Aman Satish and Company

Stay Ahead with
the Latest in Finance, Tax,
and Legal Compliance.

FIN-O-SCOPE

Dec 23rd, 2024

From Checkmate to Tax Rates: A Historic Win and Its Financial Implications

Let's talk about an incredible milestone achieved by 18-year-old Grandmaster D. Gukesh, who has officially become the youngest-ever World Chess Champion! Gukesh's victory in the 2024 FIDE World Chess Championship, held in Singapore, was nothing short of extraordinary. He defeated China's reigning champion, Ding Liren, in the 14th and decisive game, cementing his legacy as a prodigy in the chess world.

This achievement is not just a personal triumph for Gukesh; it's also a proud moment for India. He becomes the second Indian to hold this prestigious title, following the legendary Viswanathan Anand. By surpassing Garry Kasparov's record for the youngest World

Key Facts

- The Finance Act, 1972 introduced taxation on casual and non-recurring income, including winnings from lotteries, card games, and gambling under Section 2(24) (ix) of the Income Tax Act.
- Winnings include monetary and non-monetary prizes from lotteries, races, card games, and games of any sort, as well as gambling or betting, making them taxable income.

Key Facts

- The Supreme Court in CIT v. G.R. Karthikeyan [1993] 68 Taxman 145 (SC) clarified that the term "other games of any sort" in the tax definition is broad and not limited to gambling.
- The term "any other similar game" in Explanation (ii) to Section 2(24)(ix) is to be interpreted broadly but does not include activities like horse racing, as held in Bangalore Turf Club Ltd. v. UOI [2014] 52 taxmann.com 290 (Karnataka).
- The courts distinguish between games of skill and chance. Skill-based games are not considered gambling and are excluded from the scope of Section 2(24)(ix), as seen in rulings on rummy, online fantasy sports, and horse race betting.

Now, let's delve into the numbers: the tournament saw 14 grueling games, with Gukesh winning three and Ding two. The final game, initially poised for a draw, turned in Gukesh's favor due to a critical misstep by Ding under intense pressure.

Breaking Down Gukesh's Prize Money

Gukesh's reward for his historic victory amounted to a substantial ₹11.45 crore (approximately $1.35 million). The prize distribution was as follows: Gukesh earned ₹5.07 crore for winning three games and an equal share of the remaining prize fund, which amounted to ₹6.35 crore, bringing his total earnings to ₹11.45 crore. On the other hand, Ding Liren, who won two games, earned ₹3.38 crore for his wins and an equal share of the remaining prize fund, totaling ₹9.75 crore. This impressive prize money reflects Gukesh's dedication and exceptional talent. However, as expected, it comes with significant tax implications, which we'll explore further.

How Will Gukesh's Winnings Be Taxed?

In some countries like Singapore, winnings from games, including sports, are treated as windfall gains and are not subject to tax. However, in India, such winnings are taxable under specific provisions of the Income Tax Act, 1961. Let's understand how Gukesh's earnings will be taxed:

Flat Taxation of Winnings

- Gukesh's prize money from chess tournaments is considered income from other sources.

Flat Tax Rate:

- Winnings are taxed at a flat 30% rate, regardless of any other income he earns or the tax slab applicable to him.

Additional Taxes for High Earners

- For individuals with an annual income exceeding ₹5 crore, a 37% surcharge is applied to the tax liability under the Old Regime, whereas a 25% surcharge is applied under the New Regime.
- Additionally, a 4% health and education cess is levied on the total tax amount, including the surcharge.

Could There Be a Tax Exemption?

Here's where things get interesting. Under Section 10(17A), prize money or rewards from the government or recognized bodies for "public interest" achievements can be exempt. For Gukesh to qualify:

- The government must classify his prize as a "reward for extraordinary achievement."
- An official notification must be issued under this section, similar to past exemptions granted to Sachin Tendulkar and Ravi Shastri.

Appeal for Tax Exemption

Mayiladuthurai MP R. Sudha has already stepped up, writing to the Prime Minister and Finance Minister. She has highlighted Gukesh's historic win and urged the government to waive the ₹4.8 crore tax burden, citing past precedents and the need to encourage talent in non-mainstream sports like chess.

Why a Tax Exemption Matters

- **Support for Emerging Talent:** Reducing tax burdens would inspire other young athletes in sports that lack commercial sponsorships.
- **Recognition for Chess:** A tax break would show the government's commitment to supporting diverse sports, beyond cricket.
- **Strategic Investments:** If exempted, Gukesh could reinvest the saved ₹4.8 crore into advanced training, international tournaments, or cutting-edge tools to enhance his game.

As of now, the Ministry of Finance has not made an official announcement. Chess fans and sports enthusiasts alike are eagerly awaiting the government's decision. Gukesh's triumph is more than just a victory; it's a testament to the power of dedication, strategy, and unyielding determination.

For any services related to taxation, accounting, or financial advisory, please feel free to contact us at aman@ascconsultants.in

Disclaimer:

This newsletter is intended for private circulation only. The views expressed are those of the editorial team and are based on publicly available information and Government portal platforms. Amna Satish & Company does not accept any liability, direct or indirect, for any consequences arising from the use of the information contained herein. Reproduction of any content from this newsletter is prohibited without prior consent from Amna Satish & Company. While every effort has been made to ensure the accuracy of the information, Amna Satish & Company does not accept responsibility for any errors or omissions.

Key Facts

- The Madras High Court and Apex Court have held that games primarily involving skill, such as rummy and online fantasy sports, are not games of chance and do not fall under the gambling category.
- Casual income that does not fall under the specified categories is taxed according to the general provisions. Additionally, under Section 58(4), no deductions or allowances are permitted against casual income earned from specified categories such as lotteries and gambling.
- As per Section 10(17A), awards received in recognition of exceptional achievements, including those notified by the government, are fully exempt from tax.
- Windfall refers to an unexpected or unearned financial gain, often received suddenly or by chance, such as a large prize or inheritance.