

Income of Other Persons Included in Assessee's Total Income

Question 1

Mr. Sharma has four children consisting 2 daughters and 2 sons. The annual income of 2 daughters were ₹ 9,000 and ₹ 4,500 and of sons were ₹ 6,200 and ₹ 4,300, respectively. The daughter who has income of ₹ 4,500 was suffering from a disability specified under section 80U.

Compute the amount of income earned by minor children to be clubbed in hands of Mr. Sharma.

Answer

As per section 64(1A), in computing the total income of an individual, all such income accruing or arising to a minor child shall be included. However, income of a minor child suffering from disability specified under section 80U would not be included in the income of the parent but would be taxable in the hands of the minor child. Therefore, in this case, the income of daughter suffering from disability specified under section 80U should not be clubbed with the income of Mr. Sharma.

Under section 10(32), income of each minor child includible in the hands of the parent under section 64(1A) would be exempt to the extent of the actual income or ₹ 1,500, whichever is lower. The remaining income would be included in the hands of the parent.

Computation of income earned by minor children to be clubbed with the income of Mr. Sharma:

	Particulars	₹
(i)	Income of one daughter	9,000
	Less: Income exempt under section 10(32)	<u>1,500</u>
	Total (A)	<u>7,500</u>
(ii)	Income of two sons (₹ 6,200 + ₹ 4,300)	10,500
	Less: Income exempt under section 10(32) (₹ 1,500 + ₹ 1,500)	<u>3,000</u>
	Total (B)	<u>7,500</u>
	Total Income to be clubbed as per section 64(1A) (A+B)	15,000

5.2 Income-tax

Note -

It has been assumed that:

- (1) All the four children are minor children;
- (2) The income does not accrue or arise to the minor children on account of any manual work done by them or activity involving application of their skill, talent or specialized knowledge and experience;
- (3) The income of Mr. Sharma, before including the minor children's income, is greater than the income of Mrs. Sharma, due to which the income of the minor children would be included in his hands; and
- (4) This is the first year in which clubbing provisions are attracted.

Question 2

During the previous year 2012-13, the following transactions occurred in respect of Mr. A.

- (a) *Mr. A had a fixed deposit of ₹ 5,00,000 in Bank of India. He instructed the bank to credit the interest on the deposit @ 9% from 1-4-2012 to 31-3-2013 to the savings bank account of Mr. B, son of his brother, to help him in his education.*
- (b) *Mr. A holds 75% share in a partnership firm. Mrs. A received a commission of ₹ 25,000 from the firm for promoting the sales of the firm. Mrs. A possesses no technical or professional qualification.*
- (c) *Mr. A gifted a flat to Mrs. A on April 1, 2012. During the previous year, the flat generated a net income of ₹ 52,000 to Mrs. A.*
- (d) *Mr. A gifted ₹ 2,00,000 to his minor son who invested the same in a business and he derived income of ₹ 20,000 from the investment.*
- (e) *Mr. A's minor son derived an income of ₹ 20,000 through a business activity involving application of his skill and talent.*

During the year, Mr. A got a monthly pension of ₹ 10,000. H had no other income. Mrs. A received salary of ₹ 20,000 per month from a part time job.

Discuss the tax implications of each transaction and compute the total income of Mr. A, Mrs. A and their minor child.

Answer

Computation of Total Income of Mr. A, Mrs. A and their minor son for the A.Y. 2013-14

Particulars	Mr. A (₹)	Mrs. A (₹)	Minor Son (₹)
Salary income (of Mrs. A)	-	2,40,000	-
Pension income (of Mr. A) (₹ 10,000×12)	1,20,000		

Income from House Property <i>[See Note (3) below]</i>		52,000	-	-
Income from other sources				
Interest on Mr. A's fixed deposit with Bank of India (₹ 5,00,000×9%) <i>[See Note (1) below]</i>	45,000			
Commission received by Mrs. A from a partnership firm, in which Mr. A has substantial interest <i>[See Note (2) below]</i>	25,000	70,000		
Income before including income of minor son under section 64(1A)		2,42,000	2,40,000	-
Income of the minor son from the investment made in the business out of the amount gifted by Mr. A <i>[See Note (4) below]</i>		18,500	-	-
Income of the minor son through a business activity involving application of his skill and talent <i>[See Note (5) below]</i>		-	-	20,000
Total Income		2,60,500	2,40,000	20,000

