

# TAXBOOK<sup>+</sup>

## Working steps of solutions

### B11 to B20

#### Clubbing of Income

#### Build Your Confidence (BYC)

##### **B11. ASSET TO SPOUSE – CA2017(N) – Kamal gifted Rs. 10 lakh to his wife, Sulochana, on her birthday, on 1.1.2021.....**

*Interest on loan* – Rs. 50,000 clubbed in hands of Kamal u/s 64(1)(iv), since loan is given by Sulochana to Krishna out of money gifted by her spouse.

*Capital gain on sale of shares of listed company* – STCG of Rs. 25,000 (75,000 – 50,000) will be taxable in the hands of Sulochana @ 15% u/s 111A since STT is paid on sale of shares. It will not be clubbed in the hands of Kamal since income is from investment of income from money gifted. Income from accretion of transferred asset is not clubbed.

*Loss from business* – Rs. 15,000 loss will be clubbed in the hands of Kamal u/s 64(1)(iv). It is assumed that capital was invested by Sulochana in business on or before 1.4.2021 and was entirely out of funds gifted by Kamal. As per Explan 2 to section 64, for clubbing provisions, income includes loss.

##### **B12. ASSET TO SPOUSE – Compute the amount to be included in the hands of Simran and Samar for AY 2021-22 and.....**

*Computation of amounts taxable in the hands of Simran and Samar*

Particulars	PY 2020-21	PY 2021-22
First day of PY	1.4.2020	1.4.2021
Total investment in business by Samar on first day of PY : A	7,00,000	8,00,000*
Value of assets transferred by Simran, without adequate consideration, invested by Samar in business, on first day of PY: B	-	6,00,000
Income from business: C	(5,00,000)	3,00,000
Business income clubbed in the hands of Simran u/s 64(1)(iv) = C × (B/A)	-	2,25,000
Business income taxable in hands of Samar (balance)	(5,00,000)	75,000

\*7 lakh – 5 lakh loss + 6 lakh gift

If Simran gave the amount to Samar as a loan, there would be no clubbing u/s 64(1)(iv) if the loan given by Simran is a bona fide loan.

Income will not arise u/s 56(2)(x) in the hands of Samar in respect of amount gifted as it is received from relative.

##### **B13. ASSET TO SPOUSE – Compute the amount to be included in the hands of Rashmi and her spouse for AY 2021-22.....**

*Computation of amounts taxable in the hands of Rashmi and her spouse*

Particulars	PY 2020-21	PY 2021-22
First day of PY	1.4.2020	1.4.2021
Total investment in business by Rashmi on first day of PY : A	4,00,000	9,00,000*
Value of assets transferred by spouse, without adequate consideration, invested by Rashmi in business, on first day of PY: B	-	3,00,000
Income from business: C	2,00,000	4,50,000
Business income taxable in hands of spouse = C × (B/A)	-	1,50,000
Business income taxable in hands of Rashmi (balance)	2,00,000	3,00,000

\*Opening 4 lakh + profit 2 lakh + gift 3 lakh

**B14. ASSET TO SPOUSE – CA2011(M) - On 21.3.2021, Janak gifted to his wife Thilagam, 200 listed shares, which were.....**

Capital gain on sale of 100 shares on 21.5.2021 – To be clubbed in the hands of Janak u/s 64(1)(iv), since income arises from assets transferred to spouse without adequate consideration – Section 112A applies as shares held for more than 12 months and STT paid (assumed on purchase and sale).

Particulars	Rs.
Full value of consideration	2,20,000
Less: Cost of acquisition to Janak @ 2,000 per share. Indexation not allowed u/s 112A.	(2,00,000)
Long term capital gain u/s 112A	20,000

Capital gain on sale of 200 bonus shares on 21.7.2021 – Not to be clubbed in the hands of Janak u/s 64(1)(iv), since income arises from accretion to assets transferred to spouse without adequate consideration – STCG arise as shares held for not more than 12 months – Taxable in the hands of Thilagam.

Particulars	Rs.
Full value of consideration	1,25,000
Less: Cost of acquisition	Nil
Short term capital gain	1,25,000

Capital gain on sale of 100 shares on 28.2.2022 – To be clubbed in the hands of Janak u/s 64(1)(iv), since income arises from assets transferred to spouse without adequate consideration – Section 112 applies as shares held for more than 12 months but STT not paid on sale.

