CHAPTER 10

INCOME FROM OTHER SOURCES

The **residuary head**: everything not covered by the other four heads. Focus on the **list of items**, the **receipt basis**, **gifts and cash loans**, **prizes**, **dividend**, **profit on debt** and the **paid-basis deductions**. Law: ITO 2001 · tax year 2027.

CHAPTER ROADMAP

1 Description and scope s.39
2 Prizes and winnings s.156
3 Dividend ss.2(19) · 5
4 Profit on debt ss.2(46) · 7B
5 Admissible deductions s.40

DEFINITION **Section 39:** income of **every kind received** in a tax year that is not in any other head, other than exempt income, is chargeable **in that year** under **Income from other sources** — on a **receipt basis**. Income that has accrued but not been received is **not** taxed.

1 WHAT FALLS UNDER THIS HEAD

section 39 · twelve groups

DIVIDEND · ROYALTY · PROFIT ON DEBT

Dividend (final tax); royalty; profit on debt where earning it is **not** the person's business.

REFUND PAYMENTS · GROUND RENT · SUB-LEASE

Additional payment on a **delayed refund** under any tax law; **ground rent**; rent from the **sub-lease** of land or a building.

BUILDING WITH PLANT · SERVICES

Lease of a **building together with plant or machinery**; amenities, utilities or services connected with renting a building.

UNEXPLAINED INCOME

Income deemed under **section 111** (unexplained assets or income).

ANNUITY · PENSION · VPS

Annuity or pension; amounts from an **Approved Income Payment Plan** or **Annuity Plan** under the Voluntary Pension System Rules, 2005.

PRIZES AND WINNINGS

Prize bond, raffle, lottery, quiz, crossword (final tax).

EXPLOITATION OF PROPERTY

Consideration for the **use or exploitation of property**, including a right to explore for or exploit **natural resources**; and the **FMV of any benefit** received.

VACATING POSSESSION

Amount received for **vacating a building** less the amount paid to acquire possession — taxed in **equal parts over ten years**, starting with the year of receipt.

GIFTS · NON-RELATIVE

Money or the **FMV of property received without consideration**, other than from a **relative**. A **cash gift is taxable even from a relative**.

LOANS · ADVANCES · DEPOSITS

Received from a person other than a **bank / financial institution**, or **not by digital means / crossed cheque**, or **not from an NTN holder**. Advances for sale of goods or services are outside this clause.

BONUS SHARES

Income arising to a shareholder from the **issue of bonus shares**.

NATIONAL SAVINGS · ARREARS

Profit on NSDC / DSC paid in arrears and taxed at a higher rate: elect, by the **return due date**, the **rates of the year it relates to**.

RELATIVE **Relative** (for gifts): an **ancestor**, a **descendant of any of the grandparents**, or an adopted child of the individual or of his spouse; and the **spouse** of the individual or of any such person. A non-relative gift received by crossed cheque is still taxable.

2 PRIZES AND WINNINGS

section 156 · final tax

WHAT IS COVERED

Prize bond; raffle, lottery, quiz, crossword; **promotion prizes** offered by companies; the **FMV of a prize not paid in cash**.

RATES

Prize bond and crossword: **15% active / 30% non-active**. All other prizes and winnings: **20% active / 40% non-active**. Tax deducted is **non-adjustable** and final.

3 DIVIDEND

final tax for all taxpayers, companies included

INCLUDES

Distribution of **accumulated profits**; debentures; liquidation and capital-reduction distributions (to the extent of profits); a **private company's loan, advance or payment for a shareholder's benefit** (to the extent of profits); **after-tax profit remitted by a foreign branch**.

EXCLUDES

Distribution for **full cash consideration** where the holder cannot share surplus assets; **loan by a money-lending company**; dividend set off against earlier deemed dividend; remittance by a branch of an **E&P** foreign company.

GROSS-UP EXAMPLE

Warrant Rs. 19,500 net of 15% tax and **zakat Rs. 500**: taxable dividend = (19,500 + 500) ÷ 85% = **Rs. 23,530**; tax 15% = **Rs. 3,530**. The zakat is not deducted from total income.

