

Therefore, ₹55 lakhs, being the difference between the stamp duty value on the date of agreement (i.e., ₹120 lakh) and the purchase price (i.e., ₹65 lakh), would be chargeable as business income in the hands of Mr. Akash.

In the hands of Mr. Varun

Since Mr. Varun is a share broker, the building purchased would be a capital asset in his hands. The provisions of section 56(2)(x) would be attracted in the hands of Mr. Varun who has received immovable property, being a capital asset, for inadequate consideration. Therefore, ₹45 lakhs, being the difference between the stamp duty value of the property on the date of registration (i.e., ₹130 lakh) and the actual consideration (i.e., ₹85 lakh) would be taxable under section 56(2)(x) in the hands of Mr. Varun, since the payment is made by crossed cheque and not account payee cheque/draft or ECS. (As per amendment where any person receives, in any previous year, from any person or persons any immovable property having stamp duty value that exceeds such consideration and if the amount of such excess is more than the higher of the following amounts, namely: - (i) the amount of fifty thousand rupees; and (ii) the amount equal to ten per cent of the consideration then the difference between the consideration and stamp duty value are chargeable to tax)

Question 2

RTP May '19

Mr. Suraj sold a house to his friend Mr. Ganesh on 18th September, 2023 for a consideration of ₹42,00,000. On the date of registration stamp duty value of the said property is ₹ 45,00,000. However, on the date of agreement stamp duty value of the said property was ₹ 44,00,000. Mr. Ganesh had paid 10% of the value of the property by way of A/c payee cheque at the time of agreement. Assume value of land is 70% of the total value of the property.

What are the tax implications in the hands of Mr. Suraj and Mr. Ganesh for the assessment year 2024-25? Mr. Suraj had purchased the land on 19th February, 2013 for ₹ 9,20,000 and completed the construction of house on 18th January, 2017 for ₹ 15,50,000. Cost Inflation Index: F.Y. 2012-13 - 200; F.Y. 2016-17 - 264; F.Y. 2018-19 - 280, FY 2023-24- 348.

Answer:

In the hands of the seller, Mr. Suraj

As per section 50C, where the consideration received or accruing as a result of transfer of land or building or both, is less than the value adopted or assessed or assessable by the stamp valuation authority, the value adopted or assessed or assessable by the stamp valuation authority shall be deemed to be the full value of consideration received or accruing as a result of transfer.

However, where the date of registration and date of agreement are not the same and part or whole of the consideration is received by way of A/c payee cheque or A/c payee bank draft or by use of ECS on or before the date of agreement, then stamp duty value on the date of agreement may be taken to be the full value of consideration.

Further, where the stamp duty value on the date of agreement or registration, as the case may be, does not exceed 105% (110%) of the amount of consideration received or receivable then the consideration so received would be deemed to be the full value of the consideration.

In the present case, since Mr. Suraj has received 10% of the consideration by way of A/c payee cheque on the date of agreement, the stamp duty value of ₹ 44,00,000 on the date of agreement would be taken for the purpose of computing full value of consideration.



Further, since the stamp duty of land and building of ₹ 44,00,000 does not exceed ₹ 44,10,000(46,20,000) i.e., 105% (110%) of ₹ 42,00,000, the consideration received i.e., ₹ 42,00,000 in respect of land and building would be deemed to be the full value of consideration.

In the given problem, land has been held for a period exceeding 24 months and building for a period less than 24 months immediately preceding the date of transfer. So land is a long-term capital asset, while building is a short-term capital asset.

Accordingly, capital gains would be determined in the following manner:

Particulars	₹
Long term capital gain on sale of land	
Consideration received or accruing as a result of transfer of land [70% of ₹ 42,00,000]	29,40,000
Less: Indexed cost of acquisition ₹ 9,20,000 × 384/200	17,66,400
Long-term capital gain (A)	11,73,600
Short-term capital loss on sale of building	
Consideration received or accruing from transfer of building [30% of ₹ 42,00,000]	12,60,000
Less: Cost of acquisition	15,50,000
Short term capital loss (B)	(2,90,000)

As per section 70(2), short-term capital loss can be set-off against long-term capital gains. Therefore, the net taxable long-term capital gains would be ₹8,83,600 (i.e., ₹ 11,73,600 - ₹ 2,90,000). The same would be taxable @ 20% under section 112, after adjusting un-exhausted basic exemption limit, if any, against such long-term capital gain.

In the hands of the buyer Mr. Ganesh

As per section 56(2)(x), where any person receives from a non-relative, any immovable property for a consideration which is less than the stamp duty value on the date of agreement or date of registration as the case may be, and the difference between actual consideration and stamp duty value so considered is more than the higher of ₹ 50,000 or 5% (10% as per amendment) of the consideration so received, then the difference between such value and actual consideration of such property is chargeable to tax as income from other sources.

Where the date of registration and date of agreement are not the same and part or whole of the consideration is paid by way of A/c payee cheque or A/c payee bank draft or by use of ECS on or before the date of agreement, then stamp duty value on the date of agreement may be taken for the purpose of determining income taxable under the head "Income from other sources".

Since in the present case, Mr. Ganesh has paid 10% of the consideration by way of A/c payee cheque, the stamp duty value on the date of agreement has to be taken. Further, since the difference of ₹ 2,00,000 is not more than ₹ 2,10,000 being higher of ₹ 50,000 and ₹ 2,10,000 (4,20,000) (5% (10%) of ₹ 42,00,000), no income would be chargeable to tax as income from other sources in the hands of Mr. Ganesh.

