

TAXBOOK⁺

Working steps of solutions

B21 to End

Clubbing of Income

Build Your Confidence (BYC)

B21. COMPREHENSIVE – CA2012(M) - During the PY 2021-22, the following transactions occurred in respect of Mr. A.....

Computation of total income for AY 2022-23

Particulars	Mr. A	Mrs. A	Minor Son
Income under the head 'Salaries':			
Salary income	1,20,000	2,40,000	
Less: Standard deduction u/s 16(ia)	(50,000)	(50,000)	
	70,000	1,90,000	
Income from house property:			
Mr. A is deemed owner u/s 27(i). Section 64(1)(iv) does not apply to Mr. A. Nothing is taxable u/s section 56(2)(x) in hands of Mrs. A since receipt is from a 'relative'.	52,000		
Income from other sources:			
Interest on FD with Bank of India: Clubbed with income of Mr. A u/s 60 since there is transfer of income without transfer of asset = 9% of 5 lakh	45,000		
Commission received by Mrs. A from a partnership firm in which Mr. A has substantial interest and Mrs. A is not qualified: Clubbed with income of Mr. A u/s 64(1)(ii)	25,000		
Income before clubbing income of minor son u/s 64(1A) (clubbing u/s 64(1A) to be made with income of Mr. A since his income, before such clubbing, is greater and it is assumed that this is the first year in which clubbing provisions are attracted)	1,92,000	1,90,000	
Income of minor son from investment made in business out of amount gifted by Mr. A: Clubbed u/s 64(1A) = 20,000 – 1,500 exempt u/s 10(32). Nothing is taxable u/s section 56(2)(x) in hands of minor son since receipt is from a 'relative'.	18,500		
Income of minor son through business activity involving skill and talent: Not clubbed			20,000
Total income	2,10,500	1,90,000	20,000

B22. COMPREHENSIVE – MASTER QUESTION - Compute the gross total income of Shalv, his spouse Shivi, his sons Shiva.....

Computation of gross total income for AY 2022-23

Particulars	Shalv	Shivi	Shiva	Shlok	Shimoli
Income under the head 'Salaries':					
Salary from school		3,60,000			
Less: Standard deduction u/s 16(ia)		(50,000)			
		3,10,000			
Income from house property:					
From house gifted to Shimoli (Note 1)					84,000
From flat gifted to Shivi (Note 2)	2,10,000				
Profits and gains of business or profession:					
Income from software development business	6,00,000				
Income from part time business of Shivi (Note 4)	50,000	1,00,000			
Capital gains:					
Short term capital gain on sale of shares of BCD Ltd. (Note 3)		50,000			

Income from other sources:					
Prize from singing: Not clubbed u/s 64(1A) since Shlok suffers from 80U disability and also it is on account of skill and talent				50,000	
Dividend from Zed Ltd.: Not clubbed u/s 64(1A) since Shlok suffers from 80U disability (56(2)(x) also not applicable on gift of 2 lakh for AY 2021-22 since received from 'relative')				20,000	
Income from playing quiz master: Not clubbed u/s 64(1A) since income from skill and talent			1,50,000		
Fee from JKL Pvt. Ltd for tax consulting service: Clubbed with income of Shalv u/s 64(1)(ii) since he (+ Shivi) hold $\geq 20\%$ equity shares (at any time during PY) and Shivi is not qualified to work as tax consultant	60,000				
Dividend from BCD Ltd. (not clubbed with Shalv u/s 64(1)(iv) since it is second generation income)		15,000			
Income from property before partition of HUF (for 9 months): Taxable in hands of Shalv u/s 64(2)	75,000				
Income from property after partition of HUF (for 3 months) of 25,000 u/s 64(2):	10,000			5,000	5,000
<ul style="list-style-type: none"> Taxable in hands of Shalv = His share 5,000 + Shivi's share 5,000 + Shiva's share 5,000 (considered below). Taxable in hands of Shimoli = Her share 5,000 Taxable in hands of Shlok = His share 5,000 (not clubbed u/s 64(1A) due to 80U disability) 					
Interest on FD with SBI (Note 5)	25,000	10,000			
Interest on FD with BOM: Taxable in hands of Shivi u/s 60 since income transferred without transfer of assets		15,000			
Royalty: Taxable in hands of Shivi u/s 63 since transfer provides for retransfer of income		2,00,000			
<i>Income before clubbing incomes of Shiva u/s 64(1A): Since income of Shalv is greater, income of Shiva is clubbed with his income, assuming this is the first year in which clubbing is attracted</i>	10,30,000	7,00,000			
Profit share of Shiva from business of uncle	25,000				
Interest on FD with PNB from money gifted by Shalv (56(2)(x) is not applicable on gift of 1 lakh since received from 'relative')	10,000				
Short term capital loss on sale of mobile phone 20,000 (30,000 – 50,000) (can only be adjusted against capital gain; hence carried forward u/s 74 – refer para 190) (also 56(2)(x) is not applicable on gift of phone since it is not a specified movable property; capital gain is not leviable on Shalv u/s 47(iii) since it is a gift)	-				
Lottery prize: Grossed up for TDS = $35,000 \times (100/30)$	50,000				
Income from property after partition of HUF (see working above)	5,000				
Less: Exemption u/s 10(32) ¹	(1,500)				
Gross total income	11,18,500	7,00,000	1,50,000	75,000	89,000