4 PROFIT ON DEBT

section 2(46)

DEFINITION

Any profit, yield, interest, **discount, premium** or other amount owing under a debt **other than return of capital**; any **service fee or charge** including on an **unused credit facility**.

BUSINESS vs OTHER SOURCES

Business income only where the person's business is to earn it (banks, financial institutions). Otherwise: **other sources**.

INDIVIDUAL / AOP · UP TO RS. 5 MILLION

From prescribed persons (banks, governments, national savings…): **15% under s.7B** as a separate block.

ABOVE RS. 5 MILLION

Taxed under the **normal regime** at slab rates, but the tax **cannot be less than the tax withheld**.

WITHHOLDING · s.151

20% on yield from bank deposits; **15%** on yield from all other investments or instruments.

BAHBOOD · PENSIONERS' BENEFIT

Individual: normal regime with a **maximum rate of 5%**.

5 ADMISSIBLE DEDUCTIONS

section 40

PAID BASIS

Income is on a **receipt basis**, so deductions are on a **paid basis**: any expenditure **paid** to earn the income, other than **capital expenditure** (useful life above one year).

ZAKAT

Zakat paid on **profit on debt**, at the time the profit is paid, is deducted **within this head**.

BUILDING WITH PLANT

Depreciation on **plant, machinery and building** (s.22); **initial allowance on plant and machinery only** (s.23).

LIMITS

No double deduction across heads; **section 21** disallowances apply exactly as in business income.

	Income from property	Income from other sources
Basis of income	Rent **received or receivable** for the year	**Receipt basis** only
Repairs	Fixed **1/5 of rent**	**Actual** repair expense
Deductions	Paid **or payable**	**Paid** only
Typical items	Rent of owned land and buildings	Sub-lease rent; building with plant; amenities; gifts; dividend; prizes

6 WORKED EXAMPLE · BUILDING LEASED WITH PLANT

fresh numbers

New building (Rs. 8,000,000) and new machinery (Rs. 4,000,000, first used in Pakistan) bought on 1 August 2026 and leased together from 1 January 2027 at a composite rent of Rs. 500,000 a month. Repairs paid Rs. 200,000; insurance paid Rs. 60,000; collection charges Rs. 30,000 still unpaid at 30 June 2027.

Item	Rs.	Working
Rent (6 months)	3,000,000	500,000 × 6
Repairs and insurance paid (260,000); unpaid collection charges not deductible	(260,000)	paid basis
Building depreciation 10%	(800,000)	10% × 8m
Plant: initial allowance 25%	(1,000,000)	25% × 4m
Plant: depreciation 15% × 3,000,000	(450,000)	15% × 3m
Income from other sources	**490,000**	

7 EXAM FOCUS · MCQ TRAPS

what examiners test

1 Receipt basis

Accrued-but-unreceived income is not taxed; deductions are on a **paid** basis.

2 Cash gifts

Cash gifts are taxable even from relatives; a non-relative's gift (even by cheque) is taxable.

3 Loans and advances

Taxable if from a non-bank / non-NTN person or not by banking channel — **not** advances for goods or services.

4 Dividend

Gross up **(net + zakat) ÷ 85%**; final tax; **25%** where the company pays no tax.

5 Prizes

Bond and crossword **15% / 30%**; others **20% / 40%**; non-cash prizes at **FMV**.

6 Profit on debt

Business only for **lenders**; up to **Rs. 5m** → 15% (s.7B); above → normal regime, not below withholding.

7 Building with plant

Other sources; depreciation on both, **initial allowance on plant only**.

8 Vacating possession

Net amount taxed in **ten equal parts** from the year of receipt.

CLASSIFY IT · WHICH HEAD?