(As per amendment where any person receives, in any previous year, from any person or persons any immovable property having stamp duty value that exceeds such consideration and if the amount of such excess is more than the higher of the following amounts, namely: - (i) the amount of fifty thousand rupees; and (ii) the amount equal to ten per cent of the consideration then the difference between the consideration and stamp duty value is chargeable to tax)



Question 3

Examine whether the following are chargeable to tax and the amount liable to tax:

- (i) Interest on enhanced compensation ₹ 3,00,000 received on 31.03.2024 from Government of Tamil Nadu towards urban land acquired by it. 40% of enhanced compensation interest pertains to previous year 2022-23. (Old & New SM)
- (ii) Narayanan transferred 1000 shares of BS Ltd to AB Pvt. Ltd on 01-06-2023 for a consideration of ₹ 2,00,000 when the fair market value of the same as on transaction date was ₹ 3,00,000. The indexed cost of acquisition of shares for Narayanan was ₹ 2,75,000. The transfer was affected off market on which securities transaction tax was not paid. BS Ltd is a closely held unlisted company.
- (iii) Mr. A received ₹ 5,00,000 on 1st March 2024 from Sree Pushpaka Charitable Trust for meeting his medical expenses. The trust is registered under section 12AB of Income-tax Act.

6 Marks

Answer:

(i) Interest on enhanced compensation received on 31.03.24 from Government of Tamil Nadu (including 40% of interest on enhanced compensation relating to P.Y. 2022-23) would be deemed to be the income of P.Y. 2023-24, being the year in which it is received irrespective of the method of accounting followed by the assessee.

Interest of ₹ 3,00,000 on enhanced compensation is chargeable to tax during the P.Y. 2023-24 after providing deduction of 50% under section 57. Therefore, ₹ 1,50,000 is chargeable to tax under the head "Income from other sources".

(ii) In the hands of Mr. Narayanan

Since the consideration of ₹ 2,00,000 is less than ₹ 3,00,000, being the fair market value of unquoted shares of BS Ltd., the fair market value of shares i.e., ₹ 3,00,000 would be deemed to be the full value of consideration.

Accordingly, ₹ 25,000 [₹ 3,00,000 - ₹ 2,75,000, being indexed cost of acquisition] would be liable to tax as long-term capital gains in the hands of Mr. Narayanan.

In the hands of AB Pvt. Ltd.

Shares received by AB Pvt. Ltd. from Mr. Narayanan for inadequate consideration is chargeable to tax, since the difference exceeds ₹ 50,000. Accordingly, ₹ 1,00,000, being the difference between aggregate Fair Market Value of the shares i.e., ₹ 3,00,000 and consideration i.e., ₹ 2,00,000 would be chargeable to tax under the head "Income from other sources".

(iii) The sum of ₹ 5,00,000 received from Sree Pushpaka Charitable Trust, without consideration, for meeting medical expenses would not be chargeable to tax in the hands of Mr. A, since the same is received from a trust registered under section 12AB.



Multiple Choice Questions

Question 1

MTP Nov'21

Ms. Saline received interest on enhanced compensation of ₹ 5,00,000. Out of this interest, ₹ 1,50,000 relates to the previous year 2022-23, ₹ 1,90,000 relates to previous year 2019-20 and ₹ 1,60,000 relates to previous year 2023-24. She paid ₹ 1 lakh to her advocate for his efforts in the matter. What amount would be taxable in P.Y. 2023-24 and taxable, if any, under which head of income.

- ₹ 2,50,000 under the head "income from other sources"
- ₹ 4,00,000 under the head "income from other sources"
- ₹ 1,60,000 under the head "income from other sources"
- ₹ 1,60,000 under the head "Capital gains" Division B -

Question 2

MTP April'21

Pankaj gifted an amount of Rs 3,00,000 to his wife, Pinky and ₹ 2,00,000 to his daughter, Rink aged 20 years, on 1st April 2020. Both Pinky and Rinky invested the amounts on the same date in Government of India 11% Taxable Bonds. The interest accrues yearly and is reinvested in the same bonds. Determine what will be the amount taxable in hands on Pinky for A.Y. 2024-25?

- ₹ 4,473
- ₹ 12,132
- ₹ 33,000
- Nil

Question 3

MTP Oct'19

Neeraj was working as an accountant with the company Umali Ltd. He died on 30.04.2023 and on account of his death, his wife Neha started receiving a pension of ₹ 10,000 per month i.e. 01.06.2023. Determine under which head of income, the pension received by Neha during F.Y. 2023-24 shall be taxable. Also, compute the taxable amount in her hands.

- Income from other sources: ₹1,00,000
- Income from other sources: ₹ 85,000
- Income from Salary: ₹1,00,000
- Income from Salary: ₹ 85,000

Question 4

MTP March'19

Mrs. Gupta, resident in India, holds many equity shares of reputed domestic companies. During the previous year 2023-24, total dividend earned by her is ₹11,00,000. She is of the belief that dividend income earned by her is tax free. She approaches you to assist her in filing her income tax return. As her tax consultant, will you advise her that any dividend income earned by her is tax free?

