

TAXBOOK⁺

Working steps of solutions

B1 to B10

Clubbing of Income

Build Your Confidence (BYC)

INCOME OF MINOR CHILD

B1. MINOR CHILD – CA2012(M) (modified) - Mr. Sharma has four children, consisting of two daughters and two sons.....

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

Particulars	Rs.
First daughter = 9,000 less 1,500 exempt u/s 10(32)	7,500
Second daughter: Not clubbed since she suffers from disability u/s 80U	-
First son = 6,200 less 1,500 exempt u/s 10(32)	4,700
Second son = 4,300 less 1,500 exempt u/s 10(32)	2,800
Total income to be clubbed u/s 64(1A)	15,000

B2. MINOR CHILD – Gauri has three minor children – Twin daughters A and B and a son, C. Income of children for....

Computation of total income of Gauri for AY 2022-23

Particulars	Rs.
Own income	60,000
Income of A = 3,000 – 1,500 u/s 10(32)	1,500
Income of B = 2,000 – 1,500 u/s 10(32)	500
Income of C = 1,200 – 1,500 u/s 10(32)	Nil
Total income of Gauri	62,000

B3. MINOR CHILD – CA2018(M) - Madhav made a gift of Rs. 2,50,000 to his handicapped son, Master Tapan, who was.....

Computation of GTI of Madhav for AY 2022-23

Particulars	Rs.	Rs.	Rs.
Income from profession			3,50,000
Income of minor son Tapan:			
• Interest on fixed deposit: Not clubbed since Tapan is handicapped (assumed that he is suffering from disability u/s 80U)			-
Income of minor son Manan:			
<i>Long term capital gain</i>			
• Full value of consideration on sale of shares	5,00,000		
• Less: Indexed COA = COA of last previous owner × (CII 2021-22/CII 2007-08) = 80,000 × (317/129)	(1,96,589)	3,03,411	
<i>Income from other sources</i>			
• Dividend		5,000	
• Interest on company deposit: 3 lakh × 15% × (5/12) (assuming deposit was made on 1.11.2021)		18,750	
		3,27,161	
<i>Less: Exemption u/s 10(32)</i>		(1,500)	
			3,25,661

Gross total income		6,75,661
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Assumption: Total income of Madhav is greater than that of his wife (before clubbing income of minor children).

Mistake by students – Clubbed income of Tapan, handicapped minor child.

B4. MINOR CHILD – CA2018(N) (modified) - Mr. and Mrs. Vinod Amin have three children – B, C and D aged 12, 16 and.....

Computation of income to be clubbed in the hands of Mr. Vinod for AY 2022-23

Particulars	Rs.	Rs.
Income of minor child B:		
• Gift from friend's father: Taxable u/s 56(2)(x) since it exceeds Rs. 50,000	70,000	
• Prize money in quiz competition: Not clubbed since it is on account of skill and talent	-	
• Interest on debentures: Clubbed	19,000	
	89,000	
Less: Exemption u/s 10(32)	(1,500)	87,500
Income of minor child C:		
• Lottery prize: Grossed up = $1,05,000 \times (100/70)$. Mr. Vinod can claim TDS credit of 45,000.	1,50,000	
• Less: Exemption u/s 10(32): Not allowed on lottery income ¹	-	1,50,000
Income of major child D: Not clubbed		-
Income to be clubbed		2,37,500

Mistake by students – Did not gross up lottery income for TDS.

B5. MINOR CHILD – CA2019(N) - Mahadev, a noted bhajan singer of Rajasthan and his wife Dariya, furnish the following.....

Total income of parents before clubbing: Mahadev Rs. 5.65 lakh and Dariya Rs. 3.8 lakh (loan not taxable as deemed dividend u/s 2(22)(e) in absence of accumulated profits of the company). Thus, income of minor children to be clubbed with income of Mahadev.

Computation of GTI of Mahadev for AY 2022-23

Particulars	Rs.	Rs.
Income from profession		5,65,000
Income of minor son, Golu		
• Income from winning singing reality show: Not clubbed since income from skill and talent	-	
• Cash gift from friend of Mahadev – Not taxable u/s 56(2)(x) since does not exceed Rs. 50,000	-	-
Income of minor married daughter, Gudia		
• Interest from deposit	40,000	
• Less: Exempt u/s 10(32)	(1,500)	38,500
Taxable income		6,03,500

B6. MINOR CHILD – CA2014(N) – Mr. Mittal has four minor children consisting of three daughters and one son. The.....