Particulars	Rs.
Full value of consideration	1,70,000
Less: Indexed cost of acquisition = COA × (CII of 2021-22/CII of 2019-20) = 2 lakh × (317/289)	(2,19,377)
Long term capital loss u/s 112	(49,377)

Receipt of shares by friend, Hema on 28.2.2022 – Nothing taxable u/s 56(2)(x) in the hands of Hema since FMV of 2,10,000 does not exceed consideration of Rs. 1,70,000 by more than Rs. 50,000.

**B15. ASSET TO SON'S WIFE – CA2011(N) - Madan, aged 67 years, gifted a building owned by him to his son's wife Hema.....**

Computation of total income of Madan and Hema for AY 2022-23

Particulars	Madan	Hema
Income from house property (Note 1)	80,500	-
Business income	1,00,000	(75,000)
Long term capital gain	50,000	-
Short term capital gain	-	2,00,000
Income from other sources	1,50,000	50,000
Total income	3,80,500	1,75,000
Tax on long term capital gain u/s 112 @ 20% of 50,000	10,000	-
Tax on other income of 3,30,500 (assuming Madan is a resident)	1,525	-
Tax on 1,75,000	-	Nil
	11,525	Nil
Less: Rebate u/s 87A	(11,525)	
	Nil	
Add: HEC @ 4%	Nil	Nil
<b>Tax liability</b>	<b>Nil</b>	<b>Nil</b>

**Note 1 – Income from house property**

Particulars	Madan 1.4.2021 to 30.9.2021	Hema 1.10.2021 to 31.3.2022
Gross annual value = 10,000 for 6 months (for the period house property owned by	60,000	60,000

each). Rental value taken as GAV in absence of details of municipal value, fair value and standard rent)		
Less: Municipal tax paid by owner (paid in June for first half year only)	(5,000)	-
Net annual value	55,000	60,000
Less: Standard deduction @ 30% of NAV	(16,500)	(18,000)
Income from house property	38,500	42,000
Clubbed in hands of Madan u/s 64(1)(vi) since income arises from asset transferred to son's wife without adequate consideration. Section 27(i) does not apply in this case.	42,000	
<b>Income from house property</b>	<b>80,500</b>	

### CONVERSION OF SELF-ACQUIRED PROPERTY INTO PROPERTY OF HUF

**B16. HUF - Determine in whose hands the income would be taxable in the following cases for AY 2022-23 in case of transactions between Mr. Z and the HUF of which he, his spouse, his father and his minor son are members.**

#	Case	Taxability
1	Mr. Z gifts Rs. 10 lakh to the HUF. HUF deposits the money in the bank from which it earns interest of Rs. 1 lakh during the year.	1 lakh clubbed in the hands of Mr. Z u/s 64(2).
2	Mr. Z transfers gold jewellery to HUF for a consideration of Rs. 5 lakh (FMV is Rs. 5 lakh). HUF sells the gold jewellery and earns capital gain of Rs. 1 lakh.	1 lakh taxable in hands of HUF. No clubbing u/s 64(2) as transfer is for adequate consideration.
3	Mr. Z converts a property, purchased by him, as the property of HUF. On partition of HUF on 1.4.2021, the property is distributed equally amongst members. Income from property is Rs. 1 lakh for the year.	73,500 taxable in hands of Mr. Z (25,000 for self, 25,000 for spouse u/s 64(2), 23,500 for minor child u/s 64(1A) (25,000 – 1,500 exempt u/s 10(32)). 25,000 taxable in the hands of father.

**B17. HUF – CA2016(M) – Mr. N, a member of his father's HUF, transferred a house property to the HUF without ....**

No capital gain in the hands of Mr. N u/s 47(iii) as it is a gift. Gift from relative is not taxable in the hands of HUF u/s 56(2)(x). Income from house property will be clubbed in the hands of Mr. N u/s 64(2).

