



Clubbing of Income

All Last Day Questions – Sept 25 / Dec 25 / Jan 26

Question 1

During the previous year 2024-25, the following transactions occurred in respect of Mr. A.

- Mr. A had a fixed deposit of Rs.5,00,000 in Bank of India. He instructed the bank to credit the interest on the deposit @ 9% from 1-4-2024 to 31-3-2025 to the savings bank account of Mr. B, son of his brother, to help him in his education.
- Mr. A holds 75% profit share in a partnership firm. Mrs. A received a commission of Rs.25,000 from the firm for promoting the sales of the firm. Mrs. A possesses no technical or professional qualification.
- Mr. A gifted a flat to Mrs. A on April 1, 2024. During the previous year 2024-25, Mrs. A's "Income from house property" (computed) was Rs.52,000 from such flat.
- Mr. A gifted Rs.2,00,000 to his minor son who invested the same in a business and he derived income of Rs.20,000 from the investment.
- Mr. A's minor son derived an income of Rs.20,000 through a business activity involving application of his skill and talent.

During the year, Mr. A got a monthly pension of Rs.10,000. He had no other income. Mrs. A received salary of Rs.20,000 per month from a part time job. Examine the tax implications of each transaction and compute the total income of Mr. A, Mrs. A and their minor child assuming they do not wish to opt for section 115BAC.

Answer

Computation of total income of Mr. A, Mrs. A and their minor son for the A.Y. 2025-26

| Particulars | Mr. A (Rs.) | | Mrs. A (Rs.) | Minor Son (Rs.) |
|----------------------------------|-------------|--|--------------|-----------------|
| Income under the head "Salaries" | | | | |



| | | | | |
|---|--------|-----------------|-----------------|---------------|
| Salary income (of Mrs. A) | | - | 2,40,000 | - |
| Pension income (of Mr. A) (Rs.10,000×12) | | 1,20,000 | - | |
| Less: Standard deduction under section 16(ia) | | 50,000 | 50,000 | |
| | | 70,000 | 1,90,000 | |
| Income from House Property [See Note (3) below] | | 52,000 | - | - |
| Income from other sources | | | | |
| Interest on Mr. A's fixed deposit with Bank of India (Rs.5,00,000 × 9%) [See Note (1) below] | 45,000 | | - | - |
| Commission received by Mrs. A from a partnership firm, in which Mr. A has substantial interest [See Note (2) below] | 25,000 | 70,000 | - | - |
| Income before including income of minor son under section 64(1A) | | 1,92,000 | 1,90,000 | - |
| Income of the minor son from the investment made in the business out of the amount gifted by Mr. A [See Note (4) below] | | 18,500 | - | - |
| Income of the minor son through a business activity involving application of his skill and talent [See Note (5) below] | | - | - | 20,000 |
| Total Income | | 2,10,500 | 1,90,000 | 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 Rs.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 Rs.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% profit 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: The provisions of section 56(2)(x) 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 Rs.1,500 per child.

Therefore, the income of Rs.20,000 received by minor son from the investment made out of the sum gifted by Mr. A shall, after providing for exemption of Rs.1,500 under section 10(32), be included in the income of Mr. A, since Mr. A's income of Rs.1,92,000 (before including the income of the minor child) is greater than Mrs. A's income of Rs.1,90,000. Therefore, Rs.18,500 (i.e., Rs.20,000 – Rs.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)(x) would not be attracted in the hands of the minor son, since he has received a sum of money exceeding Rs.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 Rs.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 2

Nishant gifted ₹ 10 lakhs to his wife, Nisha on her birthday on, 1st January, 2023. Nisha lent ₹ 5,00,000 out of the gifted amount to Krish on 1st April, 2023 for six months on which she received interest of ₹ 50,000. The said sum of ₹ 50,000 was invested in shares of a listed company on 15th October, 2023, which were sold for ₹ 75,000 on 30th December, 2023. Securities transaction tax was paid on such sale. The balance amount of gift was invested as capital by Nisha in a newly business started on 1.4.2023. She suffered loss of ₹ 15,000 in the business in Financial Year 2023-24. In whose hands the above income and loss shall be included in Assessment Year 2024 -25? Support your answer with brief reasons. (MTP 4 Marks April '23 & Oct '20)

Answer

Interest on loan

As per section 64(1)(iv), in computing the total income of any individual, there shall be included all such income as arises directly or indirectly, to the spouse of such individual from assets transferred directly or indirectly, to the spouse by such individual otherwise than for adequate consideration or in connection with an agreement to live apart.

