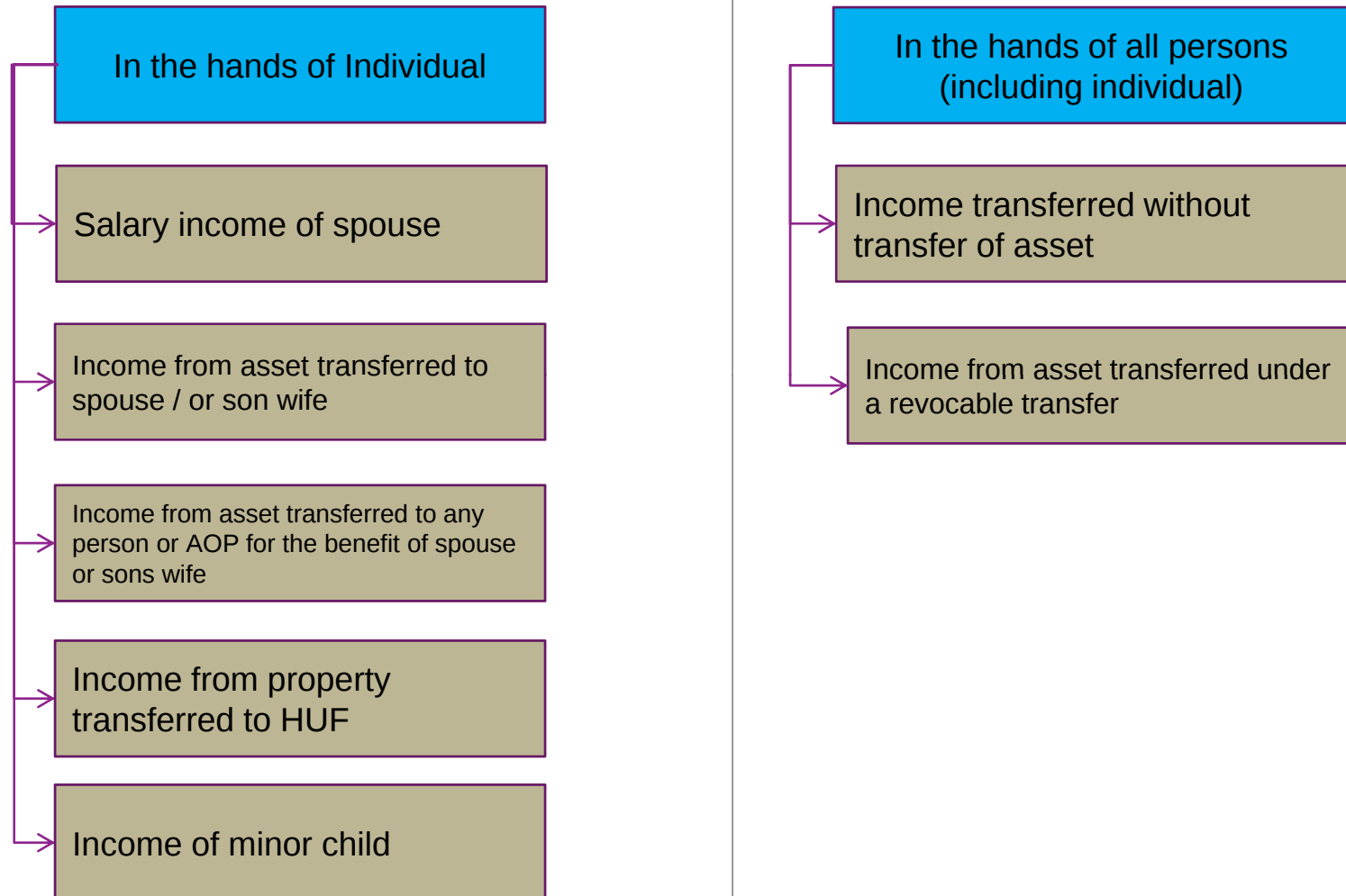


Clubbing of Income

What is clubbing of income

- Earlier, a person was chargeable to tax only in respect of his total income. Therefore, people started shifting their earnings to their relatives etc. who were chargeable to tax at a lower rate to minimize tax.
- To curb this malpractice the clubbing provisions were inserted in the Income tax Act, 1961. Section 60 to 65 of the Act contain such provisions.
- Clubbing of income means, on satisfaction of certain conditions, income earned by one person will be included in the total income of another person and such another person will pay tax on such income.

Income which are subject to clubbing provisions



Clubbing of income in the hands of individual...

Salary income of spouse:-

- The clubbing provision are attracted if the following conditions are satisfied:-
 - The spouse of the individual receives income by way of salary, fees, commission, or any other form of remuneration whether in cash or in kind from any concern; and
 - The individual has substantial interest in the concern paying such income to his spouse; and
 - The spouse does not possess any technical or professional qualification to receive such income.
- If the above conditions are satisfied, the salary income of spouse will be clubbed in the hands of, the individual having substantial interest. If both husband and wife have substantial interest the income shall be clubbed in the hands of husband / wife depending upon whose **total income** (excluding the income to be clubbed) is more.
- The income to be clubbed shall be **taxable salary income** i.e after considering all exemptions and deductions available from salary income
- Further, once the income is clubbed in the hands of either the husband or wife based on the criteria specified above , the income shall continue to be clubbed in the hands of the same person even if the total income of such person is less than his or her spouse in the succeeding years.
 - However, if after giving an opportunity of being heard, the assessing officer is satisfied that it is necessary to club the income in the hands of the other spouse he may do so.

Substantial interest means:

- In the case of a company – If the individual beneficially holds (individually or along with relatives) 20% or more equity shares in the company at any time during the previous year.
- In the case of a concern other than a company - If the individual is beneficially (individually or along with relatives) entitled to 20% share in the profit of such concern at any time during the previous year.