1	Rent of own building let out	PROPERTY
2	Sub-lease rent received by a tenant	OTHER SOURCES
3	Factory building let with machinery	OTHER SOURCES
4	Bank profit of a salaried person	OTHER SOURCES
5	Prize bond winnings	FINAL TAX
6	Salary of an employee	SALARY
7	Bonus shares received	OTHER SOURCES
8	Unexplained deposit deemed income (s.111)	OTHER SOURCES

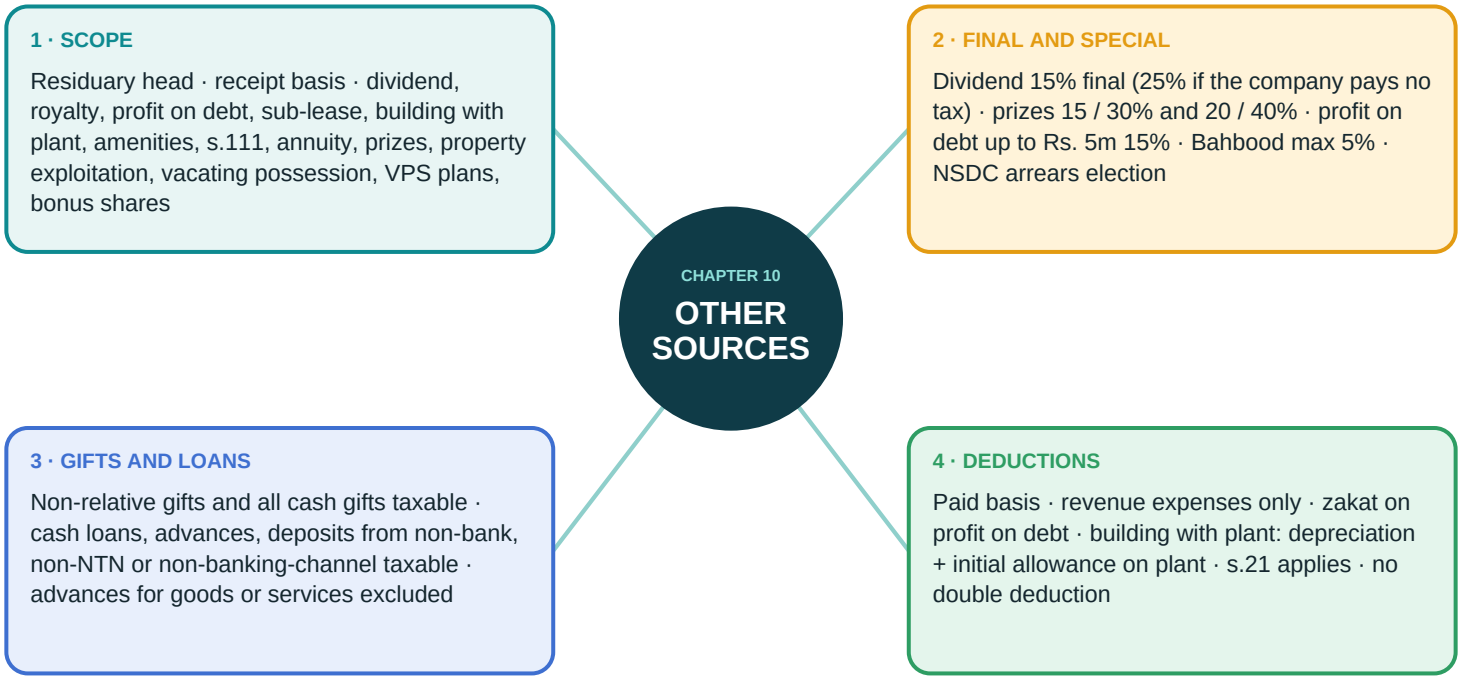
CLASSIFY IT · GIFT OR LOAN: TAXABLE?

1	Cash gift from his brother	TAXABLE
2	Gift by crossed cheque from his uncle	NOT TAXABLE
3	Car gifted by a friend	TAXABLE
4	Cash loan from a friend with no NTN	TAXABLE
5	Loan from a bank	NOT TAXABLE
6	Advance received for supply of goods	NOT TAXABLE
7	Gift by crossed cheque from his wife	NOT TAXABLE
8	Gift by crossed cheque from a cousin	NOT TAXABLE

RATES TO KNOW

Profit on debt	Bank deposit WHT	Other yield WHT	Dividend	Prizes
up to Rs. 5m: 15% (s.7B)	20%	15%	15% final	15 / 30% · 20 / 40%

REVISION MAP



Scope
Residuary and receipt-based.

Final tax
Dividend and prizes.

Gifts
Cash gifts always taxable.

Deductions
Paid basis only.