Clubbing of Income

Income transferred without transfer of assets [Sec. 60]

If a person transfers income to another person, without transfer of the asset from which the income arises, then such income shall be taxable in the hands of transferor.

Revocable transfer of assets [Sec. 61]

If there is revocable transfer of an asset by one person to another, then Income from such assets shall be taxable in the hands of transferor.

Income from assets transferred to spouse [Sec. 64(1)(iv)]

When any assets other than house property is transferred by an individual to his / her spouse directly or indirectly, any income from such assets shall be deemed to be the income of transferor.

However clubbing shall not be done if:

(i) Asset is sold for adequate consideration, or
(ii) If relationship of husband and wife does not exist either at the time of transfer or at the time of accrual of income, or
(iii) Transfer is under an agreement to live apart.

If house property is transferred by an individual to the spouse otherwise than for adequate consideration, then Sec. 64(1)(iv) shall not apply but Sec. 27 shall apply.

Income from assets transferred to son's wife [Sec. 64(1)(vi)]

If a individual transfers any asset to his daughter-in-law, without adequate consideration, income from the asset will be included in the total income of transferor. The relationship of father-in-law (or mother-in-law) and daughter in law should subsist both at the time of transfer of asset and at the time of accrual of income.

If transferred asset is invested by spouse/son's wife in any business following amount shall be included:

$$\text{Income/ Interest from business} \times \frac{\textit{Amount invested out of asset transferred on the first day of the } \frac{p}{y}}{\textit{Total investment of transferee on the first day of the } \frac{p}{y}}$$

When an individual is assessable in respect of income from assets transferred to a person for the benefit of spouse [Sec. 64(1)(vii)]

1. The taxpayer is an individual.
2. He/she has transferred an asset.
3. The transfer may be direct or indirect.
4. The asset is transferred to a person or an association of persons.
5. It is transferred for the immediate or deferred benefit of his/her spouse.
6. The transfer is without adequate consideration.

When on individual is assessable in respect of income from assets transferred to a person for the benefit of son's wife [Sec. 64(1)(viii)]

1. The taxpayer is an individual.
2. He/ she has transferred an asset
3. The asset is transferred to any person or an association of persons.
4. Transfer may be direct or indirect.

5. The asset is transferred for the immediate or deferred benefit of his/her son's wife.
6. The asset is transferred otherwise than for adequate consideration.

Income from self-acquired property converted into joint-family property [Sec. 64(2)]

If an individual, who is a member of the HUF, converts his self-acquired property as the property of the HUF then income derived by HUF from such property shall be included in the income of transferor.

Clubbing of income after partition

If the converted property is subsequently transferred among the members of family, the income derived from such converted property received by spouse & minor children (including minor married daughter) of transferor will be included in the income of transferor.

Remuneration of Spouse [Sec. 64(1)(ii)]

An individual is chargeable to tax in respect of any salary, commission, fees or any other remuneration received by the spouse from a concern in which the individual has substantial interest.

(i) But that portion of salary etc. of spouse which is due to application of technical or professional knowledge or experience shall not be clubbed.

(ii) If husband and wife both have substantial interest in the concern and
- both are receiving remuneration because of interest in the concern
- then the remuneration of both shall be clubbed in the hands of that spouse whose total income is greater, before clubbing such income.

(iii) Substantial Interest
  (a) For company- If individual along with relatives hold not less than 20% equity shares beneficially.
  (b) For others- If individual along with relatives is entitled to at least 20% of profits.

Relative means the husband, wife, brother or sister or any lineal ascendant or descendant of the individual.

Note:

1. Any income arising from the accumulated income of such property is not includible in the income of the transferor. Income on original transfer only has to be clubbed.
2. Under the above provisions, if income of one person is to be clubbed in the hands of another person, then in the case of loss, the loss shall also be clubbed.
3. Under the above provisions, if income of one person is clubbed in the hands of transferor, then tax on income from such assets can also be demanded from the transferee.

Income of minor child [Sec. 64(1A)]

(i) All incomes that accrue to minor child will be included in the total income of that parent whose total income is greater (before including income of minor child).

(ii) If marriage of parents does not exist, then included in income of that parent who maintains the child.

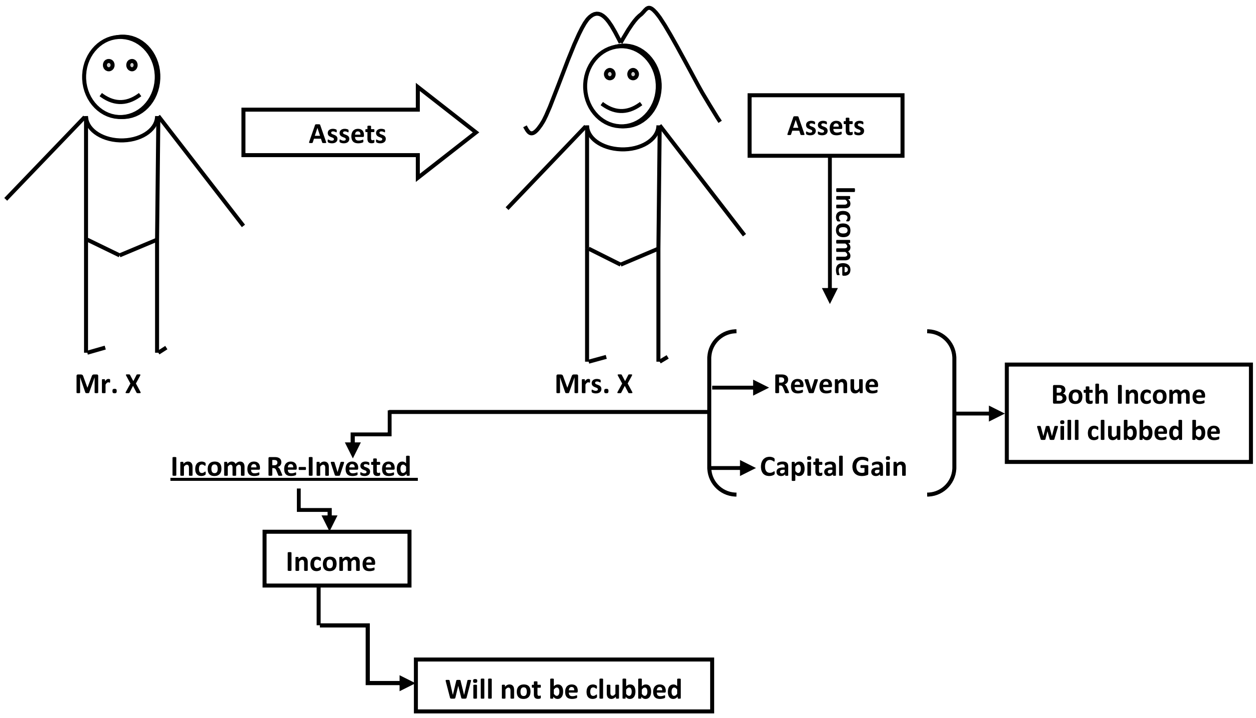
(iii) Where any such income is once included in the total income of either parent, any such income of any succeeding year shall be included in the income of other parent only if AO is satisfied.