Accordingly, ₹ 50,000, being the amount of interest on loan received by Ms. Nisha, wife of Mr. Nishant, would be includible in the total income of Mr. Nishant, since such loan was given by her out of the sum of money received by her as gift from her husband.

Loss from business

Since the capital was invested in business by Ms. Nisha on 1st April, 2023, and capital invested was entirely out of the funds gifted by her husband, the entire loss of ₹ 15,000 from the business carried on by Ms. Nisha would also be includible in the total income of Mr. Nishant.

Since income includes loss as per Explanation 2 to section 64, clubbing provisions would be attracted even if there is loss and not income.

Capital Gain on sale of shares of listed company

The short-term capital gain of ₹ 25,000 (₹ 75,000, being the sale consideration less ₹ 50,000, being the cost of acquisition) arising in the hands of Ms. Nisha from sale of shares acquired by investing the interest income of ₹ 50,000 earned by her (from the loan given out of the sum gifted to her by her husband), would not be included in the hands of Mr. Nishant.



Income from the accretion of the transferred asset is not liable to be included in the hands of the transferor and therefore such income is taxable in the hands of Ms. Nisha. Since securities transaction tax has been paid, such short-term capital gain on sale of listed shares is taxable @15% in the hands of Ms. Nisha.

Question 3

Mr. Shashank is an employee of KML (P) Ltd. drawing a monthly salary of ₹ 30,000. He provides you the following information for the previous year 2023-24:

- (i) He had a fixed deposit of ₹ 4,00,000 with State Bank of India with interest @10%. He instructed bank to credit such interest on deposit to the saving account of Mr. Ram, his sister's son, to help him in his higher education.
- (ii) He gifted a flat to Mrs. Kajal (wife of Mr. Shashank) on April 1, 2023. During the previous year 2023-24, she received a rent of ₹ 20,000 p.m. from letting out the flat.
- (iii) He gifted ₹ 10,00,000 to Mrs Kajal on 1st April, 2023 which Mrs Kajal invested in her business on the same day. Capital in the business before such investment was ₹ 20,00,000. She earned profits from business for the financial year 2023-24 of ₹ 9,00,000.
- (iv) His minor son Sandeep earned income from company deposit of ₹ 1,50,000.

Mr. Shashank and Mrs Kajal do not have any other income during the P.Y. 2023-24. Compute the total income of Mr. Shashank and Mrs. Kajal for A.Y. 2024-25.(MTP 6 Marks, Aug'18)



Answer

Computation of Total income of Mr. Shashank and Mrs Kajal for the A.Y.
2024-25

| Particulars | Mr. Shashank (₹) | Mrs. Kajal (₹) |
|---|------------------------|-------------------|
| Salary income (₹ 30,000 x 12) Less standard deduction ₹ 50,000 (As per amendment) | 3,10,000 | |
| Income from house property [₹ 2,40,000 (₹ 20,000 x 12) less standard deduction of 30%] (Note 1) | 1,68,000 | |
| Income from other sources | | |
| Interest on fixed deposit with State bank of India (₹ 4,00,000 x 10%) (Note 2) | 40,000 | |
| Profits and gains from business or profession | | |
| Profits earned by Mrs Kajal from her business (Note 3) | 3,00,000 | 6,00,000 |
| Income before including income of minor child under section 64(1A) | 8,18,000 | 6,00,000 |
| Income from other sources | | |
| Minor son Sandeep - Income from company deposit (Note 4) | 1,48,500 | |
| Total income | 9,66,500 | 6,00,000 |

Notes:

- (1) 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. Shashank shall be deemed to be the owner of the flat gifted to Mrs Kajal and hence, the income arising from the same shall be computed in the hands of Mr. Shashank.

Note: The provisions of section 56(2)(x) would not be attracted in the hands of Mrs Kajal, since she has received immovable property without consideration from a relative i.e., her husband.