Notes:

- (1) As per section 60, in case there is a transfer of income without transfer of asset from which such income is derived, such income shall be treated as income of the transferor. Therefore, the fixed deposit interest of ₹ 45,000 transferred by Mr. A to Mr. B shall be included in the total income of Mr. A.
- (2) As per section 64(1)(ii), in case the spouse of the individual receives any amount by way of income from any concern in which the individual has substantial interest (i.e. holding shares carrying at least 20% voting power or entitled to at least 20% of the profits of the concern), then, such income shall be included in the total income of the individual. The only exception is in a case where the spouse possesses any technical or professional qualifications and the income earned is solely attributable to the application of her technical or professional knowledge and experience, in which case, the clubbing provisions would not apply.

In this case, the commission income of ₹ 25,000 received by Mrs. A from the partnership firm has to be included in the total income of Mr. A, as Mrs. A does not possess any technical or professional qualification for earning such commission and Mr. A has substantial interest in the partnership firm as he holds 75% share in the firm.
- (3) According to section 27(i), an individual who transfers any house property to his or her spouse otherwise than for adequate consideration or in connection with an agreement to live apart, shall be deemed to be the owner of the house property so transferred. Hence, Mr. A shall be deemed to be the owner of the flat gifted to Mrs. A and hence, the income arising from the same shall be computed in the hands of Mr. A.

Note:

- (i) *It has been assumed that the net income from the flat i.e., ₹ 52,000 given in the question is the net income computed under the head "Income from house property".*

Note: *Alternatively, the net income from the flat i.e., ₹ 52,000 given in the question may be taken as the net income before providing for deduction @ 30% under section 24(a) and accordingly, the solution can be worked out on this basis.*

- (ii) *The provisions of section 56(2)(vii) would not be attracted in the hands of Mrs. A, since she has received immovable property without consideration from a relative i.e., her husband.*
- (4) As per section 64(1A), the income of the minor child is to be included in the total income of the parent whose total income (excluding the income of minor child to be so clubbed) is greater. Further, as per section 10(32), income of a minor child which is includible in the income of the parent shall be exempt to the extent of ₹ 1,500 per child.

Therefore, the income of ₹ 20,000 received by minor son from the investment made out of the sum gifted by Mr. A shall, after providing for exemption of ₹ 1,500 under section 10(32), be included in the income of Mr. A, since Mr. A's income of ₹ 2,42,000 (before including the income of the minor child) is greater than Mrs. A's income of ₹ 2,40,000. Therefore, ₹ 18,500 (i.e., ₹ 20,000 – ₹ 1,500) shall be included in Mr. A's income. It is assumed that this is the first year in which clubbing provisions are attracted.

Note – *The provisions of section 56(2)(vii) would not be attracted in the hands of the minor son, since he has received a sum of money exceeding ₹ 50,000 without consideration from a relative i.e., his father.*

- (5) In case the income earned by the minor child is on account of any activity involving application of any skill or talent, then, such income of the minor child shall not be included in the income of the parent, but shall be taxable in the hands of the minor child.

Therefore, the income of ₹ 20,000 derived by Mr. A's minor son through a business activity involving application of his skill and talent shall not be clubbed in the hands of the parent. Such income shall be taxable in the hands of the minor son.

Question 3

Mr. Vaibhav started a proprietary business on 01.04.2011 with a capital of ₹ 5,00,000. He incurred a loss of ₹ 2,00,000 during the year 2011-12. To overcome the financial position, his wife Mrs. Vaishaly, a software Engineer, gave a gift of ₹ 5,00,000 on 01.04.2012, which was immediately invested in the business by Mr. Vaibhav. He earned a profit of ₹ 4,00,000 during the year 2012-13. Compute the amount to be clubbed in the hands of Mrs. Vaishaly for the Assessment Year 2013-14. If Mrs. Vaishaly gave the said amount as loan, what would be the amount to be clubbed?

Answer

Section 64(1)(iv) 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 (other than house property) transferred directly or indirectly to the spouse of the individual, otherwise than for adequate consideration or in connection with an agreement to live apart.