- Yes, as dividend earned by her is fully exempt from tax u/s 10(34).
- No, as any dividend income earned by an individual is fully chargeable to tax.
- No, as dividend income earned above ₹10,00,000 is chargeable to tax in her hands.
- Yes, as dividend income above ₹10,00,000 is chargeable to tax only in the hands of the companies and not in her hands.



Question 5

MTP March'19

Mr. X receives the following gifts during the previous year 2023-24:

- On 20.09.2023, he gets a gift of ₹7,00,000 from his grandmother.
- On 30.12.2023, he gets by way of gift a commercial flat from the elder brother of his father-in-law (stamp duty value is ₹25,00,000).
- On 20.01.2024, he gets a wrist watch by gift from his friend B (Fair market value: ₹1,00,000).

On 10.02.2024, he gets by way of gift a plot of land in Pune from a partnership firm. The partnership firm has only two partners- father of Mr. X and MRS. X. The stamp duty value of the plot of land is ₹19,00,000. Compute the amount chargeable to tax in the hands of X under the head "Income from other sources" for the A.Y. 2024-25.

- ₹25,00,000
- ₹44,00,000
- ₹45,00,000
- ₹52,00,000

Question 6

RTP May'20

APM Ltd. is a pioneer company in textile industry. At the end of F.Y. 2023-24, it decided to distribute deposit certificates (without interest) to its shareholders (preference as well as equity shareholders). Total value of accumulated profits of APM Ltd. was ₹ 25 lakhs. Mr. A is an equity shareholder of APM Ltd. holding 10% of share capital. During F.Y. 2023- 24, Mr. A received deposit certificates (without interest) valuing ₹ 5,00,000 from APM Ltd. Comment upon taxability of receipt of deposit certificates in the hands of Mr. A.

- Deposit Receipts (without interest) are taxable to the extent of ₹ 2,50,000 under Income from other sources.
- Deposit Receipts (without interest) are fully taxable under Income from other sources.
- Deposit Receipts (without interest) are exempt since DDT is payable by the company.
- Deposit Receipts (without interest) are fully taxable and shall be included in Gross total income. But such receipt shall be allowed as deduction under Chapter-VI A.

Question 7

RTP Nov'21

Mr. T, an Indian Citizen and resident of India, earned dividend income of ₹ 4,500 from an Indian company, which was declared on 1.10.2023 and paid in cash to Mr. T. What are the tax implications with respect to the dividend in the hands of Mr. T and Indian Company?

- Such dividend is taxable in the hands of Mr. T and Indian company is required to deduct tax at source @7.5%.
- Such dividend is taxable in the hands of Mr. T and Indian company is required to deduct tax at source @10%.
- Such dividend is taxable in the hands of Mr. T. However, Indian company is not required to deduct tax at source since it does not exceed ₹ 5,000.
- Such dividend is exempt in the hands of Mr. T. Hence, Indian company is not required to deduct tax at source.



Question 8

RTP Nov'21

Mr. Vikas received a gold ring worth ₹ 60,000 on the occasion of his daughter's wedding from his best friend Mr. Vishnu. Mr. Vishnu also gifted a gold chain to Kavya, daughter of Mr. Vikas, worth ₹ 80,000 on the said occasion. Would such gifts be taxable in the hands of Mr. Vikas and Ms. Kavya?

- Yes, the gift of gold ring and gold chain is taxable in the hands of Mr. Vikas and Ms. Kavya, respectively
- Such gifts are not taxable in the hands of Mr. Vikas nor in the hands of Ms. Kavya
- Value of gold ring is taxable in the hands of Mr. Vikas but value of gold chain is not taxable in the hands of Ms. Kavya
- Value of gold chain is taxable in the hands of Ms. Kavya but value of gold ring is not taxable in the hands of Mr. Vikas

Answers

1	2	3	4	5	6	7	8		
a	b	b	b	b	b	b	c		



Chapter 4: Income of Other Person included in Assesses Total Income

Descriptive Questions

Easy

Question 1

RTP May'23

Mr. Vaibhav started a proprietary business on 01.04.2022 with a capital of ₹ 5,00,000. He incurred a loss of ₹ 2,00,000 during the year 2022-23. To overcome the financial position, his wife Mrs. Vaishaly, a software Engineer, gave a gift of ₹ 5,00,000 on 01.04.2023, which was immediately invested in the business by Mr. Vaibhav. He earned a profit of ₹ 4,00,000 during the year 2023-24. Compute the amount to be clubbed in the hands of Mrs. Vaishaly for the A.Y. 2024-25. 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 1.4.2023 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. 2024-25 is computed as under:

Particulars	Mr. Vaibhav's capital contribution (₹)	Capital contribution out of gift from Mrs. Vaishaly (₹)	Total (₹)
Capital as on 1.4.2022	3,00,000 (5,00,000 - 2,00,000)	5,00,000	8,00,000
Profit for P.Y.2022-23 to be apportioned on the basis of capital employed on the first day of the previous year i.e. as on 1.4.2021 (3:5)	1,50,000 $4,00,000 \times \frac{3}{8}$	2,50,000 $4,00,000 \times \frac{5}{8}$	4,00,000

Therefore, the income to be clubbed in the hands of Mrs. Vaishaly for the A.Y.2024-25 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.