### CROSS TRANSFERS

**B18. CROSS TRANSFER – Mr. Y gifted Rs. 10 lakh to Mrs. X, the wife of his brother, on 16.9.2021. On 20.9.2021, Mr. X.....**

Transfers are in the nature of cross transfers. They are so intimately connected to form part of a single transaction and each transfer constitutes consideration for the other by being mutual or otherwise. Thus, income from assets transferred will be clubbed in hands of deemed transferor.

Interest on Rs. 8 lakh arising to Mrs. X will be clubbed with income of Mr. X u/s 64(1)(iv). Interest on Rs. 8 lakh arising to Mrs. Y wife will be clubbed with income of Mr. Y u/s 64(1)(iv).

**B19. CROSS TRANSFER – CA2019(M) - Briefly explain with example, the meaning of cross transfer, the objective to make such transactions and implications thereof under the income tax law.**

*Mistake by students – Lack of conceptual knowledge of this topic. Failure to properly explain the concept with the help of an example.*

### COMPREHENSIVE

**B19a. CA2021(JAN) - Mr. Gupta and his wife Mrs. Gupta are partners in a partnership firm holding 25% share each.....**

*Computation of gross total income of Mr. Gupta and Mrs. Gupta for AY 2022-23*

Particulars	Mr. Gupta	Mrs. Gupta
Salary	12,50,000	
Less: Standard deduction u/s 16(ia)	(50,000)	

		12,00,000	
Interest on fixed deposit opened using 'Stridhan': Not clubbed u/s 64(1)(iv)			14,00,000
Remuneration from firm: Taxable, assuming that remuneration is fully deductible in the hands of the firm u/s 40(b). In absence of information in question, it is assumed that both are unqualified for the work. Since both have substantial interest in the firm (each, along with the other, is entitled to ≥20% profits), income is clubbed in hands of spouse, whose total income (excluding such remuneration) is higher. Thus, remuneration included in income of Mrs. Gupta = Rs. 2,50,000 own remuneration + Rs. 2,50,000 remuneration clubbed u/s 64(1)(ii)			5,00,000
Total income (before including income of minor children)		12,00,000	19,00,000
Income of minor children clubbed with income of Mrs. Gupta u/s 64(1A) since her total income (before such clubbing) is greater. Assumed that income of minor children is not on account of manual work or skill/talent.			
• Neeta = 15,000 – 1,500 exemption u/s 10(32)			13,500
• Meeta = 10,000 – 1,500 exemption u/s 10(32)			8,500
• Seeta = 2,000 – 1,500 exemption u/s 10(32)			500
			22,500
<b>Gross total income</b>		<b>12,00,000</b>	<b>19,22,500</b>

**B19b. CA2021(JAN) - During the PY 2021-22, following transactions took place in respect of Mr. Raghav who is 56 years.....**

*Computation of total income of Mr. Raghav for AY 2022-23*

Particulars	Rs.	Rs.
<b>Income from salary</b>		
Mrs. Raghav, along with her brother, hold ≥ 20% equity shares in M Pvt. Ltd. Since Mr. Raghav does not possess commensurate qualification, salary will be clubbed with income of Mrs. Raghav.		-
<b>Income from house property</b>		
<b>House 1 – Self occupied</b>		
Gross annual value	Nil	
Less: Municipal taxes paid	Nil	
Net annual value	Nil	
Less: Interest on loan deductible u/s 24(b) upto Rs. 2 lakh	(2,00,000)	
		(2,00,000)
<b>House 2 – Let out</b>		
Gross annual value (rent taken in absence of other information)	7,20,000	
Less: Municipal taxes paid	Nil	
Net annual value	7,20,000	
Less: Standard deduction u/s 24(a) of 30% of NAV	(2,16,000)	
Less: Interest on loan deductible u/s 24(b)	(5,00,000)	
		4,000
<b>House in Delhi</b>		
Since Mr. Raghav derives direct/indirect benefit from income from house transferred without consideration, income therefrom will be clubbed in the hands of Mr. Raghav as per section 61 even if the transfer to Vamika is not revocable during her lifetime. Entire income will be clubbed; not just 10%.		
Gross annual value (rent taken in absence of other information)	5,50,000	
Less: Municipal taxes paid	-	
Net annual value	5,50,000	
Less: Standard deduction u/s 24(a) of 30% of NAV	(1,65,000)	
Less: Interest on loan deductible u/s 24(b)	-	
		3,85,000
		1,89,000
<b>Profits and gains of business or profession</b>		
Share of profit from partnership firm: Exempt u/s 10(2A), hence, cannot be clubbed		-
<b>Income from other sources</b>		
Dividend from preference shares: Clubbed u/s 60 since there is transfer of income to Geetanshi without transfer of assets being shares, even though transfer is irrevocable during the life time of	3,00,000	

