

## 8. CLUBBING PROVISIONS

### CONCEPT WISE ANALYSIS OF PAST EXAM PAPERS OF IPCC & CA INTER

Concept No.	M-09 TO N-11	M-12	N-12	M-13	N-13 TO M-14	N-14	M-15	N-15 TO M-17	N-17	M-18 (O)	M-18 (N)	N-18 (O)	N-18 (N)	M-19 (O)	M-19 (N)	N-19 (O)	N-19 (N)	N-20 (O)	N-20 (N)
1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.3	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4	-	-	-	-	-	-	4	-	5	-	-	-	-	-	-	-	-	-	-
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7	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
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9	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	6
10	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3	-	-	-	-
COMPREHENSIVE PROBLEMS	-	-	8	-	-	4	-	MASTERMINDS PUBLICATIONS		-	-	5	-	-	-	5	-	-	-

### SIGNIFICANCE OF EACH PROBLEM COVERED IN THIS MATERIAL

Problem No. in this material	Problem No. in NEW SM	Problem No. in OLD SM	Problem No. in OLD PM	RTP	MTP	Previous Exams	Remarks
CR 1	-	-	-	-	-	N18 (N) - 5M	
CR 2	PQ 02	-	PQ 02	-	-	N19 (N) - 5M	
CR 3	-	-	PQ 12	M19 (N&O)	-	-	
CR 4	-	-	-	-	-	-	
CR 5	-	-	-	-	-	-	
CR 6	PQ 04	-	PQ 09	M18 (N&O)	-	-	
CR 7	-	-	PQ 15	N 17, N18 (N&O)	-	M19 - 3M	
AS 1	-	-	PQ 14	-	-	-	
AS 2	-	-	-	N 16	-	-	
AS 3	-	-	-	-	N18 (N&O)		
AS 4	ILL 08	-	PQ 08	M 17	-	-	
AS 5		-	PQ 13	-	-	-	
AS 6	PQ 05	-	PQ 16	-	-	-	
AS 7	ILL 07	-	-	-	-	-	
AS 8	PQ 01	-	PQ 01	-	-	-	
AS 9	ILL 05	-	PQ 03	M 16	-	-	
AS 10	ILL 06	ILL 05	-	-	-	-	
AS 11	-	-	-	-	N17	-	
AS 12	-	-	-	-	M19	-	

## CHAPTER OVERVIEW

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### SECTION 1: THEORY FOR CLASSROOM DISCUSSION

**INTRODUCTION:** Income-tax is levied on a slab system on the total income of an individual. As the income goes up, the rates of tax also go up. There is a tendency among the tax-payers in higher tax brackets to divert a part of their income to the hands of their relatives, in order to reduce the burden of tax. To avoid all such practices this has been introduced.

#### **1. TRANSFER OF INCOME WITHOUT TRANSFER OF ASSET - SEC.60**

If any person transfers the income without transfer of asset such income is to be included in the total income of the transferor.

*E.g.: X owns 4,000 14% debentures of A Ltd. of Rs.100 each (annual interest being Rs.56,000). On 01.04.20, he transfers interest income to Y, his friend without transferring the ownership of debentures. Even though, interest is received by Y, that interest is taxable in the hands of X.*

#### **2. REVOCABLE TRANSFER OF ASSETS**

1) **Sec.61:** All income arising to any person by virtue of a revocable transfer of assets shall be included in the total income of the transferor and taxed accordingly.

2) **Sec.63 - Meaning of Revocable transfer:** A transfer is deemed to be revocable

- a) If it contains any provision for the retransfer of the income or assets to the transferor or
- b) It gives the transferor a right to reassume power over the income (part/full) or the asset at any time.

*E.g.: 'X' transferred house property permanently to 'Y' with a condition that 25% of the income from the property should be handed over to him. (If there is provision to re-assume power, the transfer will be "revocable", actual exercise of power is not necessary).*

3) **Sec.62: (Exceptions to sec 61):** In the following cases given in under Sec.62 the provisions of Sec.61 don't apply (i.e. a transfer will not be taken as revocable transfer):

- a) When any transfer is not revocable during the lifetime of beneficiary or transferee, and also not received any benefit directly or indirectly.

*E.g.: A transfers a house property to B with a condition that B could enjoy the income on such house property until B dies.*

In the above case, the income shall be taxable in the hands of the transferee. But it will be chargeable in the hands of the transferor as and when the power to revoke the transfer arises. (Actual revocation is not relevant)

#### **3. REMUNERATION TO SPOUSE - SEC.64 (1)(ii)**

1) **INCOME OF SPOUSE IS TAXABLE IN HANDS OF THE ASSESSEE IF THE FOLLOWING CONDITIONS ARE SATISFIED:**

- a) Income should be in the nature of salary, commission, bonus (remuneration).
- b) Such remuneration should be received from a concern where assessee having substantial interest.