Computation of income earned by minor children to be clubbed with income of Mr Mittal

Particulars	Rs.	Rs.
First daughter:		
• Scholarship: Not clubbed assuming it is on account of skill, talent, specialized knowledge or experience. Also, assuming it is granted to meet cost of education, it is exempt u/s 10(16).	-	
• Other income	5,000	
• Less: Exempt u/s 10(32)	(1,500)	3,500
Second daughter:		

¹ Exemption can be provided based on the alternative view. A note should be given in the answer in respect of the view taken.

• Income	8,500	
• Less: Exempt u/s 10(32)	(1,500)	7,000
Third daughter: Income of minor child suffering from disability u/s 80U not clubbed		-
Son:		
• Income (income from business plus other income)	40,000	
• Less: Exempt u/s 10(32)	(1,500)	38,500
Total income to be clubbed in the hands of Mr. Mittal		49,000

B7. MINOR CHILD – CA2012(N) - Mr. B is the Karta of a HUF, whose members derive income as given below.....

Parent in whose hands income of minor children is to be clubbed: Income of Mrs. B, since it is greater. Assumed that income of Mr. B and Mrs. B is the total income, before clubbing.

Computation of total income of Mrs. B for AY 2022-23

Particulars	Rs.	Rs.
Income from salary (assumed it is computed)		76,000
Income from other sources:		
Income of minor son D:		
• Interest on FD	10,000	
• Lottery (gross)	1,95,000	
	2,05,000	
Less: Exempt u/s 10(32)	(1,500)	2,03,500
Income of minor daughter P from earning from sports: Not clubbed since it is on account of skill and talent		-
Total income		2,79,500

B7a. MINOR CHILD - CA2021(JULY) – Dharmesh who is 45 years old and his wife Anandi who is 42 years old furnished.....

Computation of total income of Dharmesh and Anandi for AY 2022-23

Particulars		Dharmesh	Anandi
Salary income (computed)			9,60,000
Income from garment trading business		17,50,000	
Total income before clubbing u/s 64(1A) (income of minor child to be clubbed with total income of Dharmesh since his total income before such clubbing is higher)		17,50,000	9,60,000
Income of minor son 'A'			
Not to be clubbed as he suffers from disability specified u/s 80U		-	
Income of minor son 'B'			
Scholarship received from his school: Exempt u/s 10(16)*		-	
Income from fixed deposit with Punjab National Bank: To be clubbed	5,000		
Less: Exempt u/s 10(32)	(1,500)		
		3,500	
Income of minor daughter 'C'			
Income from script writing for television serials: Not to be clubbed as it involves skill, talent or specialized knowledge or experience		-	
Gift from friend of Anandi: Nothing is taxable u/s 56(2)(x) as gift from non-relative does not exceed 50,000.		-	
Total income		17,53,500	9,60,000

*Assuming it is granted to meet the cost of education. Alternatively, it can be assumed that it is granted by the school on account of skills, talent, specialized knowledge or experience of B and, hence, need not be clubbed u/s 64(1A).

INCOME OF SPOUSE FROM CONCERN IN WHICH INDIVIDUAL HAS SUBSTANTIAL INTEREST

B8. REMUNERATION OF SPOUSE - Mr. Sumer holds 20% equity shares in PQR Ltd. Mrs. Sumer is working as a an.....

If Mrs. Sumer is not qualified for the job

Computation of GTI of Mr. Sumer for AY 2022-23	Rs.	Rs.
Salary received by Mrs. Sumer: Clubbed u/s 64(1)(ii) since spouse receives salary from a concern in	4,80,000	

which he owns \geq 20% equity shares and she is not qualified for the job		
Less: Standard deduction u/s 16(ia)	(50,000)	4,30,000
Other income		5,00,000
Gross total income		9,30,000
Computation of GTI of Mrs. Sumer for AY 2022-23	Rs.	Rs.
Salary : Clubbed with income of Mr. Sumer		-
Other income		3,00,000
Gross total income		3,00,000

If Mrs. Sumer is qualified for the job

Computation of GTI of Mr. Sumer for AY 2022-23	Rs.	Rs.
Salary received by Mrs. Sumer: Not clubbed u/s 64(1)(ii) since spouse receives salary from a concern in which he owns \geq 20% equity shares but she is qualified for the job		-
Other income		5,00,000
Gross total income		5,00,000
Computation of GTI of Mrs. Sumer for AY 2022-23	Rs.	Rs.
Salary	4,80,000	
Less: Standard deduction u/s 16(ia)	(50,000)	4,30,000
Other income		3,00,000
Gross total income		7,30,000

B9. REMUNERATION OF SPOUSE – CA2013(M) - Mr. A is an employee of Larsen Ltd. and has substantial interest in the....