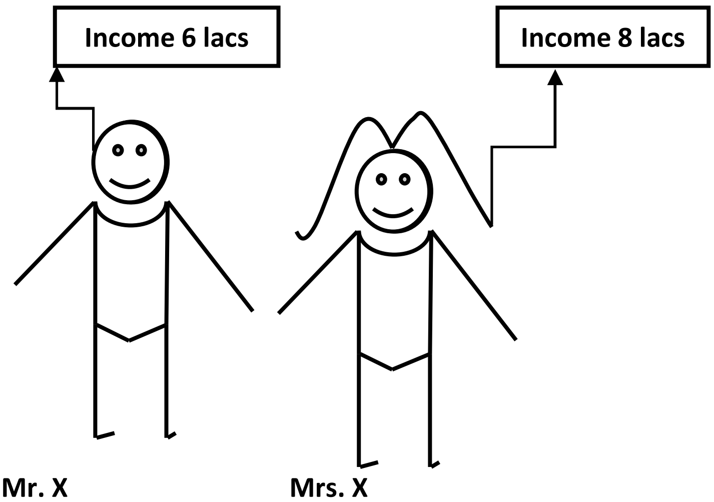
(iv) In the following cases income of minor shall not be clubbed-
  (a) Child is suffering from any disability of the nature specified in Section 80U, like physically disabled, totally blind etc.
  (b) Income of child on account of manual work or activity involving skill, talent or specialized knowledge etc.

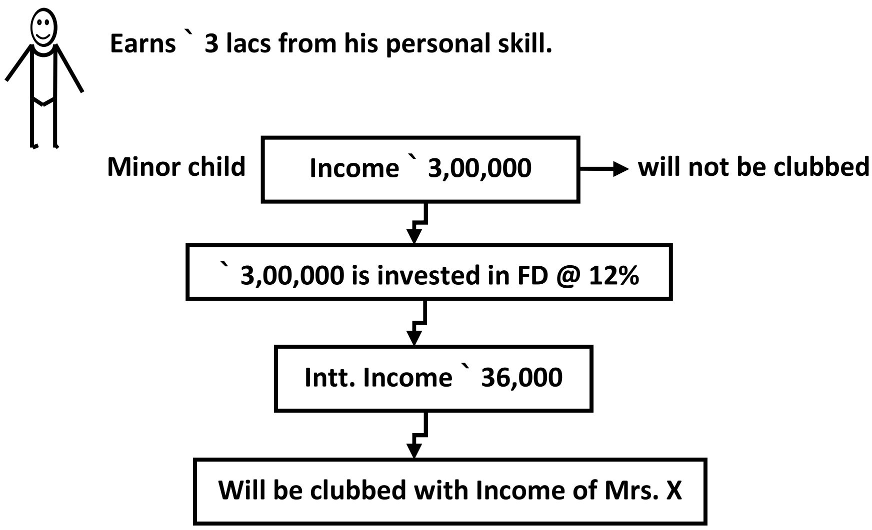
(v) If income of child is so included, the parent shall be entitled to an exemption of maximum ` 1,500 in respect of each minor child.

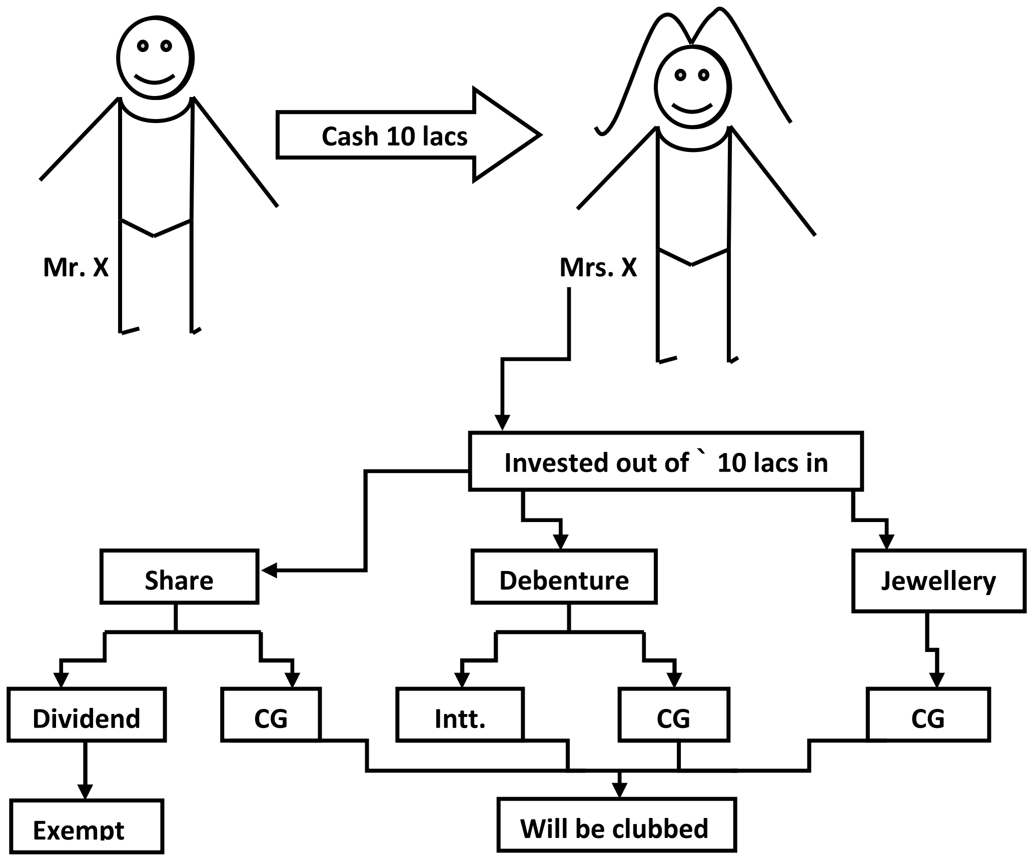
(vi) If the minor child becomes major during the PY, then the incomes which have accrued to him till the date he attains majority shall be clubbed u/s 64(1A).