Geetanshi.		
Interest on debentures	7,50,000	
Interest on savings bank account	2,00,000	
Cash gift from daughter of sister on birthday: Taxable u/s 56(2)(x) as > 50,000 and not received from relative	75,000	
		13,25,000
<b>Gross total income</b>		<b>15,14,000</b>
Less: Deductions u/c VIA:		
• U/s 80C: Principal repayment of loan from bank for purchase of residential house allowed upto Rs. 1.5 lakh	1,50,000	
• U/s 80TTA: Interest on savings bank account allowed upto Rs. 10,000	10,000	
		(1,60,000)
<b>Total income</b>		<b>13,54,000</b>

**B20. COMPREHENSIVE – CA2020(N) - Determine the gross total income of Shri Ram Kumar and Smt Ram Kumar for.....**

*Computation of gross total income of Shri Ram Kumar and Smt Ram Kumar for AY 2022-23*

Particulars	Shri Ram Kumar	Smt Ram Kumar
<b>Income from salary</b>		
Salary	1,80,000	2,40,000
Less: Standard deduction u/s 16(ia)	(50,000)	(50,000)
	1,30,000	1,90,000
<b>Income from house property</b>		
Gross annual value for Shri Ram Kumar = 9,000 pm for 5 months. Rent taken in absence of further information.	45,000	
Gross annual value for Smt Ram Kumar = 9,000 pm for 7 months (income not clubbed with Shri Ram Kumar u/s 64(1)(iv) since transfer is for adequate consideration). Rent taken in absence of further information.		63,000
Less: Standard deduction u/s 24(a) @ 30%	(13,500)	(18,900)
	31,500	44,100
<b>Profits and gains of business or profession</b>		
Interest from firm. Taxable assuming it is fully deductible in the hands of the firm u/s 40(b). Not clubbed in absence of any information to identify coverage of section 64(1).	36,000	64,000
Share of profit is exempt u/s 10(2A)	-	-
	36,000	64,000
<b>Income from other sources</b>		
Interest on debentures (Note 1)	-	30,000
Income from investment (Note 2)	3,545	35,455
	3,545	65,455
<b>Gross total income (it is also the total income before clubbing income of minor child)</b>	<b>2,01,045</b>	<b>3,63,555</b>
Income from property of Master Rohit clubbed in hands of Smt Ram Kumar u/s 64(1A) since her total income (before such clubbing) is greater (Note 3)		15,000
Less: Exemption u/s 10(32)		(1,500)
		13,500
<b>Total income</b>	<b>2,01,045</b>	<b>3,77,055</b>

**Note 1:** Assumed that Smt. Ram Kumar transferred debentures to Shri Ram Kumar without adequate consideration; hence, interest clubbed u/s 64(1)(iv). Since date of transfer is not given in the question, assumed that interest was paid after transfer and received by Shri Ram Kumar. Hence, Rs. 30,000 (10% of Rs. 3,00,000) has been clubbed in the hands of Smt. Ram Kumar.

**Note 2:** Assumed that Shri Ram Kumar redeemed the debentures and reinvested Rs. 3,30,000 (Rs. 3,00,000 on redemption + Rs. 30,000 interest) in debentures, earning interest income of Rs. 39,000. Income relating to Rs. 3,00,000 will be clubbed u/s 64(1)(iv) since asset merely changed identity. However, income relating to accretion of transferred asset (Rs. 30,000) will not be clubbed. Income to be clubbed =  $39,000 \times (3,00,000 \div 3,30,000) = 35,455$ .

**Note 3:** In absence of information in the question, it is assumed that the property is not a house property. Consequently standard deduction of 30% u/s 24(a) has not been provided.