Computation of income for AY 2022-23

Particulars	Mr. A	Mrs. A
Income from Salaries:		
Own salary @ 25,000 p.m.	3,00,000	-
Less: Standard deduction u/s 16(ia)	(50,000)	
	2,50,000	
Salary of Mrs. A: Clubbed with Mr. A u/s 64(1)(ii) since she receives salary from a concern in which he has substantial interest and she is not qualified for the job = 1,20,000 – 50,000 standard deduction u/s 16(ia)	70,000	
Income from house property:		
• Gross annual value (12,000 \times 12 months in absence of any other information)		1,44,000
• Less: Municipal taxes paid		-
• Net annual value		1,44,000
• Less: Standard deduction @ 30% of NAV		(43,200)
		1,00,800
Income from other sources: Income from securities	30,000	
Income before clubbing income of minor children (clubbed with Mr. A since his total income, before such clubbing, is greater; assumed that income of minor children is liable to be clubbed u/s 64(1A))	3,50,000	1,00,800
• Income of first daughter = 2,000 – 1,500 u/s 10(32). Income of each daughter taken as 2,000 p.a.	500	
• Income of second daughter = 2,000 – 1,500 u/s 10(32). Income of each daughter taken as 2,000 p.a.	500	
• Income of son = 1,200 – 1,500 u/s 10(32)	Nil	
Income	3,51,000	1,00,800

INCOME FROM ASSETS TRANSFERRED TO SPOUSE OR SON'S WIFE

B10. ASSET TO SPOUSE OR SON'S WIFE – Determine in whose hands the income would be taxable in the following cases for AY 2022-23.

#	Case	Clubbing of income u/s 64(1) in hands of transferor	Taxation of gift u/s 56(2)(x) in hands of transferee

1	Mr. Z gifts bonds of XYZ Ltd. to his wife out of natural love and affection. Interest on bonds received for PY 2021-22 is Rs. 20,000.	Rs. 20,000 clubbed in hands of Mr. Z u/s 64(1)(iv).	No, as Mr. Z is a relative
2	Mr. Z gifts bank deposits to his wife on 1.2.2021. They are later divorced on 30.9.2021. Interest on deposits for PY 2021-22 is Rs. 10,000.	Rs. 5,000 clubbed in hands of Mr. Z u/s 64(1)(iv) and Rs. 5,000 taxable in hands of divorcee (since no relation of spouse after divorce)	No, as Mr. Z is a relative at the time of gift
3	Mr. Z gifts shares to his son, aged 20 years. Dividend received by son during the PY is Rs. 10,000.	Rs. 10,000 taxable in hands of son. Son is major. No clubbing u/s 64(1A).	No, as Mr. Z is a relative
4	Mr. Z gifts a car to his son's wife who sells it, thereby earning capital gain of Rs. 10,000.	Rs. 10,000 clubbed in hands of Mr. Z u/s 64(1)(vi)	No, as Mr. Z is a relative and car is not a specified movable asset
5	Mr. Z gifts Rs. 1 lakh to his wife who purchases bonds from this money, on which she receives Rs. 10,000 interest during PY 2021-22.	Rs. 10,000 clubbed in hands of Mr. Z u/s 64(1)(iv). Asset merely changes identity and it is not a case of accretion.	No, as Mr. Z is a relative
6	Mr. Z gifts Rs. 12 lakh to his wife who earns Rs. 1 lakh by investing it in fixed deposits. She reinvests Rs. 1 lakh in shares and earns dividend of Rs. 5,000.	Rs. 1 lakh clubbed in hands of Mr. Z u/s 64(1)(iv). Rs. 5,000 taxable in hands of wife (no clubbing of second generation income)	No, as Mr. Z is a relative
7	Mr. Z transfers a house property to an AOP without consideration with the condition that 25% of income from the property will be utilized for the benefit of his son's wife.	25% income clubbed in hands of Mr. Z u/s 64(1)(viii)	Yes, as Mr. Z is not a relative
8	Mr. Z gifts a residential house, owned by him, to his wife on 1.4.2021. FMV and SDV on this date are Rs. 15 lakh and Rs. 12 lakh, respectively. Rental income is Rs. 20,000 p.m.	IHP of 1.68 lakh (2.4 lakh – SD @ 30%) taxable in hands of Mr. Z as he is deemed owner u/s 27(i).	No, as Mr. Z is a relative

TAXBOOK⁺

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
Tax liability	Nil	Nil

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	
Income from house property	80,500	

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.