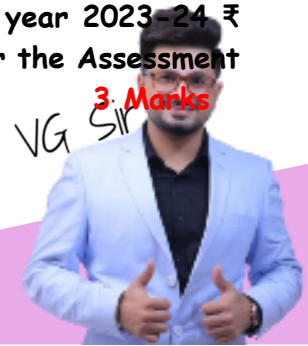
Note: The provisions of section 56(2)(x) would not be attracted in the hands of Mr. Vaibhav, since he has received a sum of money exceeding ₹ 50,000 without consideration from a relative i.e., his wife.

Question 2

MTP Apr'19, RTP May'18

A proprietary business was started by Smt. Rani in the year 2021. As on 1.4.2022 her capital in business was ₹ 3,00,000. Her husband gifted ₹ 2,00,000 on 10.4.2022 to her and such sum is invested by Smt. Rani in her business on the same date. Smt. Rani earned profits from her proprietary business for the financial year 2022-23, ₹ 1,50,000 and financial year 2023-24 ₹ 3,90,000. Compute the income, to be clubbed in the hands of Rani's husband for the Assessment year 2024-25 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.2024-25 is computed as under:

Particulars	Smt. Rani's Capital Contribution	Capital Contribution Out of gift from husband	Total
Capital as at 1.4.2022	3,00,000	-	3,00,000
Investment on 10.04.2022 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. 2022-23 to be apportioned on the basis of capital employed on the first day of the previous year i.e., on 1.4.2022	1,50,000		1,50,000
Capital employed as at 1.4.2023	4,50,000	2,00,000	6,50,000
Profit for F.Y.2023-24 to be apportioned on the basis of capital employed as at 1.4.2023 (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.2024-25 is ₹1,20,000.

Question 3

MTP Oct'21, Mar'19, RTP Nov '18, Nov'19

Suresh gifted ₹10 lakhs to his wife, Shagun on her birthday on, 29th February, 2023. Shagun lent such amount to Kinjal on 1st April, 2023 for six months on which she received interest of ₹ 75,000. The said sum of ₹ 75,000 was invested in shares of a listed company on 5th October, 2023, which were sold for ₹ 90,000 on 30th March, 2024. Securities transactions tax was paid on purchase and sale of such shares. In whose hands the above income shall be included in A.Y.2024-25. Support your answer with brief reasons. **3 Marks**

Answer:

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.

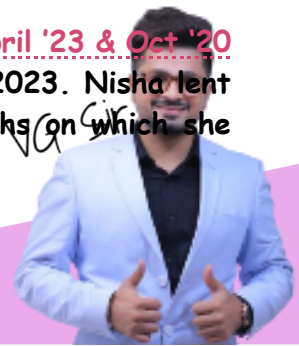
Interest on loan: Accordingly, ₹ 75,000, being the amount of interest on loan received by Mrs. Shagun, wife of Mr. Suresh, would be includible in the total income of Mr. Suresh, since such loan was given out of the sum of money received by her as gift from her husband.

Short-term capital gain: Income from the accretion of the transferred asset is not liable to be included in the hands of the transferor and, therefore, short-term capital gain of ₹ 15,000 (₹ 90,000, being the sale consideration less ₹75,000, being the cost of acquisition) arising in the hands of Mrs. Shagun from sale of shares acquired by investing the interest income of ₹75,000 earned by her (from the loan given out of the sum gifted by her husband), would not be included in the hands of Mr. Suresh. Thus, such income is taxable in the hands of Mrs. Shagun.

Question 4

MTP April '23 & Oct '20

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. **4 Marks**

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 5

MTP May'20

Mr. Vijay gifted a sum of ₹ 4 lakhs to his brother's wife on 19-6-2023. On 21-7-2023, his brother gifted a sum of ₹ 3 lakhs to Mr. Vijay's wife. The gifted amounts were invested as fixed deposits in banks by Mr. Vijay and wife of Mr. Vijay's brother on 01-8-2023 at 9% interest. Examine the consequences of the above under the provisions of the Income-tax Act, 1961 in the hands of Mr. Vijay and his brother. **4 Marks**

Answer:

In the given case, Mr. Vijay gifted a sum of ₹4 lakhs to his brother's wife on 19.06.2023 and simultaneously, his brother gifted a sum of ₹3 lakhs to Mr. Vijay's wife on 21.07.2023. The gifted amounts were invested as fixed deposits in banks by Mr. Vijay and his brother's wife. These transfers are in the nature of cross transfer Accordingly, the income from the assets transferred would be assessed in the hands of the deemed transferor because the transfer is 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. It was so held by the Apex Court in CIT vs. Keshavji Morori (1967) 66 ITR 142.

Accordingly, the interest income arising to Mr. Vijay in the form of interest on fixed deposits would be included in the total income of Mr. Vijay and interest income arising in the hands of his brother's wife would be taxable in the hands of Mr. Vijay's brother as per section 64(1), to the extent of amount of cross transfer i.e., ₹3 lakhs.

This is because both Mr. Vijay and his brother are the indirect transferor of the income to their respective spouses with an intention to reduce their burden of taxation.

However, the interest income earned by his spouse on fixed deposit of ₹3 lakhs alone would be included in the hands of Mr. Vijay's brother and not the interest income on the entire fixed deposit of ₹4 lakhs, since the cross transfer is only to the extent of ₹3 lakhs.