In this case, Mr. Vaibhav received a gift of ₹ 5,00,000 on 1.4.2012 from his wife Mrs. Vaishaly, which he invested in his business immediately. The income to be clubbed in the hands of Mrs. Vaishaly for the A.Y. 2013-14 is computed as under :

Particulars	Mr. Vaibhav's capital contribution (₹)	Capital contribution out of gift from Mrs. Vaishaly (₹)	Total (₹)
Capital as on 1.4.2012	3,00,000 (5,00,000 - 2,00,000)	5,00,000	8,00,000
Profit for F.Y.2012-13 to be apportioned on the basis of capital employed on the first day of the previous year i.e. as on 1.4.2012 (3:5)	1,50,000 $\left(4,00,000 \times \frac{3}{8}\right)$	2,50,000 $\left(4,00,000 \times \frac{5}{8}\right)$	4,00,000

Therefore, the income to be clubbed in the hands of Mrs. Vaishaly for the A.Y.2013-14 is ₹ 2,50,000.

In case Mrs. Vaishaly gave the said amount of ₹ 5,00,000 as a *bona fide* loan, then, clubbing provisions would not be attracted.

Question 4

Choose the correct answer with reference to the provisions of the Income-tax Act, 1961 :

Income arising to a minor married daughter is

- (a) to be assessed in the hands of the minor married daughter
- (b) to be clubbed with the income of that parent whose total income, before including minor's income, is higher
- (c) completely exempt from tax
- (d) to be clubbed with the income of her husband.

Answer

- (b) to be clubbed with the income of that parent whose total income, before including minor's income, is higher.

Question 5

Fill up the blanks:

Mr. A gifts cash of ₹ 1,00,000 to his brother's wife Mrs.B. Mr. B gifts cash of ₹ 1,00,000 to Mrs. A. From the cash gifted to her, Mrs. B invests in a fixed deposit, income therefrom is ₹ 10,000. Aforesaid ₹ 10,000 will be included in the total income of

Answer

Mr.B.

Question 6

State True or False, with reasons:

Mr. Y, who is a physically handicapped minor (suffering from a disability of the nature specified in section 80U), earns bank interest of ₹ 50,000 and ₹ 60,000 from marking bags manually by himself. The total income of Mr.Y shall be computed in his hands separately.

Answer

True. The clubbing provisions of section 64(1A) are not applicable in a case where the minor child is suffering from any disability of the nature specified in section 80U. The income of such minor child will not be clubbed in the hands of either of the parents. Consequently, the total income of Mr. Y will be assessed in his hands.

Question 7

On 21-3-2012, Mr. Janak gifted to his wife Mrs. Thilagam 200 listed shares, which had been bought by him on 19-4-2011 at ₹ 2,000 per share. On 1-6-2012, bonus shares were allotted in the ratio of 1:1. All these shares were sold by Mrs. Thilagam as under:

Date of sale	Manner of sale	No. of shares	Net sales value (₹)
21.5.2012	Sold in recognized stock exchange, STT paid	100	2,20,000
21.7.2012	Private sale to an outsider	All bonus shares	1,25,000
28.2.2013	Private sale to her friend Mrs. Hema (Market value on this date was ₹ 2,10,000)	100	1,70,000

Briefly state the income-tax consequences in respect of the sale of the shares by Mrs. Thilagam, showing clearly the person in whose hands the same is chargeable, the quantum and the head of income in respect of the above transactions. Detailed computation of total income is NOT required.

Net sales value represents the amount credited after all taxes, levies, brokerage, etc., and the same may be adopted for computing the capital gains.

Cost inflation index for the FY 2012-13 is 852 and for the FY 2011-12 is 785.

Answer

Where an asset has been transferred by an individual to his spouse otherwise than for adequate consideration, the income arising from the sale of the said asset by the spouse will be clubbed in the hands of the individual.

Where there is any accretion to the asset transferred, income arising to the transferee from such accretion will not be clubbed. Hence, the profit from sale of bonus shares allotted to Mrs. Thilagam will be chargeable to tax in the hands of Mrs. Thilagam.