- (2) 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 ₹ 40,000 transferred by Mr. Shashank to Mr. Ram shall be included in the total income of Mr. Shashank.
- (3) Section 64(1)(iv) 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 or in connection with an agreement to live apart. In this case Mrs Kajal received a gift of ₹ 10,00,000 on 1.4.2023 from her husband which she invested in her business on the same day. The income to be clubbed in the hands of Mr. Shashank for the A.Y. 2024-25 is computed as under:

| Particulars | Ms Kajal's capital contribution (₹) | Capital contribution out of gift from Mr. Shashank (₹) | Total (₹) |
|--|-------------------------------------|--|-----------|
| Capital as on 1.4.2023 | 20,00,000 | 10,00,000 | 30,00,000 |
| Profit for P.Y. 2023-24 to be apportioned on the basis of capital employed on the first day of the previous year i.e. as on 1.4.2023 (2:1) | 6,00,000 (9,00,000 x 2/3) | 3,00,000 (9,00,000 x 1/3) | 9,00,000 |



Therefore, the income to be clubbed in the hands of Mr. Shashank for the A.Y.2024-25 is ₹ 3,00,000. Note: The provisions of section 56(2)(x) would not be attracted in the hands of Mrs Kajal, since she has received a sum of money exceeding ₹ 50,000 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 ₹ 1,50,000 received by minor son Sandeep from company deposit shall, after providing for exemption of ₹ 1,500 under section 10(32), be included in the income of Mr. Shashank, since Mr. Shashank's income of ₹ 8,68,000 (before including the income of the minor child) is greater than Mrs Kajal's income of ₹ 6,00,000. Therefore, ₹1,48,500 (i.e., ₹1,50,000 – ₹1,500) shall be included in Mr. Shashank's income. It is assumed that this is the first year in which clubbing provisions are attracted.



Question 4

Mr. Dharmesh who is 45 years old and his wife Mrs. Anandi who is 42 years old furnished the following information:

| S. No. | Particulars | Amount (₹) |
|--------|--|------------|
| (i) | Salary income (computed) of Mrs. Anandi | 9,60,000 |
| (ii) | Income of minor son "A" who suffers from disability specified in section 80U | 3,08,000 |
| (iii) | Income of minor daughter "C" from script writing for Television Serials | 1,86,000 |
| (iv) | Income from garment trading business of Mr. Dharmesh | 17,50,000 |
| (v) | Cash gift received by minor daughter "C" on 02-10-2020 from friend of Mrs. Anandi, on winning of a story writing competition | 45,000 |
| (vi) | Income of minor son "B" form scholarship received from his school | 1,00,000 |
| (vii) | Income of minor son "B" from fixed deposit with Punjab National Bank, made out of income earned from scholarship | 5,000 |

Compute the total income of Mr. Dharmesh and his wife Mrs. Anandi for Assessment Year 2024- 25 assuming that they have not opted to be taxed under section 115BAC.

(PYP 5 Marks July'21, MTP 5 Marks Oct '23)

**Answer****Computation of Total Income of Mr. Dharmesh and Mrs. Anandi for A.Y. 2024-25**

| Particulars | | Mr. | Mrs. |
|---|-------|------------|----------|
| | | Dharmesh | Anandi |
| | | Amount (₹) | |
| Salary income (computed) | | | 9,60,000 |
| Income from garment trading business | | 17,50,000 | |
| Total Income before including income of minor children | | 17,50,000 | 9,60,000 |
| Income of minor son "A" | | | |
| Income of ₹ 3,08,000 of minor son A who suffers from disability specified in section 80U [Since minor child A is suffering from disability specified under section 80U, hence, his income would not be included in the income of the parent but would be taxable in the hands of the minor child] | | | |
| Income of minor son "B" | | | |
| Income of ₹ 1,00,000 from scholarship [Exempt u/s 10(16)] | | - | |
| Income from fixed deposit with PNB | 5,000 | | |
| [Since Mr. Dharmesh's income is greater than that of Mrs. Anandi, income of minor son B from fixed deposit would be included in the hands of Mr. Dharmesh. Interest from bank deposit has to be included in Mr. Dharmesh's income, even if deposit is made out of income earned from scholarship] | | | |
| Less: Exemption under section 10(32) | 1,500 | 3,500 | |



| | | | |
|---|--|-----------|----------|
| Income of minor daughter "C" | | | |
| Income of ₹ 1,86,000 from script writing for television serials [Income derived by a minor child from any activity involving application of his/her skill, talent, specialized knowledge and experience is not to be included in the hands of the parent] | | Nil | |
| Hence, clubbing provisions will not apply in this case/no adjustment is required. | | | |
| Cash gifts of ₹ 45,000 received from friend of Mrs. Anandi [Gift not exceeding ₹ 50,000 received from a non-relative is not taxable under section 56(2)(x)] | | | |
| Hence, clubbing provisions will not apply in this case / no adjustment is required. | | Nil | |
| Gross Total Income/ Total Income | | 17,53,500 | 9,60,000 |