Question 6

MTP Oct'22 & Oct '18

Mr. Raja gifted a sum of ₹ 8 lakhs to his brother's minor son on 14-5-2023. On the same date, his brother gifted debentures worth ₹ 10 lakhs to Mrs. Raja. Son of Mr. Raja's brother invested the amount in fixed deposit with SBI@ 9% p.a. interest and Mrs. Raja received interest of ₹ 81,000 on these debentures during the previous year 2023-24. Discuss the tax implications under the provisions of the Income-tax Act, 1961.

4 Marks

Answer:

In the given case, Mr. Raja gifted a sum of ₹ 8 lakhs to his brother's minor son on 14.5.2023 and simultaneously, his brother gifted debentures worth ₹ 10 lakhs to Mr. Raja's wife on the same date. Mr. Raja's brother's minor son invested the gifted amount of ₹ 8 lakhs in fixed deposit with SBI.

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 attracted¹.

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. Raja's brother's son from fixed deposits would be included in the total income of Mr. Raja's brother, assuming that Mr. Raja's brother's total income is higher than his wife's total income, before including minor's income. Mr. Raja's brother can claim exemption of ₹ 1,500 under section 10(32).

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

This is because both Mr. Raja 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. Raja, interest received by his spouse on debentures of ₹ 8 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 ₹ 8 lakhs.

Hence, only proportional interest (i.e., 8/10th of interest on debentures received) ₹ 64,800 would be includible in the hands of Mr. Raja.

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.



It was so held by the Apex Court in CIT vs. Keshavji Morarji (1967) 66 ITR 142.

Question 7

MTP March '23.

Mr. Om has gifted a house property valued at ₹ 50 lakhs to his wife, Mrs. Uma, who in turn has gifted the same to Mrs. Pallavi, their daughter-in-law. The house was let out at ₹ 25,000 per month throughout the year. Compute the total income of Mr. Om and Mrs. Pallavi. Will your answer be different if the said property was gifted to his son, husband of Mrs. Pallavi? **4 Marks**

Answer:

As per section 27(i), an individual who transfers otherwise than for adequate consideration any house property to his spouse, not being a transfer in connection with an agreement to live apart, shall be deemed to be the owner of the house property so transferred.

Therefore, in this case, Mr. Om would be the deemed owner of the house property transferred to his wife Mrs. Uma without consideration.

As per section 64(1)(vi), income arising to the son's wife from assets transferred, directly or indirectly, to her by an individual otherwise than for adequate consideration would be included in the total income of such individual.

Income from let-out property is ₹ 2,10,000 [i.e., ₹ 3,00,000, being the actual rent calculated at ₹ 25,000 per month less ₹ 90,000, being deduction under section 24@30% of ₹ 3,00,000]

In this case, income of ₹ 2,10,000 from let-out property arising to Mrs. Pallavi, being Mr. Om's son's wife, would be included in the income of Mr. Om, applying the provisions of section 27(i) and section 64(1)(vi). Such income would, therefore, not be taxable in the hands of Mrs. Pallavi.

In case the property was gifted to Mr. Om's son, the clubbing provisions under section 64 would not apply, since the son is not a minor child. Therefore, the income of ₹ 2,10,000 from letting out of property gifted to the son would be taxable in the hands of the son.

It may be noted that the provisions of section 56(2)(x) would not be attracted in the hands of the recipient of house property, since the receipt of property in each case was from a "relative" of such individual. Therefore, the stamp duty value of house property would not be chargeable to tax in the hands of the recipient of immovable property, even though the house property was received by her or him without consideration.

Note - The first part of the question can also be answered by applying the provisions of section 64(1)(vi) directly to include the income of ₹ 2,10,000 arising to Mrs. Pallavi in the hands of Mr. Om. [without first applying the provisions of section 27(i) to deem Mr. Om as the owner of the house property transferred to his wife Mrs. Uma without consideration], since section 64(1)(vi) speaks of clubbing of income arising to son's wife from indirect transfer of assets to her by her husband's parent, without consideration. Gift of house property by Mr. Om to Mrs. Pallavi, via Mrs. Uma, can be viewed as an indirect transfer by Mr. Om to Mrs. Pallavi.

Question 8

RTP May '22

Mr. Samrat and his wife, Mrs. Komal, holds 12% voting power each in ABC (P) Ltd. Mr. Samrat and Mrs. Komal are working in ABC (P) Ltd. However, Mrs. Komal is not qualified for the job. From the following information given in respect of F.Y. 2023-24, you are required to compute the gross total income of Mr. Samrat and Mrs. Komal for the A.Y. 2024-25

- (i) Dividend of ₹ 22,500 and ₹ 45,000 is received by Mr. Samrat and Mrs. Komal, respectively, from ABC (P) Ltd. Mr. Samrat has instructed the company to pay 50% of his dividend to Ms. Kajal, daughter of his deceased brother.



- (ii) Salary earned by Mr. Samrat and Mrs. Komal from ABC (P) Ltd. is ₹ 8,50,000 and ₹ 5,50,000, respectively.
- (iii) Business income earned by Mr. Samrat from his sole proprietary business is ₹ 15,60,000
- (iv) Interest on fixed deposit earned by Mrs. Komal of ₹ 9,00,000.
- (v) Their son, Akash, aged 10 years having PAN, received interest of ₹ 54,000 from bank on a fixed deposit created by his grandfather in his name.