Therefore, the capital gains arising from the sale of the original shares has to be included in the hands of Mr. Janak, and the capital gains arising from the sale of bonus shares would be taxable in the hands of Mrs. Thilagam.

Where an asset received by way of gift has been sold, the period of holding of the previous owner should be considered for determining whether the capital gain is long term or short term. The cost to the previous owner has to be taken as the cost of acquisition.

Income/loss to be clubbed in the hands of Mr. Janak**Long-term capital gains/loss**

	Particulars	₹
(i)	100 shares sold on 21.5.2012 in a recognized stock exchange, STT paid. Long-term capital gains on sale of such shares is exempt under section 10(38)	Nil
(ii)	Shares sold to a friend on 28.2.2013	
	Sale consideration	1,70,000
	Less: Indexed cost of acquisition of 100 shares ($\text{₹ } 2,000 \times 100 \times 852/785$)	<u>2,17,070</u>
	Long term capital loss to be included in the hands of Mr. Janak	<u>(47,070)</u>

Income taxable in the hands of Mrs. Thilagam**Short-term capital gains (on sale of 100 bonus shares)**

Particulars	₹
Sale consideration	1,25,000
Less: Cost of acquisition of bonus shares	<u>Nil</u>
Short-term capital gains	<u>1,25,000</u>

Taxability in the hands of Mrs. Hema under the head "Income from other sources"

Mrs. Hema has received shares from her friend, Mrs. Thilagam, for inadequate consideration. Even though shares fall within the definition of "property" under section 56(2)(vii), the provisions of section 56(2)(vii) would not be attracted in the hands of Mrs. Hema, since the

difference between the fair market value of shares and actual sale consideration does not exceed ₹ 50,000.

Question 8

Mrs. Kasturi transferred her immovable property to ABC Co. Ltd. subject to a condition that out of the rental income, a sum of ₹ 36,000 per annum shall be utilized for the benefit of her son's wife.

Mrs. Kasturi claims that the amount of ₹ 36,000 (utilized by her son's wife) should not be included in her total income as she no longer owned the property.

State with reasons whether the contention of Mrs. Kasturi is valid in law.

Answer

The clubbing provisions under section 64(1)(viii) are attracted in case of transfer of any asset, directly or indirectly, otherwise than for adequate consideration, to any person to the extent to which the income from such asset is for the immediate or deferred benefit of son's wife. Such income shall be included in computing the total income of the transferor-individual.

Therefore, income of ₹ 36,000 meant for the benefit of daughter-in-law is chargeable to tax in the hands of transferor i.e., Mrs. Kasturi in this case.

The contention of Mrs. Kasturi is, hence, not valid in law.

Note - In order to attract the clubbing provisions under section 64(1)(viii), the transfer should be otherwise than for adequate consideration. In this case, it is presumed that the transfer is otherwise than for adequate consideration and therefore, the clubbing provisions are attracted.

If it is presumed that the transfer was for adequate consideration, the provisions of section 64(1)(viii) would not be attracted.

Question 9

Discuss the tax implications of income arising from revocable transfer of assets. When will the clubbing provisions not apply at present, even where there is revocable transfer of assets?

Answer

Income arising from revocable transfer of assets [Sections 61 & 63]

- (i) All income arising to any person by virtue of a revocable transfer of assets is to be included in the total income of the transferor.
- (ii) A transfer is deemed to be revocable if :
 - (a) 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
 - (b) it gives, in any way, the transferor, a right to re-assume power, directly or indirectly, over the whole or any part of the income or the assets.

Transfer not revocable during the life time of the beneficiary or the transferee [Section 62]

If there is a transfer of asset which is not revocable during the life time of the beneficiary or transferee, the income from the transferred asset is not includible in the total income of the transferor provided the transferor derives no direct or indirect benefit from such income.

If the transferor receives direct or indirect benefit from such income, such income is to be included in his total income even though the transfer may not be revocable during the life time of the beneficiary or transferee.

Question 10

Explain the provisions of the Income-tax Act, 1961, with regard to clubbing of income of spouse under section 64.

Answer

As per section 64(1)(ii), any income arising directly or indirectly to the spouse of an individual by way of salary, commission, fees or any other form of remuneration, whether in cash or in kind, from a concern in which such individual has a substantial interest, would be clubbed. However, such rule does not apply where the spouse possesses technical or professional qualification and the income of the spouse is solely attributable to the application of his or her technical or professional knowledge and experience.