Note -

As per section 10(16), scholarships granted to meet the cost of education is exempt from tax. The purpose of scholarship received by minor son B is explicitly not mentioned in the question. However, scholarships given by schools are generally in the form of financial assistance for meeting the cost of education. Hence, it is logical to assume that the scholarship to B has been granted to him to meet his cost of education. Based on this assumption, the same has been treated as exempt from tax u/s 10(16). Alternate view - However, in absence of specific information, it is possible to assume that such scholarship has been granted on account of B's exceptional academic achievements i.e., involving application of his skill, talent, specialised knowledge and experience and hence would be covered under the proviso to section 64(1A) and thus should not be included in the income of parent.



Question 5

Mr. Karan gifted a sum of Rs 9 lakhs to his brother's minor son on 1-5-2024. On the same date, his brother gifted debentures worth ₹ 10 lakhs to Mrs. Karan. Son of Mr. Karan's brother invested the amount in fixed deposit with Canara Bank @ 9% p.a. interest and Mrs. Karan received interest of ₹ 81,000 on these debentures during the previous year 2024-25. Discuss the tax implications under the provisions of the Income- tax Act, 1961.

Answer

In the given case, Mr. Karan gifted a sum of ₹9 lakhs to his brother's minor son on 1.5.2024 and simultaneously, his brother gifted debentures worth ₹ 10 lakhs to Mr. Karan's wife on the same date. Mr. Karan's brother's minor son invested the gifted amount of ₹ 9 lakhs in fixed deposit with Canara Bank.

These transfers are in the nature of cross transfers. Accordingly, the income from the assets transferred would be assessed in the hands of the deemed transferor because the transfers are so intimately connected to form part of a single transaction and each transfer constitutes consideration for the other by being mutual or otherwise. If two transactions are inter-connected and are part of the same transaction in such a way that it can be said that the circuitous method was adopted as a device to evade tax, the implication of clubbing provisions would be attracted.

As per section 64(1A), all income of a minor child is includible in the hands of the parent, whose total income, before including minor's income is higher. Accordingly, the interest income arising to Mr. Karan's brother's son from fixed deposits would be included in the total income of Mr. Karan's brother, assuming that Mr. Karan's brother's total income is higher than his wife's total income, before including minor's income. Mr. Karan's brother can claim exemption of ₹ 1,500 u/s 10(32).

Interest on debentures arising in the hands of Mrs. Karan would be taxable in the hands of Mr. Karan as per section 64(1)(iv).

This is because both Mr. Karan and his brother are the indirect transferors of the income to their spouse and minor son, respectively, with an intention to reduce their burden of taxation.

In the hands of Mr. Karan, interest received by his spouse on debentures of ₹ 9 lakhs alone would be included and not the entire interest income on the debentures of ₹ 10 lakhs, since the cross transfer is only to the extent of ₹ 9 lakhs.

Hence, only proportional interest (i.e., 9/10th of interest on debentures received) ₹ 72,900 would be includible in the hands of Mr. Karan.

The provisions of section 56(2)(x) are not attracted in respect of sum of money transferred or value of debentures transferred, since in both the cases, the transfer is from a relative.



Question 6

Mr. Chaman who is 50 years old and his wife Mrs. Chaman who is 48 years old furnish the following information (all the amount of incomes/gains/losses are computed as per the provisions of Income-tax Act):

- (i) Mr. Chaman's salary income - ₹ 11,00,000
- (ii) Mrs. Chaman's income from Kathak performances - ₹ 2,50,000. She is a professional Kathak dancer and pursues dancing as her profession.
- (iii) Mrs. Chaman earned long-term capital gains of ₹ 5,50,000 from sale of shares.
- (iv) Mrs. Chaman gifted ₹ 2,00,000 to Mr. Chaman out of her Stridhan on 1.4.2023, Mr. Chaman invested the entire amount in stock market but suffered a short-term capital loss of ₹ 5,10,000.
- (v) Miss Naina, their minor daughter, earned ₹ 3,56,000 by performing in various quiz competitions held online during the year 2024-25. She kept that amount in savings bank account and earned interest of ₹ 15,000 during the year 2024-25.
- (vi) Master Neelabh, their minor son earned ₹ 35,000 from fixed deposit which was made out of the cash he received on his birthday from his friends and family. Neelabh suffers from disability as mentioned under section 80U. The medical certificate shows a disability of upto 75%.