Answer:

Computation of Gross Total Income of Mr. Samrat and Mrs. Komal for A.Y. 2024 -25

Particulars	Mr. Samrat		Mrs. Komal	
	₹	₹	₹	₹
Salary of Samrat	8,50,000			-
Less: Standard deduction under section 16(ia)	50,000	8,00,000		-
Salary of Komal	5,50,000			-
Less: Standard deduction under section 16(ia)	50,000	5,00,000		-
[Salary earned by Mrs. Komal has to be included in the total income of Mr. Samrat, since he has substantial interest in the concern (i.e., having 24% voting power in ABC (P) Ltd., along with his wife) and Mrs. Komal does not have any professional qualification for the job.]				
Business Income		15,60,000		-
Dividend income from ABC (P) Ltd. [Taxable in the hands of Mr. Samrat as per section 60, since he transferred the income i.e., dividend without transferring the asset i.e., shares]	[22,500/ 90 × 100 × 2]	50,000	[45,000/ 90 × 100]	50,000
Interest on Fixed Deposit earned by Mrs. Komal		-		9,00,000
Total Income (before including minor's income)		29,10,000		9,50,000
Income of minor child to be included in Mr. Samrat's income, since his total income before including minor's income is higher than that of Mrs. Komal. [₹ 54,000 /90 × 100]	60,000			
Less: Exemption of ₹ 1,500 u/s 10(32) in respect of the income of each child so included.	1,500	58,500		
Gross Total Income		29,68,500		9,50,000

Question 9

PYQ Dec'21

Details of Income of Mr. R and his wife Mrs. R for the previous year 2023-24 are as under:

- (i) Mr. R transferred his self-occupied property without any consideration to the HUF of which he is a member. During the previous year 2023-24 the HUF earned an income of ₹ 50,000 from such property.
- (ii) Mr. R transferred ₹ 4,00,000 to his wife Mrs. R on 01.04.2009 without any consideration which was given as a loan by her to Mr. Girish. She earned ₹ 3,50,000 as interest during the earlier previous years which was also given as a loan to Mr. Girish. During the previous year 2023-24, she earned interest @ 11% per annum.



(iii) Mr. R and Mrs. R both hold equity shares of 27% and 25% respectively in AMG Limited. They are also working as employees in such Company. During the financial year 2023-24 they have withdrawn a salary of ₹ 3,20,000 and 2,70,000 respectively.

(iv) Mrs. R transferred 5,000 equity shares of RSB Ltd. on 17.09.2016 to Mr. R without any consideration. The Company issued 3,000 bonus shares to Mr. R in 2019. On 04.03.2023, Mr. R sold entire share holdings and earned ₹ 5,20,000 as capital gains.

Apart from above income, Mr. R has income from commission ₹ 4,00,000 and Mrs. R has interest income of ₹ 3,30,000. Compute Gross Total income of Mr. R and Mrs. R for the assessment year 2024 -25.

4 Marks

Answer:

Computation of Gross Total Income of Mr. R and Mrs. R for A.Y. 2024-25

	Particulars	Mr. R	Mrs. R
		Amount (₹)	
I.	Income from house property		
	Income from property transferred to HUF without consideration	50,000	
	Since Mr. R has transferred his property to his HUF without consideration, income of ₹ 50,000 from such property would be included in the total income of Mr. R as per section 64(2).		
II.	Capital Gains		
	Income from equity shares transferred by Mrs. R to Mr. R without consideration		
	Capital gains arising to Mr. R from transfer of equity shares of RSB Ltd. gifted to him by Mrs. R would be included in the hands of Mrs. R [₹ 5,20,000 × 5,000/8,000]		3,25,000
	Capital gains arising to Mr. R from transfer of bonus shares issued by RSB Ltd. on the basis of holding of the said equity shares would be included in the income of Mr. R and not Mrs. R, since income derived from accretion of the transferred asset cannot be clubbed with the income of transferor of the original asset i.e., Mrs. R [₹ 5,20,000 × 3,000/8,000]	1,95,000	
III.	Income from Other Sources		
	Income from commission	4,00,000	
	Interest income		3,30,000
	Interest income on ₹ 4 lakh transferred by Mr. R to Mrs. R without consideration Income of ₹ 44,000, i.e., 11% of ₹4,00,000, being the amount transferred by Mr. R to Mrs. R without any consideration and loaned by her to Mr. Girish, would be included in the income of Mr. R	44,000	
	Income of ₹ 38,500 i.e., 11% of ₹ 3,50,000, being the interest earned by Mrs. R out of amount gifted by Mr. R and thereafter, given by her as loan to Mr. Girish, would be included in the income of Mrs. R, as income derived by Mrs. R from accretion of the amount gifted by Mr. R (i.e., interest income) cannot be included in the income of Mr. R.		38,500
	Total income [before considering adjustment on account of item (iii) i.e., salary income from a company in which both Mr. R and Mrs. R have substantial interest]	6,89,000	6,93,500



IV.	Salary income from a company in which both Mr. R and Mrs. R have substantial interest		
	Since both Mr. R and Mrs. R have substantial interest in AMG Ltd. (on account of holding equity shares carrying 20% or more of voting power) and both are in receipt of income by way of salary from AMG Ltd., such salary income would be includible in the hands of that spouse, whose total income, before including such salary income, is higher. Accordingly, the salary income of both Mr. R and Mrs. R would be included in the hands of Mrs. R in this case, since her total income, before including such income, is higher than that of Mr. R.		
	Salary income of Mr. R = ₹ 3,20,000 - ₹ 50,000 (standard deduction)		2,70,000
	Salary income of Mrs. R = ₹ 2,70,000 - ₹ 50,000 (standard deduction)		2,20,000
	Gross Total Income	6,89,000	11,83,500

Assumed as computed figure

In the absence of any other information, the capital gains have been apportioned on the basis of number of original shares to number of bonus shares.