Note 1 – Income from house gifted to Shimoli – Section 27(i) does not apply to house gifted to major child. Income taxable in hands of Shimoli. Section 56(2)(x) not applicable to Shimoli since house received from 'relative'. No capital gain for Shalv since house gifted.

Particulars	Rs.
Gross annual value = Annual rent in absence of any other information	1,20,000
Less: Municipal taxes paid during the year	-
Net annual value	1,20,000
Standard deduction u/s 24 @ 30% of NAV	(36,000)
Income from house property	84,000

¹ Exemption has not been given from winning from lottery, as per one view. As per another view, exemption can be granted. Students can follow either view by giving a suitable note in the answer.

Note 2 – Income from flat gifted to Shivi – Shalv is deemed owner u/s 27(i) and income from house property is taxable in his hands. No capital gain since it is a gift. Section 56(2)(x) is not applicable to Shivi since flat received from ‘relative’

Particulars	Rs.
Gross annual value = Annual rent in absence of any other information	3,00,000
Less: Municipal taxes paid during the year	-
Net annual value	3,00,000
Standard deduction u/s 24 @ 30% of NAV	(90,000)
Income from house property	2,10,000

Note 3 – Income from sale of shares of BCD Ltd. – Not clubbed with Shalv u/s 64(1)(iv) since it is income from accretion of assets acquired by investing income from asset gifted by Shalv

Particulars	Rs.
Full value of consideration	50,000
Less: Cost of acquisition of bonus shares	Nil
Short term capital gain	50,000

Note 4 – Income from part time business of Shivi

Particulars	PY 2021-22
First day of PY	1.4.2021
Total investment in business by Shivi on first day of PY = 5 lakh + 3 lakh gifted by Shalv + 2 lakh profit for 2020-21 – 1 lakh drawings during 2020-21 = 9 lakh: A	9,00,000
Value of assets transferred by Shalv, without adequate consideration, invested by Shivi in business, on first day of PY: B	3,00,000
Income from business: C	1,50,000
Business income clubbed with income of Shalv u/s 64(1)(iv) = C × (B/A)	50,000
Business income taxable in hands of Shivi (balance)	1,00,000
<i>Note: Section 56(2)(x) not applicable to Shivi for AY 2021-22 on gift of 3 lakh by Shalv since received by ‘relative’</i>	

Note 5 – Interest from FD with SBI

- This is a case 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. 5 lakh @ 10% p.a. for 6 months = 25,000.* Interest arising to Shivi of Rs. 25,000 clubbed with income of Shalv u/s 64(1)(iv). Interest arising to spouse of Shivam of Rs. 25,000 clubbed with income of Shivam u/s 64(1)(iv).
- *Interest on Rs. 2 lakh @ 10% p.a. for 6 months = 10,000.* Taxable in hands of Shivi. It is not a part of cross transfer.
- Section 56(2)(x) is not applicable in the hands of recipients since gifts received from ‘relative’.