Compute the total income in the hands of Mr. and Mrs. Chaman and their minor children for the Assessment Year 2025-26. Ignore section 115BAC pertaining to alternative tax regime. (PYP 6 Marks May '23)

Answer

Computation of total income of Mr. Chaman, Mrs. Chaman and their minor children for the A.Y.2025-26

| | Mr. Chaman | Mrs. Chaman | Naina, minor daughter | Neelabh, minor son |
|--|---------------|----------------|-----------------------------|--------------------------|
| | ₹ | ₹ | ₹ | ₹ |
| Income under the head "Salaries" Salaries (computed) | 11,00,000 | | | |
| Profits and gains from business or profession Income from Kathak performances | | 2,50,000 | | |
| Capital Gains Long term capital gains from sale of shares | | 5,50,000 | | |
| Less: Set off of short-term capital loss from long term capital gain [Short term capital loss to the extent of ₹ 2 lakhs would be included in the income of Mrs. Chaman, since the shares are purchased by Mr. Chaman from the amount of ₹ 2 lakhs gifted by Mrs. Chaman out of her Stridhan. Clubbing provisions would be attracted even if it is a loss and not income] [Refer Note 1 and 2 below] | | 2,00,000 | | |

| | | | | |
|---|-----------|----------|----------|--------|
| The balance short-term capital loss of ₹ 3,10,000 has to be carried forward by Mr. Chaman, since it cannot be set-off against salary income. | | 3,50,000 | | |
| Income [before considering income of minor son and minor daughter] | 11,00,000 | 6,00,000 | | |
| Income of Naina, minor daughter, from performances in various quiz competitions would not be included in the hands of either parent, since | | | 3,56,000 | |
| such income arises from her own skills/talent. However, interest of ₹ 15,000 on saving bank account [after providing for deduction of ₹ 1,500, being exempt under section 10(32)] is to be included in the hands of Mr. Chaman, since his income is higher than that of his wife [₹ 15,000 - ₹ 1,500] | 13,500 | | | |
| Income of Neelabh, minor son suffering from disability u/s 80U, from fixed deposits would not be included in the income of parent but would be taxable in his hands. | | | | 35,000 |



| | | | | |
|--|------------------|-----------------|-----------------|------------|
| Gross Total Income | | | | |
| | 11,13,500 | 6,00,000 | 3,56,000 | 35,000 |
| Less: Deductions under Chapter VI-A | 10,000 | | | |
| - Under section 80TTA In respect of interest on saving bank account to the extent of | | | | |
| Under section 80U | | | | 35,000 |
| - Flat deduction of ₹ 75,000 to a person with disability. However, deduction would be restricted to gross total income | | | | |
| Total Income | 11,03,500 | 6,00,000 | 3,56,000 | Nil |

Note – (1) The question mentions that Mrs. Chaman gifted ₹ 2 lakh to Mr. Chaman out of her Stridhan on 1.4.2024 and that Mr. Chaman invested the entire amount in stock market but suffered a short-term capital loss of ₹ 5,10,000. It is not possible to invest ₹ 2 lakhs and incur short-term capital loss of ₹ 5.10 lakhs. Accordingly, in the above solution, it has been assumed that the remaining ₹ 3,10,000 is invested by Mr. Chaman and hence the same would be a short-term capital loss to be carried forward by him.

Due to the use of the words “invested the entire amount in the stock market” in the question, it is possible to take a view that the entire capital loss of ₹ 5,10,000 has to be set off against long-term capital gains of ₹ 5,50,000 in the hands of Mrs. Chaman. In which case the total income of Mrs. Chaman would be ₹ 2,90,000 instead of ₹ 6,00,000. Also, there would be no short-term capital loss in the hands of Mr. Chaman.