Question 10

PYQ Nov'22

From the following transactions compute the total income of Mr. Raman and his wife Savita for the Assessment year 2024-25.

- Mr. Raman had a fixed deposit of ₹ 5,00,000 in the bank. He instructed the bank to credit the interest on deposit @6% from 01-04-2023 to 31-03-2024 to the savings account of his brother's son for his education.
- Savita is a B.com graduate and working in the ABC Private Limited as an accountant with a monthly salary of ₹ 25,000. Raman holds 30% equity shares of the ABC Private Limited.
- Raman started proprietary business on 01-04-2002 with a capital of ₹ 10,00,000. He incurred a loss of ₹ 2,00,000 during the previous year 2022-23. To overcome the financial position, Savita gifted a sum of ₹ 4,00,000 to him on 01-04-2023 which was immediately invested in the business by Mr. Raman. He earned a profit of ₹ 3,00,000 during the previous year 2023-24
- Sajan, younger son of Raman, aged 17 years won in a debate competition during the annual competitions held at his school and received a cash award of ₹ 10,000 and he also earned interest of ₹ 7,000 on balance maintained in his savings bank account.

4 Marks

Answer:

Computation of Total Income of Mr. Raman and Mrs. Savita for A.Y. 2024-25

Particulars	Mr. Raman	Mrs. Savita
	Amount (₹)	
(i) Interest on fixed deposits [Income would be included in the hands of Raman, since he has transferred income to his brother's son without transfer of the asset, being fixed deposit] [₹ 5,00,000 × 6%]	30,000	
(ii) Salary income [₹ 3,00,000 (₹ 25,000 × 12) less standard deduction of ₹ 50,000]		2,50,000
[Mrs. Savita's salary would not be included in the income of Raman, who has substantial interest in the company, since she possesses the relevant professional qualifications for working as an accountant]		



(iii) Savita gifted ₹ 4,00,000 to Mr. Raman, which Mr. Raman has invested in the business. In such case, proportionate income (i.e., $1/3 \times ₹ 3,00,000$) arising from such investment is to be included in the total income of Savita.	2,00,000	1,00,000
Mr. Raman's contribution in capital as on 1.4.2023 = ₹ 8,00,000 [₹10,00,000 - ₹ 2,00,000]		
Mrs. Savita's contribution on 1.4.2021 = ₹ 4,00,000 ₹ 3,00,000, being the profit for P.Y.2021-22 to be apportioned on the basis of capital employed on the first day of the previous year i.e., as on 1.4.2023 (8:4 or 2:1)		
Total income [before considering minor income from interest on savings account]	2,30,000	3,50,000
(iv) Cash award won in a debate by Sajjan, minor son, would not be included in the hands of either parent, since such income arises from his own skills/talent.	-	-
However, interest of ₹ 7,000 on savings bank account (after providing for deduction of ₹ 1,500) is to be included in the hands of Mrs. Savita, since her income is higher than that of her husband [₹ 7,000 - ₹1,500]	-	5,500
Gross Total Income	2,30,000	3,55,500
Less: Deduction under section 80TTA (Interest on savings bank account)	-	5,500
Total Income	2,30,000	3,50,000

Moderate

Question 1

MTP Oct '19

Mrs. and Mr. Naresh Yadav have two minor children Mahi and Nonu. The following are the receipts in the hands of Mahi and Nonu during the year ended 31-3-2023:

- Mahi received a gift of ₹ 85,000 from her friend's father on the occasion of her birthday.
- Nonu won a prize money of ₹3,00,000 in National Sports competition.

This was invested in debentures of a company, from which interest of ₹ 25,000 (gross) accrued during the year.

Mr. Marsh's income before considering clubbing provisions is higher than that of his wife. Explain how these items will be considered for taxation under the provisions of the Income Tax Act, 1961. Detailed computation of income is not required. **5 Marks**

Answer:

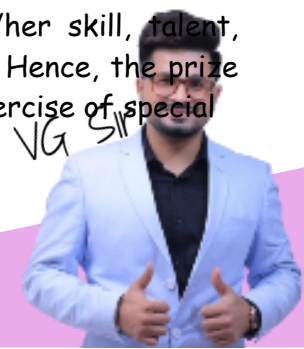
1. Gift received from non-relative by minor daughter Mahi

Gift of ₹ 85,000 received by minor daughter Mahi, from non-relative would be taxable, since the amount of gift exceeds ₹ 50,000. It would be included in the hands of her father, Mr. Naresh Yadav, since his income before considering clubbing provisions is higher than that of his wife.

Exemption of ₹1,500 would be allowed in respect of the aggregate income of minor daughter Mahi so included in the hands of Mr. Naresh Yadav under section 10(32)

2. Prize money of ₹ 3,00,000 in National Sports Competition/Interest on debentures received by minor son Nonu

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 parent. Hence, the prize money of ₹ 3,00,000 won in National Sports Competition by minor son Nonu from exercise of special



talent would not be included in the income of either parent.

However, interest of ₹ 25,000 on debentures has to be included in the hands of her father, Mr. Naresh Yadav, even if the investment is made out of income arising from application of special talent.