Where both husband and wife have substantial interest in a concern and both are in receipt of salary etc. from the said concern, such income will be clubbed with the income of the spouse whose total income, excluding such income, is greater.

An individual shall be deemed to have substantial interest in a concern under the following circumstances :

- (a) If the concern is a company, equity shares carrying not less than 20% of the voting power are, at any time during the previous year, owned beneficially by such person or partly by such person and partly by one or more of his relatives.
- (b) In any other case, if such person is entitled, or such person and one or more of his relatives are entitled in the aggregate, at any time during the previous year, to not less than 20% of the profits of such concern.

As per section 64(1)(iv), where there is a transfer of an asset other than house property, directly or indirectly from one spouse to another, otherwise than for adequate consideration or in connection with an agreement to live apart, any income that arises either directly or indirectly to the transferee from the transfer of the asset shall be included in the total income of the transferor.

However, any income from the accretion of transferred asset is not liable to be clubbed. It may be noted that natural love and affection will not constitute adequate consideration for the purpose of section 64(1).

5.10 Income-tax

Question 11

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

	Particulars	₹
(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 30.09.2012 from friend of Mrs. A	2,500

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

Answer

As per the provisions of section 64(1A) of the Income-tax Act, 1961, all the income of a 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, specialised 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 Gross 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 gross total income of Mr. A for the A.Y. 2013-14

Particulars	₹	₹
Income from profession		3,90,000
Income of minor son B from company deposit	15,000	
Less: Exemption under section 10(32)	<u>1,500</u>	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 under section 56(2)(vii) being less than the aggregate limit of ₹ 50,000	Nil	
	3,000	
Less : Exemption under section 10(32)	1,500	1,500
Gross Total Income		<u>4,05,000</u>

Question 12

A proprietary business was started by Smt. Rani in the year 2010. As on 1.4.2011 her capital in business was ₹ 3,00,000.

Her husband gifted ₹ 2,00,000 on 10.4.2011, which amount Smt. Rani invested in her business on the same date. Smt. Rani earned profits from her proprietary business for the Financial year 2011-2012, ₹ 1,50,000 and Financial year 2012-13 ₹ 3,90,000. Compute the income, to be clubbed in the hands of Rani's husband for the Assessment year 2013-14 with reasons.

Answer

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.2013-14 is computed as under :

Particulars	Smt.Rani's Capital Contribution	Capital Contribution Out of gift from husband	Total
	₹	₹	₹
Capital as at 1.4.2011	3,00,000	--	3,00,000
Investment on 10.04.2011 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. 2011-12 to be apportioned on the basis of capital employed on the first day of the previous year i.e. on 1.4.2011	1,50,000		1,50,000
Capital employed as at 1.4.2012	4,50,000	2,00,000	6,50,000
Profit for F.Y.2012-13 to be apportioned on the basis of capital employed as at 1.4.2011 (i.e. 45 : 20)	2,70,000	1,20,000	3,90,000

5.12 Income-tax

Therefore, the income to be clubbed in the hands of Smt.Rani's husband for A.Y.2013-14 is ₹ 1,20,000.

Question 13

Write short notes on "Clubbing of income of minor children in the hands of parent".

Answer

Income earned by a minor child would be clubbed in the hands of the parent. If both parents are having income, then income of minor child would be clubbed in the hands of that parent whose income is higher before clubbing the income of minor child.

Under the following situations the income of the minor child would not be clubbed in the hands of parent :-

- (a) Income earned by minor child through manual work done by him.
- (b) Income from activity involving application of his skill, talent or specialised knowledge and experience.

If the relationship of husband and wife does not subsist between the parents, the income of the minor child would be clubbed in the hands of the parent who maintains the child during the previous year. The parent is entitled to claim an exemption under section 10(32) upto ₹ 1,500 per minor child if the income of the minor child is included in his total income.

Where any such income is once included in the total income of either parent, any such income arising in any succeeding previous year shall not be included in the total income of the other parent, unless the Assessing Officer is satisfied after giving that parent an opportunity of being heard, that it is necessary to do so.