Clubbing of income in the hands of individual...

Transfer of assets by an individual to his or her spouse or son's wife:-

- The clubbing provision are attracted if the following conditions are satisfied:-
 - An asset (other than H. property) is transferred by the individual directly or indirectly to his or her spouse or son's wife; and
 - The asset is transferred for inadequate consideration
 - The asset is not transferred under an agreement to live apart (applicable only in case of transfer of property to spouse); and
 - The relationship of husband or wife or son's wife subsists both at the time of transfer and when the income arises
- If the above conditions are satisfied, the income arising from the asset transferred to the spouse or son's wife will be clubbed in the hand of the transferor.
- If the asset is converted into some other asset the income from such asset will be clubbed.
- If the assets transferred are invested by the spouse or sons wife then the income to be clubbed will be determined as under:

In any business	As capital contribution in a firm.
The Income to be clubbed will be determined as mentioned below: Transferred asset forming part of investment on the first day of Previous year  Total business income Total investment by spouse or sons wife in the business on the first day of previous year  Total interest paid	Only interest paid on capital will be clubbed to the extent mentioned below: Transferred asset forming part capital contribution on the first day of PY  Total interest paid Total capital contribution by spouse or sons wife on the first day of previous year  Total interest paid

Clubbing of income in the hands of individual...

Transfer of assets to any person or AOP:-

- The clubbing provision are attracted if the following conditions are satisfied:-
 - The asset is transferred by the individual directly or indirectly to any person or AOP; and
 - The asset is transferred for inadequate consideration; and
 - The income from the asset transferred is to be applied for the immediate or deferred benefit of his or her spouse or sons wife.
- If the above conditions are satisfied, the income arising from the asset transferred will be clubbed in the hand of the transferor individual.

Clubbing of income in the hands of individual...

Transfer of property to HUF of which the individual is a member:-

- The clubbing provision are attracted if the following conditions are satisfied:-
 - The personal property of the individual has been converted into property of HUF after 31st December 1969; or
 - The individual transfers his self-acquired property directly or indirectly to the HUF for inadequate consideration;
- If the above conditions are satisfied, the income arising from the property transferred will be clubbed in the hand of the transferor individual.
- Implication on partition
 - The income arising from the part of the property apportioned to his spouse and minor children on partition will be clubbed with the income of the original transferor

Clubbing of income in the hands of individual...

Income of minor child:-

- Income of a minor child will be clubbed in the hands of the father or mother whose total income (excluding the income to be clubbed) is more. In case the marriage is not subsisting the income will be clubbed in the hands of the parent maintain that child.
- Once the income is clubbed in the hands of either the father or mother based on the criteria specified above , the income shall continue to be clubbed in the hands of the same person even if the total income of such person is less in the succeeding years.
 - However, if after giving an opportunity of being heard, the assessing officer is satisfied that it is necessary to club the income in the hands of the other parent he may do so.
- Clubbing provisions not attracted in the following case.
 - The minor child is not suffering from any disability of the nature specified under section 80U; and
 - The income is not earned by the minor child from:
 - Any manual work done by him; or
 - From any activity involving application of his skill, talent or specialized knowledge and experience.

Exemption Sec- 10(32):

- In case the income of an individual includes clubbed income of minor child such individual shall be entitled to exemption of Rs. 1,500 per minor child or the income clubbed which ever is less.

Clubbing of income in the hands of all persons

Transfer of income without transfer of assets:-

- Any income transferred to a person without transfer of ownership of asset from which the income arises will be treated as income of the person transferring the income and not of the person who receives such income.

Revocable transfer of assets:-

- Any income arising to any person from an asset which is transferred* by way of a **revocable transfer**** shall be clubbed in the hands of the person transferring the asset .

Exception:-

- The above clubbing provisions will not be attracted in the case of any to any income arising to any person by virtue of a transfer—
 - By way of trust which is not revocable during the lifetime of the beneficiary, and, in the case of any other transfer, which is not revocable during the lifetime of the transferee ; or
 - Made before the 1st day of April, 1961, which is not revocable for a period exceeding six years. (Provided that the transferor derives no direct or indirect benefit from such income in either case.)

*The term transfer includes any settlement, trust, covenant, agreement or arrangement

****A transfer shall be deemed to be revocable if—**

- i. It contains any provision for the re-transfer directly or indirectly of the whole or any part of the income or assets to the transferor, or
- ii. It, in any way, gives the transferor a right to re-assume power directly or indirectly over the whole or any part of the income or assets

How will income be clubbed

- Compute income in the hands of the actual recipient under the relevant head of income as if the actual recipient of income is liable to pay tax. After computing the income in the hands of recipient it will be included under the same head of income in the hands of other person.
- If clubbing provisions are applicable then even negative income will be clubbed.
- Income from accretion to assets or from accumulated income of such property is not includible in the total income of the transferor.

Working note to find out in whose hands income of minor will be clubbed

Particular's	X	Mrs. X
Income from salaries:-		
Salary of X from B Ltd		204,000
Salary of Mrs. X		120,000
Income from house property:-		
House 1	56,000	28,000
House 2	126,000	
House 3	(30,000)	
Profits and Gains of business or profession:-		
Interest from firm	70,000	40,000
Interest of Mrs X	40,000	
Salary from firm	15,000	20,000
Professional income of Z		
Capital gains		
LTCG on transfer of debentures	40,000	
Income from other sources		
Dividend income from a foreign company		40,000
Interest on debentures	14,000	
Interest on accumulated interest		5,600
Interest on debentures of IFCL	16,000	
Income of X from trust		5,000
GTI	347,000	462,600
Deduction	-	-
Taxable income	347,000	462,600



Thank You