Exemption of ₹1,500 would be allowed in respect of the aggregate income of minor son Nonu so included in the hands of Mr. Naresh Yadav under section 10(32).

Question 2

MTP Sep '23, PYP Nov'19

Mr. Manoj, a bhajan singer of Rajasthan and his wife Mrs. Daya furnish the following information relating to the A.Y. 2024-25.

1	Income of Mr. Manoj - Professional bhajan singer (computed)	5,65,000
2	Salary income of Mrs. Daya (Computed)	3,80,000
3	Loan received by Mrs. Daya from Ramu & Jay (P) Ltd. (Mrs. Daya holds 35% shares of the Co. The Co. has incurred losses since its inception 2 years back)	2,50,000
4	Income of their minor son Ganesh from winning singing reality show on T.V.	2,50,000
5	Cash gift received by Ganesh from friend of Mr. Manoj on winning the show	21,000
6	Interest income received by minor married daughter Gudia from deposit with Ramu & Jay Pvt Ltd.	40,000

Compute total taxable income of Mr. Manoj & Mrs. Daya for the A.Y. 2024-25 if they opt for the provisions of section 115BAC. **5 Marks**

Answer:

Computation of Taxable income of Mr. Manoj for A.Y. 2024-25

Particulars	₹
Professional income (bhajan singer)	5,65,000
Income of minor son - Ganesh	
- Income from winning singing reality show on T.V. 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 parent. Hence, ₹ 2,50,000 earned by minor son Ganesh from reality show on TV would not be included in the income of either parent.	Nil
-Cash gift received by Ganesh from friend of Mr. Manoj on winning the show The cash gift received by his minor son Ganesh (not on account of her skill) from his friends would not be taxable, since its value does not exceed ₹ 50,000.	Nil
Income of minor married daughter - Gudia	
Interest income on deposit with Ramu & Jay Pvt. Ltd.	40,000
Less: Exempt under section 10(32) [Since Mr. Manoj has opted for the provisions of section 115BAC, exemption u/s 10(32) would not be available]	-
(Income of minor daughter would be included in the hands of Mr. Manoj, since his income, before including minor daughter's income, is higher than his wife's income).	
Taxable Income	6,05,000

Computation of Taxable income of Mrs. Daya for A.Y. 2024-25

Particulars	₹
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Salary income (computed)	3,80,000
Loan received from Ramu & Jay (Pvt.) Ltd. [Such loan amount would not be considered as deemed dividend under section 2(22)(e), even though Mrs. Daya has substantial interest (holding 20% shares or more) in the Ramu & Jay (Pvt.) Ltd., a closely held company, since the company does not have any accumulated profits on account of losses incurred in last 2 years from inception]	Nil
Taxable Income	3,80,000

Question 3

PYQ Nov'18

Mrs. and Mr. Vinod Amin have two minor children M and N. The following are the receipts in the hands of M and N during the year ended 31-3-2024:

(i) M received a gift of ₹ 70,000 from her friend's father on the occasion of her birthday.

(ii) M won a prize money of ₹ 3,00,000 in National Quiz competition.

This was invested in debentures of a company, from which interest of ₹ 19,000 (gross) accrued during the year.

(iii) N won prize in a lottery. The net amount received after deduction of tax at source was ₹ 1,05,000.

Mr. Vinod Amin's income before considering clubbing provisions is higher than that of his wife. Discuss how these items will be considered for taxation under the provisions of the Income-tax Act, 1961. Detailed computation of income is not required. **5 Marks**

Answer:

Gift received from non-relative by minor daughter M Gift of ₹ 70,000 received by minor daughter M, from non-relative would be taxable, since the amount of gift exceeds ₹ 50,000. It would be included in the hands of her father, Mr. Vinod Amin, since his income before considering clubbing provisions is higher than that of his wife. It can be carried forward for a maximum of eight assessment years i.e., up to A.Y.2032-33, in this case.

(ii) Prize money of ₹ 3,00,000 in National Quiz Competition/Interest on debentures received by minor daughter M 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 parent. Hence, the prize money of ₹ 3,00,000 won in National Quiz Competition by minor daughter M from exercise of special talent would not be included in the income of either parent.

However, interest of ₹ 19,000 on debentures has to be included in the hands of her father, Mr. Vinod Amin, even if the investment is made out of income arising from application of special talent.

Exemption of ₹1,500 would be allowed in respect of the aggregate income of minor daughter M so included in the hands of Mr. Vinod Amin under section 10(32).

(iii) Winning from lottery by minor child N Winnings of ₹ 1,50,000 ($1,05,000 \times 100/70$) from lotteries by minor child N is includible in the hands of his father, Mr. Vinod Amin. Mr. Vinod Amin can claim credit of tax of ₹ 45,000 deducted at source from such lottery income.

Note - As regards availability of exemption under section 10(32) in respect of lottery income of minor child N includible in the hands of his father, there are two possible views. Since exemption of up to ₹ 1,500 under section 10(32) is available in respect of any income of minor child includible in the total income of parent, one view is that such exemption would also be available in respect of lottery income of a minor child includible in the hands of parent.

The alternate view is that since as per section 58(4), no deduction is allowable in respect of any expenditure or allowance in connection with lottery income under any provision of the Income-tax Act, 1961, exemption under section 10(32) would also not be available in respect of such income of minor