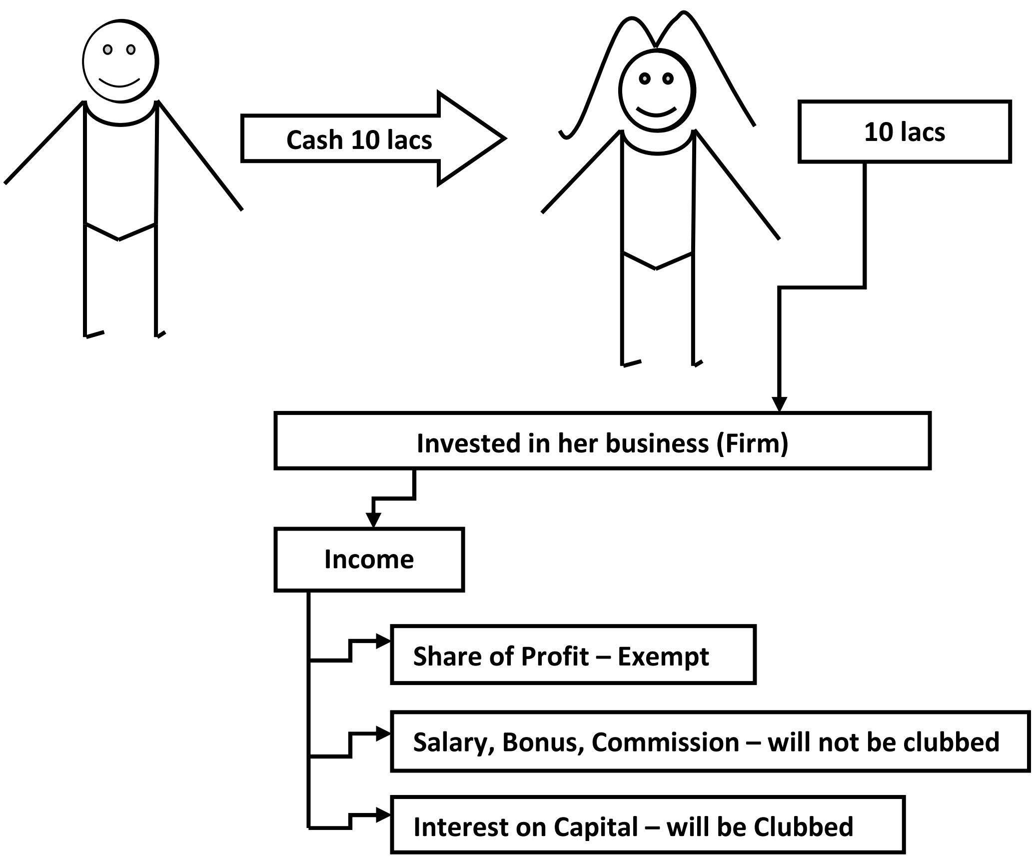
Case Study

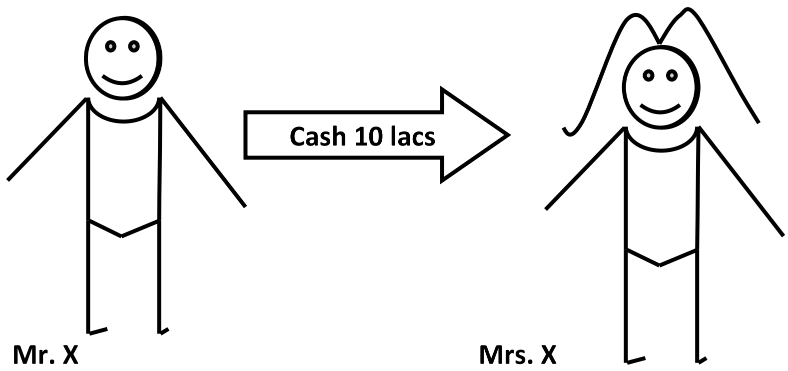

Assets
Assets
Income
Mr. X
Mrs. X
Revenue
Capital Gain
Both Income will clubbed be
Income Re-Invested
Income
Will not be clubbed