B16a. CA2021(JULY) – During the PY 2021-22, Mr. B's HUF comprising of Mr. B, Mrs. B, his minor son and his major.....

It is assumed that Mr. B threw the shares in the common stock of the family otherwise than for adequate consideration and, hence, the provisions of section 64(2) will apply. Shares are sold after being equally divided among the members. Thus, income from property received by Mr. B and Mrs. B would be taxable in the hands of Mr. B u/s 64(2). Income from property received by minor son will be clubbed in the hands of Mr. B u/s 64(1A) after providing for exemption u/s 10(32), since total income of Mr. B, before such clubbing, is greater than Mrs. B (as he is the sole earning member). Income received by major daughter will not be clubbed.

Computation of income to be included in the hands of Mr. B

Particulars	Rs.
Income received by Mr. B	75,000
Income received by Mrs. B	75,000
Income received by minor son (75,000 – 1,500 exempt u/s 10(32))	73,500
	2,23,500

If shares are inherited by the HUF, section 64(2) will not apply. Consequently, income received by Mr. B (75,000) and his minor son (75,000 – 1,500 exempt u/s 10(32)) will be included in the income of Mr. B, i.e., 1,48,500.

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
Gross total income	12,00,000	19,22,500

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.
Income from salary		
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.		-
Income from house property		
House 1 – Self occupied		
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)
House 2 – Let out		
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
House in Delhi		
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
Profits and gains of business or profession		
Share of profit from partnership firm: Exempt u/s 10(2A), hence, cannot be clubbed		-
Income from other sources		
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 Geetanshi.	3,00,000	
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
Gross total income		15,14,000
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)
Total income		13,54,000

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
Income from salary		
Salary	1,80,000	2,40,000
Less: Standard deduction u/s 16(ia)	(50,000)	(50,000)
	1,30,000	1,90,000
Income from house property		
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
Profits and gains of business or profession		
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

Income from other sources			
Interest on debentures (Note 1)	-		30,000
Income from investment (Note 2)	3,545		35,455
		3,545	65,455
Gross total income (it is also the total income before clubbing income of minor child)		2,01,045	3,63,555
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
Total income		2,01,045	3,77,055

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.

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’.

INCOME OF MINOR CHILD

M5. Ruhi, aged 17 years, was adopted by her parents and got married on 1.10.2021. During the PY 2021-22, she got.....

64(1A) applies to married minor daughter and adopted child. Prize not clubbed as it is from skill/talent. Dividend clubbed = 1,400 – 1,500 exempt u/s 10(32) = Nil.

M6. The minor son of Ramesh earned interest of Rs. 1,000 from bonds, dividend of Rs. 1,500 from shares of a company.....

Exemption is provided on overall basis; not to each item of income.

M7. Mr. Zero, directed his bank to transfer interest of Rs. 30,000 on fixed deposits held by him, to the account of his.....

64(1A) not applicable as son is major. Clubbing u/s 60 as income transferred without transfer of asset.

M8. Raja is the minor son of Rocky. During the PY 2021-22, he earned the following incomes: Interest of Rs. 10,000.....

Clubbing = 10,000 POTD + gift from father's brother NO 56(2)(x) as relative + 15,000 dividend + 3,00,000 taxable u/s 56(2)(x) - 1,500 exempt u/s 10(32) = 3,23,500

M9. Suman, aged 16 years, received scholarship of Rs. 50,000 during PY 2021-22 to meet cost of her education. Which.....

Exempt u/s 10(16) (refer para 30)

M10. On 20.10.2021, Sweety (minor child) gets a gift of Rs. 20 lakh from her father's friend. On the same day, the.....

Clubbing u/s 64(1A) = 20,00,000 u/s 56(2)(x) + 13,000 – 1,500 u/s 10(32) = 20,11,500

M11. Megha (16 years) received gift of Rs. 10 lakh from her grandfather on her birthday on 1.6.2020. She utilized.....

