cap — dividend deduction is the clearest example.

EXAMPLE — POTENTIALLY DEDUCTIBLE

₹1 lakh legal/professional expense incurred solely to recover an existing taxable IOS receipt.
Revenue nature + direct earning/recovery nexus → examine s.57(iii).

EXAMPLE — GENERALLY NOT s.57(iii)

₹1 lakh litigation expenditure to establish ownership/title of the underlying capital asset itself.
Issue is capital character / asset acquisition-protection, not merely earning IOS.

s.57(iii) IS NARROWER THAN THE BUSINESS DEDUCTION FRAMEWORK: focus on the purpose of making / earning “SUCH INCOME”, not general commercial expediency.

AMOUNTS NOT DEDUCTIBLE — s.58 / s.94

CORE RULE: “DEDUCTIBLE UNDER s.57 / s.93” IS ONLY THE FIRST TEST — DISALLOWANCE PROVISIONS MAY STILL TAKE IT AWAY.

1
Does s.57 / s.93 permit the deduction?

2
Is it personal or capital in nature?

3
TDS / tax compliance default?

4
Related-party / cash-payment restriction?

5
Specific no-deduction income?

DIRECT PROHIBITIONS

- s.58(1) / s.94(1)
- Personal expenses
 - Interest payable outside India without tax/TDS compliance
 - Salary payable outside India without tax/TDS compliance

IMPORTED BUSINESS-DISALLOWANCE RULES

Old Act: s.58 imports s.40(a)(ia)/(iia) and s.40A.
New Act: s.94 imports corresponding business-disallowance provisions.
Effect: IOS deductions must survive TDS, related-party and cash-payment rules.

TDS EXAMPLE

Professional fees ₹2 lakh otherwise allowable u/s 57(iii).
TDS default → imported s.40(a)(ia) can disallow 30% = ₹60,000.

RELATED PARTY

Management charges paid to related concern.
Even if nexus exists, excessive / unreasonable portion can be disallowed.

CASH PAYMENT

Cash expenditure beyond prescribed limit can be hit by imported s.40A(3), subject to Rule 6DD-type exceptions.

WINNINGS — STRONGER BAR

Lottery, crossword, races, card games, gambling / betting etc. → no expenditure or allowance deductible, except the specific horse-owner carve-out.

PRACTITIONER SEQUENCE: ALLOWABILITY → s.58 / s.94 BAR → IMPORTED s.40 / s.40A-TYPE TESTS → SPECIFIC NO-DEDUCTION RULE.

RECAPTURE OF EARLIER DEDUCTIONS — s.59 / s.95

CORE IDEA: IF A DEDUCTION / ALLOWANCE WAS ENJOYED EARLIER, A LATER RECOVERY OR BENEFIT MAY BE BROUGHT BACK TO TAX.

YEAR 1

Expense / liability ₹2,00,000
Deduction allowed while computing IOS

LATER YEAR

Creditor waives ₹80,000
or assessee recovers part of earlier
expense

RECAPTURE

₹80,000 may become taxable
because the earlier deduction has effectively been
reversed

1961 ACT — s.59

Imports s.41(1), so far as may be, into computation under s.56.

FOCUS: recovery of earlier loss / expenditure and remission or cessation of
an earlier liability.

2025 ACT — s.95

Imports s.38(1)–(4) into computation under s.92.

On its face, the cross-reference is **BROADER** than old s.59 because s.38
contains several recapture situations.

NEW-ACT WATCHPOINT — NOT MERELY A RENUMBERING

s.38 includes remission / cessation & recovery of expenditure, and also provisions dealing with specified asset recoupments, bad-debt recovery, special-reserve withdrawal and successor situations. Examine applicability to IOS under s.95 case-by-case.

PRACTITIONER TEST: WHAT WAS DEDUCTED EARLIER? → WHAT BENEFIT / RECOVERY AROSE NOW? → DOES THE RECAPTURE CROSS-REFERENCE APPLY?

IOS — COMPLETE COMPUTATION FRAMEWORK

START WITH CLASSIFICATION — IOS IS THE RESIDUARY HEAD, NOT A DEFAULT SUBSTITUTE FOR ANOTHER SPECIFIC HEAD.

1 CLASSIFY

Does the receipt properly belong under Salary, House Property, PGBP or Capital Gains?
If not → test IOS.

2 CHARGE

s.56(1) residual charge + specific inclusions under s.56(2)
↔ corresponding architecture of s.92.

3 VALUE / DEEM

Apply specific valuation & deeming rules: gifts/property, forfeited advances, compensation interest and other specified receipts.

4 DEDUCT

Apply only deductions permitted by s.57 / s.93.
General nexus test + specific statutory deductions.

5 RESTRICT

Then test s.58 / s.94 and imported disallowances — TDS, related party, cash payments, winnings etc.

6 RECAPTURE

Finally test s.59 / s.95 where an earlier deduction / allowance is later recovered, remitted or otherwise reversed.

THE COMPUTATION SEQUENCE

CLASSIFICATION → CHARGE → VALUATION / DEEMING → DEDUCTIONS → DISALLOWANCES → RECAPTURE

KEY TAKEAWAY

IOS IS RESIDUARY AS A HEAD — BUT ONCE A RECEIPT ENTERS IOS, ITS COMPUTATION IS NOT RESIDUARY.
Apply the specific charging, valuation, deduction and restriction provisions.

THANK YOU FOR YOUR PATIENT LISTENING

CA Rohit Arun Ranade

ONE CLOSING THOUGHT

**IOS IS RESIDUARY AS A HEAD —
BUT ONCE A RECEIPT ENTERS IOS, ITS COMPUTATION IS NOT RESIDUARY.**

CLASSIFY

COMPUTE

CROSS-CHECK

Specific charge • valuation • deductions • disallowances • recapture

QUESTIONS & DISCUSSION

Direct Taxes Committee of ICAI Webinar • Session 1 : Income from Other Sources