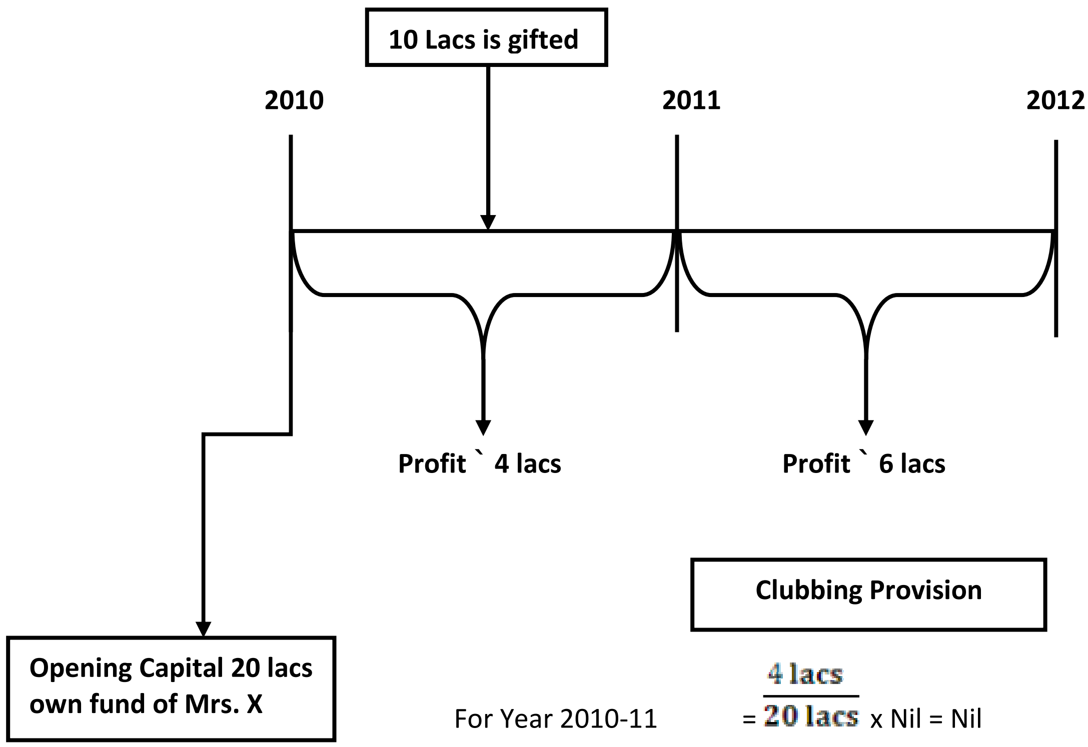

Income 6 lacs
Income 8 lacs
Mr. X
Mrs. X


Earns ` 3 lacs from his personal skill.
Minor child
Income ` 3,00,000
will not be clubbed
` 3,00,000 is invested in FD @ 12%
Intt. Income ` 36,000
Will be clubbed with Income of Mrs. X


Cash 10 lacs
Mr. X
Mrs. X
Invested out of ` 10 lacs in
Share
Debenture
Jewellery
Dividend
CG
Intt.
CG
CG
Exempt
Will be clubbed


Cash 10 lacs
10 lacs
Invested in her business (Firm)
Income
Share of Profit – Exempt
Salary, Bonus, Commission – will not be clubbed
Interest on Capital – will be Clubbed





Clubbing Provision

For Year 2010-11 $= \frac{4\ \text{lacs}}{20\ \text{lacs}} \times \text{Nil} = \text{Nil}$

For Year 2011-12 $= \frac{6\ \text{lacs}}{30\ \text{lacs}} \times 10 = 2{,}00{,}000$

Will be clubbed with the income of Mr. X

Illustration 1: Vishal holds 20 per cent equity share capital in Y Ltd. Mrs. Vishal is employed by Y Ltd. (salary being ` 40,000 per month) as general manager (finance). She does not have any professional qualification to justify remuneration. Ascertain in whose hands salary income is chargeable to tax. Does it make any difference if Mrs. Vishal was employed by Y Ltd. even prior to her marriage?

Solution: In this case, Vishal has substantial interest in Y Ltd. where Mrs. Vishal is employed. Mrs. Vishal does not have any professional qualification to justify the remuneration of ` 40,000 per month. Her salary income of ` 4,80,000 (i.e., ` 40,000 x 12) will be taxable in the hands of Vishal. It does not make any difference even if Mrs. Vishal was employed by Y Ltd. prior to her marriage.

Illustration 2: Income of Kiran (age: 31 years) and Mrs. Kiran (age: 30 years) for the previous year 2010-11 is follows:

	Kiran `	**Mrs. Kiran** `
Salary from B Ltd.	5,20,000	Nil
Business income	10,00,000	1,60,000
Bank interest	3,70,000	40,000
Total income	18,90,000	2,00,000
Tax	4,33,630	1,030

Kiran is employed by B Ltd. (salary being ` 40,000 per month and one month's salary as bonus) without any technical or professional qualification. Mrs. Kiran holds 20 per cent equity share capital in B Ltd. from March 20, 2011. Find out the net income of Kiran and Mrs. Kiran for the assessment year 2011-12.

Solution: In this case, Mrs. Kiran has substantial in B Ltd. for sometime during the previous year 2010-11. Her husband Kiran is employed by B Ltd. during 2010-11 on ` 40,000 per month without any professional qualification. ` 5,20,000 shall be included in income of Mrs. Kiran It may be noted that this rule of clubbing is applicable even if it is beneficial to the taxpayer. Before clubbing, the tax liability of Kiran and Mrs. Kiran is ` 4,34,660. After applying the aforesaid rule of the clubbing, the tax liability of Kiran and Mrs. Kiran will be ` 3,50,200 as shown below-

	Kiran `	**Mrs. Kiran** `
Salary of X from B Ltd.	--	5,20,000
Business income	10,00,000	1,60,000
Bank interest	3,70,000	40,000
Gross total income	13,70,000	7,20,000
Less: Deduction	Nil	Nil
Net income	13,70,000	7,20,000
Tax	2,65,000	75,000
Add: Education Cess	5,300	1,500
Add: Secondary and Higher Education Cess	2,650	750
Tax liability (Total : ` 3,50,200)	2,72,950	77,250

If Kiran has technical or professional qualification to justify the remuneration, then the above clubbing provisions are not applicable. If Kiran does not have technical/ professional qualification, then his salary shall be included in the income of Mrs. Kiran (who has substantial shareholding in the employer-company for a few days during the previous year) even if the resulting tax liability is lower.