Clubbing = STCG on sale of shares 1,00,000 (4L – 3L) + dividend 5,000 + interest on debentures 40,000 + interest on loan 5,000 + STCG on bonus shares 2,00,000 - 1,500 exempt u/s 10(32) = 3,48,500

M12. Divyansh (14 years) won the first prize of Rs. 1 lakh in National Talent Search on 1.4.2021. He invested this money.....

Divyansh = prize 1,00,000 as it is from skill/talent.

Clubbed u/s 64(1A) = business profit 50,000 + interest 3,000 = 53,000.

TOTAL INCOME BEFORE CLUBBING: Father = 2,00,000 + 1,50,000 clubbed u/s 64(1)(iv) = 3,50,000; Mother = 3,00,000.

Clubbed with father (as TI higher) = 53,000 – 1,500 u/s 10(32) = 51,500.

Father's income = 3,50,000 + 51,500 = 4,01,500.

INCOME OF SPOUSE FROM CONCERN IN WHICH INDIVIDUAL HAS SUBSTANTIAL INTEREST

M15. During the PY 2021-22, the spouse of Charu received salary of Rs. 50,000 per month, as legal manager, from a.....

Profit share = 10 self + 10 brother = 20% = SI. Clubbing u/s 64(1)(ii) = 6,00,000 – 50,000 SD u/s 16 = 5,50,000

M16. Romil, a doctor, gifted Rs. 10 lakh to his spouse, Damini on 1.4.2021 from which she purchased 15% equity shares.....

Damini: Gift from Romil NO as not taxable u/s 56(2)(x) since received from relative + 3L clubbed u/s 64(1)(xii) as Damini holds 25% shares in BCD Pvt. Ltd. alongwith Romil (= SI) and Romil is not qualified = 3L.

M17. During the year 2021-22, Sweety (spouse of Veer) received commission of 1% on turnover achieved by CD Pvt. Ltd.....

Sweety qualified and, hence, no clubbing u/s 64(1)(ii) even if Veer holds $\geq 20\%$ equity at any time during PY.

M18. Raja and Rani, spouses, were employed with BCD (P) Ltd on annual salary income of Rs. 2 lakh each (computed).....

Both are unqualified for the job of tax manager. Equity holding during PY 2021-22 for both of them = Raja 5% + minor son 10% + Rani 5% = 20% = SI.

Clubbing u/s 64(1)(ii) in hands of Rani as TI of Rani (excluding salary) of 4L is higher.

Raja's income = 3L professional income. Rani's income = 2L salary + 2L clubbing + 4L professional income = 8L

M19. Jiya has earned remuneration of Rs. 3 lakh during the PY 2021-22 from a partnership firm in which her brother is a.....

No clubbing u/s 64(1)(ii) as spouse has no profit share

INCOME FROM ASSETS TRANSFERRED TO SPOUSE OR SON'S WIFE

M20. For clubbing income u/s 64(1)(iv) or 64(1)(vi), the relation of spouse or son's wife should subsist only at the time.....

At time of transfer of asset as well as arising of income

M21. Yuvraj, gifted Rs. 50 lakh to his spouse on 1.4.2021. Out of this money, she invested Rs. 30 lakh in fixed deposits.....

YUVRAJ = FD interest 3,00,000 + dividend 20,000 = 3,20,000.

SPOUSE = Gift from spouse NO u/s 56(2)(x) + 1,00,000 STCG not clubbed as accretion = 1,00,000

M22. During the PY 2021-22, Sona acquired jewellery from her friend for Rs. 1 lakh (market value Rs. 5 lakh). Being a.....

SONA = Jewellery 4,00,000 u/s 56(2)(x) + salary 5,50,000 (6,00,000 – 50,000 SD u/s 16) not clubbed with spouse u/s 64(1)(ii) as she is qualified + gift from spouse NO u/s 56(2)(x) = 9,50,000.

SPOUSE = IHP (-) 25,000 clubbed u/s 64(1)(iv).

M23. Manjari gifted a property to her daughter-in-law (DIL) on 1.4.2021. Income from property for the year (accruing.....

MANJARI = Income till divorce clubbed u/s 64(1)(vi) = 50,000.

Daughter in law = Gift of property (assuming it is specified) NO u/s 56(2)(x) as received from relative + income after divorce not clubbed u/s 64(1)(vi) 50,000 + capital gain after divorce not clubbed u/s 64(1)(vi) 30,000 = 80,000.

M24. Rohit gifted Rs. 20 lakh to his brother on 1.5.2021 with instructions to deposit the money in bank fixed deposits.....