Question 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.

Answer

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

	Particulars	₹
(i)	Income of two daughters (₹ 7,500 + Nil)	7,500
	Less: Income exempt under section 10(32)	<u>1,500</u>
	Total (A)	<u>6,000</u>
(ii)	Income of two sons (₹ 5,500 + ₹ 1,250)	6,750
	Less: Income exempt under section 10(32) (₹ 1,500 + ₹ 1,250)	<u>2,750</u>
	Total (B)	<u>4,000</u>
	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.

Question 15

Mr. Vatsan has transferred, through a duly registered document, the income arising from a godown to his son, without transferring the godown. In whose hands will the rental income from godown be charged?

Answer

Section 60 expressly states that where there is transfer of income from an asset without transfer of the asset itself, such income shall be included in the total income of the transferor. Hence, the rental income derived from the godown shall be clubbed in the hands of Mr. Vatsan.

Question 16

Mr. Dhaval and his wife Mrs. Hetal furnish the following information:

Sl. No.	Particulars	₹
(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 2.10.2012 from friend 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 2013-14.

Answer

Computation of Total Income of Mr. Dhaval and Mrs. Hetal for the A.Y. 2013-14

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)	<u>1,500</u>	28,500	
Total Income		7,78,500	4,60,000

5.14 Income-tax

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 manual work or from any activity involving exercise of his skill, talent or specialised 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.

Question 17

Mr. Dhaval has an income from salary of ₹ 3,50,000 and his minor children's income are as under:

Particulars	₹
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

Compute the gross total income of Mr. Dhaval.

Answer

Computation of Gross Total Income of Mr. Dhaval

Particulars	₹	₹
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)	<u>1,500</u>	3,500
Minor son's income		
Income from sale of self made painting (See Note below)		Nil
Interest income from FD with a Bank	1,000	
Less : Exempt under section 10(32)	<u>1,000</u>	<u>Nil</u>
Gross Total Income		<u>3,53,500</u>

Note:

The income derived by the minor from manual work or from any activity involving exercise of his skill, talent or specialised 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 from sale of own painting, shall not be clubbed in the hands of Mr. Dhaval.

EXERCISES

1. *Income of a minor child suffering from any disability of the nature specified in section 80U is -*
 - a) *to be assessed in the hands of the minor child*
 - b) *to be clubbed with the income of that parent whose total income, before including minor's income, is higher*
 - c) *completely exempt from tax*
2. *Income arising to a minor married daughter is -*
 - a) *to be assessed in the hands of the minor married daughter*
 - b) *to be clubbed with the income of that parent whose total income, before including minor's income, is higher*
 - c) *completely exempt from tax*
3. *Where a member of a HUF has converted or transferred his self-acquired property for inadequate consideration into joint family property, income arising therefrom is taxable -*
 - a) *as the income of the transferor-member*
 - b) *in the hands of the HUF*
 - c) *in the hands of the karta of the HUF*
4. *If such converted property is subsequently partitioned among the members of the family, the income derived from such converted property as is received by the spouse of the transferor will be taxable -*

5.16 Income-tax

- a) *as the income of the transferor-member*
 - b) *as the income of the spouse of the transferor*
 - c) *as the income of the HUF.*
5. *Exemption of a certain amount (not exceeding the income clubbed) is available under section 10(32), where a minor's income is clubbed with the income of the parent. The maximum exemption available is -*
- a) *upto ₹ 1,200 in respect of each minor child*
 - b) *upto ₹ 1,500 in respect of each minor child*
 - c) *upto ₹ 2,000 in respect of each minor child*
6. *Write short notes on the following in the context of clubbing of income -*
- a) *Substantial interest*
 - b) *Transfer and revocable transfer.*
7. *Under what circumstances can an income arising to the spouse of an individual be included in the income of the individual? Discuss.*
8. *State when the income arising to the son's wife can be included in the hands of the individual.*
9. *When can income arising to a minor child be clubbed in the hands of the father or mother? Discuss.*
10. *Discuss the tax consequences arising on conversion of self-acquired property into joint family property.*
11. *Discuss the cross transfers in the context of Income-tax.*

Answers

1. a; 2. b; 3. a; 4. a; 5. b.