Illustration 3: Dinesh (age: 35 years) gifts ` 10 lakh to Mrs. Dinesh (age: 31 years). She deposits the same in a bank @ 8 per cent per annum. Yogesh is minor child of Dinesh and Mrs. Dinesh. Yogesh has a bank deposit of ` 70,000 (rate of interest 8.25 per cent) which was gifted to him by his grandfather. Other income of Dinesh and Mrs. Dinesh is as follows – Dinesh: ` 3,00,000 [salary: ` 2,10,000, bank interest: ` 90,000], Mrs. Dinesh: ` 2,00,000 (interest as company deposits). Out of interest income, Mrs. Dinesh deposits ` 1,000 in Public Provident Fund. Dinesh's contribution to the recognized provident fund is ` 40,000.
Find out the income chargeable to tax and tax thereon for the assessment year 2011-12.

Solution:

	Dinesh	Mrs. Dinesh	Yogesh
Salary	2,10,000	--	--
Income from other sources			
- Bank interest of Mrs. Yogesh	80,000	--	--
- Bank interest of Yogesh (8.25% of ` 70,000 (-) ` 1,500)	4,275	--	--
- Bank interest of Dinesh	90,000	--	--
- Interest of company deposit	--	2,00,000	--
Gross total income	3,84,275	2,00,000	
Less: Deduction under section 80C	40,000	1,000	--
Net income (rounded off)	3,44,280	1,99,000	
Income-tax	22,856	900	--
Add: Surcharge	--	--	--
Tax and surcharge	18,428	900	--
Add: Education cess	369	18	--
Add: Secondary and higher education cess	184	9	
Tax liability	18,981	930	--

Illustration 4: Sanjay and Mrs. Sanjay hold 20 per cent and 30 per cent equity shares in C Ltd. respectively. They are also employed from April 1, 2010 in Mumbai branch of C Ltd. (monthly salary being ` 80,000 and ` 40,000 respectively) without any technical / professional qualification.
Other incomes of Sanjay and Mrs. Sanjay are ` 1,60,000 and ` 1,90,000 respectively. Find out the net income of Sanjay and Mrs. Sanjay for the assessment year 2011-12.

Solution

Sanjay and Mrs. Sanjay have substantial interest in C Ltd. which employs them without any professional/technical qualification. In this case, the salary of husband and wife shall be included in the income of Mrs. Sanjay whose other income is higher as explained under-

	Sanjay `	Mrs. Sanjay `
Salary of Sanjay (` 80,000 x 12)	--	9,60,000
Salary of Mrs. Sanjay (` 40,000 x 12)	--	4,80,000
Other income	1,60,000	1,90,000
Net income	1,60,000	16,30,000

Illustration 5: Amit and Bolu are minor sons of Nanku and Mrs. Nanku. Business income of Nanku is ` 3,40,000. Income from house property of Mrs. Nanku is ` 1,90,000. Income of Amit and Bolu from stage

acting is ` 60,000 and ` 70,000 respectively. Besides interest on company deposits of Amit and Bolu (deposit was made out of income from acting) is ` 30,000 and ` 1,000, respectively. Amit and Bolu have received the following birthday gifts – on May 20, 2010, gift received by Bolu from his grandfather: ` 80,000; on September 14, 2010, gift received by Amit - ` 60,000 from Nanku's friend and ` 35,000 from a relative. Find out the income of Nanku, Amit and Bolu for the assessment year 2011-12.

Solution

	Nanku `	Mrs. Nanku `	Amit `	Bolu `
Income from house property	--	1,90,000	--	--
Business income	3,40,000	--	--	--
Income from stage acting	--	--	60,000	70,000
Income from other sources				
-Gift received by Bolu on May 20, 2010 from grandfather (gift from a relative is not taxable)	--	--	--	--
-Gift received by Amit on September 14, 2010 from Nanku's friend (to be clubbed in the hands of Nanku after giving exemption of ` 1,500)	58,500			
-Gift received by Amit on September 14, 2010 from relatives (gift from a relative is not taxable)	--			
-Interest from company deposit received by Amit (to be clubbed in the hands of Nanku)	30,000			
-Interest from company deposit received by Amit (to be clubbed in the hands of Nanku after giving exemption of ` 1,500, amount to be clubbed is ` 1,000 – ` 1,000)	Nil			
Net income	4,28,500	1,90,000	60,000	70,000

Illustration 6: X, an individual, is engaged in the business of money-lending. On April 1, 2010, he advance ` 10,00,000 to his HUF at the market rate of interest of 12% per annum. During the previous year 2010-11, HUF earns ` 4,00,000 as profit on the money advanced by X (before paying interest). Determine:

1. Is the amount of net income of HUF (i.e., ` 4,00,000 minus 12% of ` 10,00,000) includible in the income of X under section 64(2)?
2. Does it make any difference if X is not engaged in the business of money-lending?
3. Does it make any change in the applicability of section 64(2), if money is advanced at the rate of 4% whereas the market rate of interest is 12%?
4. Will the transaction come within the scope of section 60 to 64, if X foregoes his right to receive interest on the sum so advanced before the date of accrual?

Solution: By advancing loan to the HUF, it cannot ordinarily be said that the lender has transferred any asset to HUF without adequate consideration, if the money is advanced at the market rate of interest. In the light of his observation, the specific points raised in the problem can be answered as follows:

1. Section 64(2) is not applicable, as it is not the case of transfer or conversion of separate property into HUF's property. As such, no part of HUF's income can be clubbed with X's income.
2. If the money is advanced at the market rate of interest, it does not make any difference whether X carries on money-lending business or not. In the given case, section 64(2) is, therefore, not attracted even if X does not carry on money-lending business.