Asset transferred to any person where income arises for benefit of son's wife; clubbed u/s 64(1)(viii)

M25. Badal gifted a house property valued at Rs. 50 lakh to his wife, Rani, who in turn has gifted the same to her.....

Badal is deemed owner u/s 27(i) and gift by Rani to daughter-in-law is covered u/s 64(1)(iv). Alternatively, Badal has transferred house indirectly to son's wife u/s 64(1)(iv). In any case, income clubbed with Badal = 3,00,000 annual value – 90,000 standard deduction = 2,10,000

M27. Rhea received gift of Rs. 10 lakh from her spouse on 15.4.2021. She invested this money, along with her own.....

SPOUSE = (1,20,000) \times (10L / 30L) = 40,000 loss clubbed u/s 64(1)(iv).

RHEA = 3,00,000 royalty – 80,000 loss = 2,20,000

M28. On 1.3.2021, Shobhit became a partner in R&S partnership firm, with 50% profit share, by bringing in Rs. 10 lakh.....

Profit share is exempt u/s 10(2A).

Taxable income: SPOUSE = 1L interest clubbed u/s 64(1)(iv) (1L \times (10L / 10L)) = 1L. SHOBHIT: Nil.

M29. Rajshri commenced her business on 1.9.2021 with Rs. 10 lakh (out of which Rs. 5 lakh was loan taken from bank).....

Nothing clubbed u/s 64(1)(iv) as gift by spouse not invested in business on first day of PY being 1.9.2021.

M29a. Mr. Z gifted Rs. 5 lakh each to Mrs. Z and Master Z, his son aged 25 years, on 1.4.2019. They invested this.....

Interest accruing to son is not to be clubbed in hands of either parent as he is major. Interest on 5 lakh accruing to Mrs. Z is clubbed in hands of Mr. Z u/s 64(1)(iv). Interest on interest will not be clubbed and will be taxable in hands of Mrs. Z.

PY	Principal for which interest is taxable in hands of Mr. Z	Principal for which interest is taxable in hands of Mrs. Z	Interest taxable in hands of Mr. Z	Interest taxable in hands of Mrs. Z	Opening balance	Closing balance
2019-20	500000	0	50000	0		550000
2020-21	500000	50000	50000	5000	550000	605000
2021-22	500000	105000	50000	10500	605000	665500

CONVERSION OF SELF-ACQUIRED PROPERTY INTO PROPERTY OF HUF

M32. On 1.7.2021, Saira transferred gold jewellery of market value Rs. 10 lakh to the HUF for a consideration of Rs.....

SAIRA = CG 1L.

HUF = STCG 5L + interest 1L = 6L. No clubbing u/s 64(2) as transfer is for adequate consideration.

M33. On 1.4.2021, Shan (Karta of his HUF comprising of his spouse and minor daughter), gifted Rs. 15 lakh to the HUF.....

TILL PARTITION: Shan = 60,000.

AFTER PARTITION: Shan = 20,000 self + 20,000 spouse + 18,500 minor (after 1,500 exempt u/s 10(32) = 58,500.

CROSS TRANSFERS

M35. On 1.4.2021, Mr. B gifted Rs. 1.5 lakh to Mrs. C (spouse of his brother, Mr. C). Mr. C, in turn, gifted Rs. 1 lakh to.....

Mr. B = 10,000 – 1,500 u/s 10(32) = 8,500.

Mr. C = 10,000.

Mrs. C = 5,000 (10% of 50,000).

GENERAL PROVISIONS OF CLUBBING

M40. Sana's spouse (61 years, resident) gifted Rs. 60 lakh to Sana (59 years, resident) who earned interest of Rs.....

Total Income: Sana = Nil. Spouse = 4,50,000 clubbed u/s 64(1)(iv) + pension 6,00,000 = 10,50,000. Tax = 1,25,000 + 4% HEC of 5,000 = 1,30,000

M41. Income arising from transfer of asset will be included in the income of transferor in which of the following cases.....

U/s 60

M42. Ram owns 500, 15% debentures of Reliance Industries Ltd. of Rs. 500 each. Annual interest of Rs. 37,500 was.....

Clubbing in hands of Ram u/s 60

M43. Vanya gifted Rs. 25 lakh to her father with a declaration that the transfer is irrevocable during his lifetime. Her.....

Transfer revoked on death.

M44. Sehar transferred certain plant and machinery, owned by him, to his friend with a stipulation that he would.....

Transfer is deemed to be revocable u/s 63.