3. If money is advanced at lower than market rate of interest, section 64(2) cannot be invoked, as the advance/loan does not amount to throwing of assets in common stock of the family or transfer of assets to the family. The Income-tax Department may, however, invoke section 60 which covers transfer of income without transfer of assets. Transfer, for the purpose of section 60, includes any agreement or arrangement. Therefore, giving advance at less than market interest rate will amount to transfer of income without transferring asset. Accordingly, excess of interest at market rate over 4 per cent per annum is chargeable to tax in the hands of X under section 60.
4. If X foregoes his right to receive interest, the case will be clearly covered by section 60. Income arising from the asset will be clubbed with the income of X.

Illustration 7: Mr. Dhaval has an income from salary of ` 3,50,000 and his minor children's income areas under:

	`
Minor daughter has earned the following income:	
From a TV show	50,000
From interest on FD with a bank (deposited by Mr. Dhaval from his income)	5,000
Minor son has earned the following income:	
From the sale of a own painting	10,000
From interest on FD with a bank (deposited by Mr. Dhaval from his income)	1,000

Solution:

Computation of Gross Total Income of Mr. Dhaval

	Amount (`)	**Amount (`)**
Income from Salary		3,50,000
Income from other sources:		
Minor Daughter's income		
Income from T.V. show (See Note below)		Nil
Interest income from FD with a Bank	5,000	
Less: Exempt under section 10(32)	1,500	3,500
Minor son's income		
Income from sale of self made painting (See Note 1)		Nil
Interest income from FD with a Bank	1,000	
Less: Exempt under section 10(32)	1,000	Nil
Gross Total Income		3,53,500

Note:

The income derived by the minor from manual work or from any activity involving exercise of his skill, talent or specialized knowledge or experience will not be included in the income of his parent. Hence, in the given case ` 50,000 being the income of the minor daughter from TV show and ` 10,000 being the income of minor son shall not be clubbed in the hands of Mr. Dhaval.

Illustration 8: X submits the following information for the year ending March 31, 2011-

1. Son of X (date of birth: August 31, 1992) has a fixed deposit of ` 40,00,000 in PNB (rate of interest 7 per cent).
2. Minor daughter of X owns a business. For the previous year ending March 31, 2011, her income from business is ` (-) 70,000.
3. On October 4, 2007, X gifted ` 5,00,000 to Mrs. X. This amount (along with her own funds) is used in setting up a sole proprietor business by Mrs. X. On April 1, 2010, her investment in the business is ` 11,00,000 and for the year ending March 31, 2011 income from the business is ` 2,78,000.
4. Salary income of X is ` 11,45,000.

5. X holds 10% shares in A Ltd. (a closely held manufacturing company). On June 10, 2010, X transfers these shares by way of gift to Mrs. X. Mrs. X takes a loan of ` 2,00,000 on January 1, 2011 from the company. Accumulated profit of the company on this date is ` 40,00,000.
6. X is entitled for a deduction of ` 90,000 under section 80CCC.
7. Income of Mrs. X for the assessment year 2011-12 is ` 3,00,000.

Determine the net income and tax liability of X for the assessment year 2011-12.

Solution:

1. Son of X becomes major on August 31, 2010. Interest income from April 1, 2010 and August 31, 2010 is taxable in the hands of X. It comes to ` 1,16,667 (i.e., ` 40,00,000 X 0.07 X 5 ÷ 12). Interest income from August 31, 2010 onwards will be taxable as income of X's son.
2. Income (or loss) of minor child is taxable in the hands of parents. Consequently, ` (-) 70,000 will be clubbed in the hands of X.
3. On April 1, 2010, total investment of Mrs. X in her business is ` 11,00,000. Out of ` 11,00,000, ` 5,00,000 was gifted by X in 2007-08. Proportionate income from business will be taxable in the hands of X. it comes to ` 1,26,364 (i.e., ` 2,78,000 X ` 5,00,000 ÷ ` 11,00,000).
4. If a closely held company gives a loan or advance to a shareholder (who holds 10 per cent of equity share in the company, such loan or advance (to the extent it does not exceed accumulated profit of the company) is treated as deemed dividend under section 2(22)(e) in the hands of the shareholder. In this case, ` 2,00,000 will be deemed as dividend in the hands of Mrs. X. Since, this income arises on shares gifted by X, it will be clubbed in the hands of X.

Computation of income and tax liability

	`
Salary	11,45,000
Business income	
- Business of minor daughter	(-)70,000
- Business of Mrs. X	1,26,364
Income from other sources	
- Interest income of son (` 1,16,667 – exemption of ` 1,500)	1,15,167
- Deemed dividend of Mrs. X	2,00,000
Gross total income	15,16,531
Less: Deduction under section 80CCC	90,000
Net income (rounded off)	14,26,530
Tax on net income	
Income-tax	2,81,959
Add: Education cess	5,639
Add: Secondary and higher education cess	2,820
Tax liability (rounded off)	2,90,420

Illustration 9: X is a salaried employed. For the year ending March 31, 2011, he submits the following information

1. On May 3, 2010, X purchases 2,000 shares in A Ltd. at the rate of ` 60 share. On May 5, 2010, these share are gifted to Mrs. X. A Ltd. allots 1,000 bonus shares to Mrs. X on January 30, 2011. On March 1, 2011, Mrs. X transfers 3,000 shares in A Ltd. for ` 400 per share to B outside stock exchange. On March 1, 2011, the lowest quotation of shares in A Ltd. at Bombay Stock Exchange is ` 700 per share.

2. On June 1, 2010, X purchases a house property for ` 18,00,000 (however, he pays stamp duty at the rate of 10% on ` 30,00,000). The house property is gifted to Mrs. X on February 1, 2011. Mrs. X transfers this property to C on March 31, 2011 for ` 40,00,000. Stamp duty value is ` 50,00,000.

Discuss the tax consequences of these transactions and calculate income from these transactions in the hands of X, Mrs. X, B and C.

Solution:

1. 2,000 shares in A Ltd. are purchased by X. Later on these shares are gifted to Mrs. X. Mrs. X gets bonus shares. Original as well as bonus shares are transferred by Mrs. X. Capital gain which arises on transfer of original shares will be included in the income of X, as shares were transferred without consideration to Mrs. X by X. Capital gain which arises on transfer of bonus shares will be taxable as income of Mrs. X, as bonus shares are not transferred by X. Shares are purchased by B outside stock exchange at a price which is lower than the lowest market quotation on the date of transaction. The difference between market value and purchase price will be taxable as income from other sources under section 56(2)(vii) in the hands of B.
2. House property is transferred by Mrs. X. However, capital gain will be taxable in the hands of X. The income will be calculated as under

	X `	Mrs. X `	B `	C `
Short-term capital gain on transfer of original shares [(` 400 - ` 60) X 2,000]	6,80,000	--	--	--
Short-term capital gain on transfer of bonus shares [(` 400 - ` 0) X 1,000]	--	4,00,000	--	--
Short-term capital gain on transfer of house [` 5,00,000 – (` 18,00,000 + stamp duty of 10% of ` 30,00,000)]	29,00,000	--	--	--
Purchase of 3,000 shares for less than fair market value [(` 700 -` 400) x 3,000]	--	--	9,00,000	--
Purchase of house property for inadequate consideration (not taxable in the case of immovable property)	--	--	--	Nil
Total	**35,80,000**	**4,00,000**	**9,00,000**	**Nil**

Illustration 10: X gifted debentures of a company to Miss Y on March 15, 1999. Miss Y married X's son Z on February 1, 2001. Interest on debenture for the previous year 2010-11 is ` 3,00,000. It is added by the Assessing Officer in the hands of X under the provisions of section 64(1)(vi). Is this inclusion justified in law.

Solution: According to section 64(1)(vi), if an individual, directly or indirectly, transfers assets, without adequate consideration to son's wife, income arising from such assets will be included in the total income of the transferor. However, the relationship of the father-in-law and daughter-in-law should subsist both at the time of transfer of asset and at the time of accrual of income. It means transfer of asset before son's marriage by an individual to his prospective daughter-in-law is outside the scope of clubbing even if income is accrued after son's marriage.

In the present problem, in view of the aforesaid provision, the inclusion in the income of X by the Assessing officer is unjustified.

Illustration 11: Discuss the following:

1. X transferred agricultural lands permanently to Y with a condition that 25% of the income from the land should be handed over to him. Y earned an income of ` 40,000 from the transferred property.
2. Mrs. X holds 4,000 out of 10,000 equity shares of ABC Ltd., a company in which X, holding a BA degree, is working as finance manager on a salary of ` 50,000 per month.
3. X transferred a sum of ` 2 lakh to his wife in 1989 and Mrs. X constructed a property out of this amount. She has since been using the property for her own residence. The transfer deed stipulates that in the case of X and his wife agreeing to live apart, the property will belong to her absolutely.

Solution:

1. According to section 61, all income arising to any person by virtue of transfer of assets is deemed to be the income of the transferor and chargeable to tax in hands if the transfer contains any provision for the re-transfer, directly or indirectly, of the whole or any part of the income or assets to the transferor. However, it may be noted that agricultural income is exempt from tax under section 10(1).
2. According to section 64(1)(ii), an individual is chargeable to tax in respect of any remuneration received by the spouse from a concern in which the individual has substantial interest. An individual is deemed to have substantial interest if he (individually or along with his relatives) beneficially holds equity shares carrying not less than 20 per cent voting power in the case of a company. However, remuneration which is solely attributable to the application of technical or professional knowledge and experience of the spouse will not be clubbed. In the present problem, in view of the aforesaid provision, ` 50,000 per month being salary of X will be included in the total income of Mrs. X by virtue of section 64(1)(ii). She holds 40% equity share capital in ABC Ltd. It may be noted that X does not possess any professional or technical qualification to justify his position as a finance manager in ABC Ltd.
3. According to section 64(1)(iv), where an asset (other than house property) is transferred by an individual to his or her spouse, directly or indirectly, otherwise than for adequate consideration or in connection with an agreement to live apart, any income from such asset will be deemed to be the income of the transferor. In the present problem, in view of the aforesaid provision, the income from property shall be included in the total income of X by virtue of section 64(1)(iv). However, according to section 23 annual value of a house property which is self occupied is taken as nil and if there is no interest deduction under section 24, then nothing will be included in the total income of X.

   The provisions of section 64(1)(iv) are applicable is this problem since what is transferred is cash and not a property and, consequently, section 27(i) is not applicable. Thus, though Mrs. X will be considered as the owner of the house property yet the income from the property will be included in the total income of X. The provision in the transfer deed that his property would belong to Mrs. X in case there is an agreement to live apart does not make any difference.

Illustration 12: Compute the total income of Mr. & Mrs. A from the following information.

		`
(a)	Salary income (computed) of Mrs. A	2,30,000
(b)	Income from profession of Mr. A	3,90,000
(c)	Income of minor son B from company deposit	15,000
(d)	Income of minor daughter C from special talent	32,000
(e)	Interest from bank received by C on deposit made out of her special talent	3,000
(f)	Gift received by C on 30.09.2010 from friend of Mrs. A	2,500

Brief working is sufficient. Detailed computation under various heads of income of NOT required.

Solution: As per the provisions of section 64(1A) of the Income-tax Act, 1961, all the income of minor child has to be clubbed in the hands of that parent whose total income (excluding the income of the minor) is greater. The income of Mr. A is ` 3,90,000 and income of Mrs. A is ` 2,30,000. Since the income of Mr. A is greater than that of Mrs. A, the income of the minor children have to be clubbed in the hands of Mr. A. It is assumed that this is the first year when clubbing provisions are attracted.

Income derived by a minor child from any activity involving application of his/her skill, talent, specialized knowledge and experience is not to be clubbed. Hence, the income of minor child C from exercise of special talent will not be clubbed.

However, interest from bank deposit has to be clubbed even when deposit is made out of income arising from application of special talent. The total income of Mrs. A is ` 2,30,000. The total income of Mr. A giving effect to the provisions of section 64(1A) is as follows:

Computation of total income of Mr. A for the A.Y. 2011-12

Particulars	`	`
Income from profession		3,90,000
Income of minor son B from company deposit	15,000	
Less: Exemption u/s. 10(32)	1,500	
		13,500
Income of minor daughter C		
From special talent – not to be clubbed	--	
Interest from bank	3,000	
Gift of ` 2,500 received from a non-relative is not taxable u/s. 56(2)(vii) being less than the aggregate limit of ` 50,000.	Nil	
	3,000	
Less: Exemption u/s. 10(32)	1,500	
		1,500
Gross Total Income		**4,05,000**

Illustration 13: A proprietary business was started by Smt. Rani in the year 2008. As on 1.4.2009 her capital in business was ` 3,00,000. Her husband gifted ` 2,00,000 on 10.4.2009, which amount Smt. Rani invested in her business on the same date. Smt. Rani earned profits from her proprietory business for the Financial year 2009-2010, ` 1,50,000 and Financial year 2010-11 ` 3,90,000. Compute the income, to be clubbed in the hands of Rani's husband for the Assessment year 2011-12 with reasons.

Solution: Section 64(1) of the Income-tax Act, 1961 provides for the clubbing of income in the hands of the individual, if the income earned is from the assets transferred directly or indirectly to the spouse of the individual, otherwise than for adequate consideration. In this case Smt. Rani received a gift of ` 2,00,000 from her husband which she invested in her business. The income to be clubbed in the hands of Smt. Rani's husband for A.Y. 2011-12 is computed as under:

Particulars	Smt Rani's Capital Contribution `	Capital Contribution out of gift from husband `	Total `
Capital as at 1.4.2009	3,00,000	--	3,00,000
Investment on 10.04.2009 out of gift received from her husband		2,00,000	2,00,000
	3,00,000	2,00,000	5,00,000
Profit for F.Y. 2009-10 to be apportioned on the basis of capital employed on the first day of the previous year i.e. on 1.4.2009	1,50,000		1,50,000
Capital employed as at 1.4.2010	**4,50,000**	**2,00,000**	**6,50,000**
Profit for F.Y. 2010-11 to be apportioned on the basis of capital employed as at 1.4.10 (i.e. 45 : 20)	2,70,000	1,20,000	3,90,000

Therefore, the income to be clubbed in the hands of Smt. Rani's husband for A.Y. 2011-12 is ` 1,20,000.

Illustration 14: Mr. Ghose has four minor children consisting 2 daughters and 2 sons. The annual income of 2 daughters was ` 7,500 and ` 5,000 and of sons was ` 5,500 and ` 1,250 respectively. The daughter who was having income of ` 5,000 was suffering from a disability specified under section 80U. work out the amount of income earned by minor children to be clubbed in the hands of Mr. Ghose.

Solution:

Income earned by minor children to be clubbed with the income of Mr. Ghose

(i)	Income of two daughters (` 7,500 + Nil)	7,500
	Less: Income exempt u/s 10(32)	1,500
	Total (A)	6,000
(ii)	Income of two sons (` 5,500 + ` 1,250)	6,750
	Less: Income exempt u/s 10(32) (` 1,500 + ` 1,250)	2,750
	Total (B)	4,000
	Total income to be clubbed as per section 64(1A) (A+B)	**10,000**

The income of daughter suffering from disability specified under section 80U is not to be clubbed with the income of Mr. Ghose.

Illustration 15: Mr. Dhaval and his wife Mrs Hetal Furnish the following information:

		`
(i)	Salary income (computed) of Mrs. Hetal	4,60,000
(ii)	Income of minor son 'B' who suffers from disability specified in Section 80U	1,08,000
(iii)	Income of minor daughter 'C' from singing	86,000
(iv)	Income from profession of Mr. Dhaval	7,50,000
(v)	Cash gift received by 'C' on 2.1.0.2010 from fiend of Mrs. Hetal on winning of singing competition	48,000
(vi)	Income of minor married daughter 'A' from company deposit	30,000

Compute the total income of Mr. Dhaval and Mrs. Hetal for the Assessment Year 2011-12.

Solution:

Computation of Total Income of Mr. Dhaval and Mrs. Hetal for the A.Y. 2011-12

Particulars		**Mr. Dhaval** `	**Mrs. Hetal** `
Salaries			4,60,000
Profits and gains of business or profession		7,50,000	
Income from other sources			
Income by way of interest from company deposit earned by minor daughter A [See Note (d)]	30,000		
Less: Exemption under section 10(32)	1,500	28,500	
Total Income		**7,78,500**	**4,60,000**

Notes:

(a) The income of a minor child suffering from any disability of the nature specified in section 80U shall not be included in the hands of the parents. Hence, ` 1,08,000, being the income of minor son 'B' who suffers from disability specified under section 80U, shall not be included in the hands of either of his parents.

(b) The income derived by the minor from annual work or from any activity involving exercise of his skill, talent or specialized knowledge or experience will not be included in the income of his parent. Hence, in the given case, ` 86,000 being the income of the minor daughter 'C' shall not be clubbed in the hands of the parents.

(c) Under section 56(2)(vii), cash gifts received from any person/persons exceeding ` 50,000 during the year in aggregate is taxable. Since the cash gift in this case does not exceed ` 50,000, the same is not taxable.

(d) The clubbing provisions are attracted even in respect of income of minor married daughter. The income of the minor will be included in the income of that parent whose total income is greater. Hence, income of minor married daughter 'A' from company deposit shall be clubbed in the hands of the Mr. Dhaval and exemption under section 10(32) of ` 1,500 per child shall be allowed in respect of such income.