- 2) In case both the individual and his spouse have substantial interest in a concern, then the remuneration will be clubbed in the hands of such individual/ spouse whose income excluding such remuneration is greater.
- 3) **EXCEPTION TO SEC. 64(1)(III):** No clubbing will be made if –
  - a) The spouse possesses technical or professional knowledge and experience **and**
  - b) Income is attributable to his or her technical or professional knowledge and experience
- 4) **Any other income, not covered under this section is not subject to clubbing even if it accrues to the spouse from a concern in which the individual has a substantial interest.**

**POINTS TO BE NOTED:**

a) **Meaning of substantial interest:**

- i) **In case of a company:** Beneficial ownership of equity shares of  $\geq 20\%$  of the voting power at any time during the previous year &
- ii) **In any other case:** Beneficially entitled to  $\geq 20\%$  of the profits of the concern at any time during the previous year.

**Substantial interest for this purpose** means the interest of individual together with the interest of relatives. Relative includes brother, sister, spouse, any lineal ascendant or descendant (Sec. 2(41)).

- b) **Salary – How to compute:** For the purpose of clubbing, salary has to be computed in accordance with the provisions of Sec.'s 15 to 17. (Gross salary - Deductions U/s 16)
- c) **Concern:** The expression “concern” covers both business and professional concern.
- d) **It does not make any difference even if the spouse is employed prior to marriage.**

**TIT BITS:**

- 1) Mr. A holds shares carrying 25% voting power in X Ltd. Mrs. A is working as a computer software programmer in X Ltd. at a salary of Rs. 30,000 p.m. She is however, not qualified for the job. The other income of Mr. A & Mrs. A are Rs. 7,00,000 & Rs. 4,00,000, respectively. **(NEW SM)**
  - a) Compute the gross total income of Mr. A and Mrs. A for the A.Y.2021 - 22. **(ANS.: MR. A: 10,20,000; MRS.A: 4,00,000)**
  - b) Will your answer be different if Mrs. A was qualified for the job? **(ANS.: MR. A: 7,00,000; MRS.A: 7,20,000)**
- 2) Mr. B holds shares carrying 30% voting power in Y Ltd. Mrs. B is working as accountant in Y Ltd. getting income from salary (computed) of Rs. 3,44,000 without any qualification in accountancy. Mr. B also receives Rs. 30,000 as interest on securities. Mrs. B owns a house property which she has let out. Rent received from tenants is Rs. 6,000 p.m. Compute the gross total income of Mr. B and Mrs. B for the A.Y. 2021-22. **(NEW SM) (ANS.: MR. B: 3,74,000; MRS. A: 50,400)**

**4. GIFT TO SPOUSE – SEC.64 (1)(iv)**

If any individual transfer any asset to his or her spouse for without or inadequate consideration, then income from such asset is received by spouse but tax on such income is paid by transferor (assessee). (House property is not included see point (d) below)

**FOCUS POINTS:**

- 1) The above provision is applicable only if the relationship between husband and wife should exist at the time of transfer of asset as well as at the time of generating the income.
- 2) The above provision is not applicable if asset transferred in connection with an agreement to live apart or for adequate consideration.
- 3) It may be noted that any income from the accretion of the transferred asset is not to be clubbed with the income of the transferor. Income arising on transferred assets alone have to be clubbed. However income earned on such investment (arising on transferred assets) cannot be clubbed.
- 4) If a house property is transferred by individual to his spouse or minor child (not being a minor married daughter) for without or inadequate consideration, then such individual is treated as deemed owner as per Sec.27 and Sec.64 shall not apply.

5) If the property is acquired by the spouse out of pin money. Pin money means an allowance given to wife by her husband for household expenses.

**NOTE:** Where the assets transferred to his spouse/son's wife are invested by the transferee:

a) In the nature of capital contribution in a partnership firm, any interest receivable by the transferee attributable to the investment shall be clubbed. (The reason is any share income received from the partnership firm is exempt from tax U/s 10(2A)). Salary cannot be attributable to the investment and hence not to be clubbed.

b) In any business (other than partnership firm) proportionate income arising to the transferee attributable to such investment will be eligible for clubbing in the ratio of capital contribution as on 1<sup>st</sup> day of relevant previous year.

**(TEACH PROBLEM NO.6 OF CLASSROOM DISCUSSION)**

### **5. GIFT OR TRANSFER TO SON'S WIFE – SEC.64(1)(vi)**

If an individual, directly or indirectly, transfers assets, without adequate consideration to son's wife, income arising from such assets will be included in the total income of the transferor.

The **relationship of father in law/mother in law and Daughter-in-law** should subsist both at the time of transfer of asset and at the time when the income is accrued.

**TIT BIT:** Mr. A has gifted a house property valued at Rs. 50 lakhs to his wife, Mrs. B, who in turn has gifted the same to Mrs. C, their daughter-in-law. The house was let out at Rs. 25,000 per month throughout the year. Compute the total income of Mr. A and Mrs. C.

Will your answer be different if the said property was gifted to his son, husband of Mrs. C?

**(ANS: (I) INCOME FROM HP: INCLUDED IN MR. A'S HANDS (SEC. 27(I) AND SEC.64(1)(VI)) (II) INCOME FROM HP: TAXABLE IN MR. A'S SONS HANDS)**

### **6. GIFT TO PERSON/TRUST/AOP FOR THE BENEFIT OF SPOUSE – SEC. 64(1)(vii)**

**(FOR STUDENTS SELF STUDY)**

If an individual transfers an asset, directly or indirectly, without adequate consideration to a person, trust or an AOP for the benefit of his or her spouse, income arising from the transferred assets will be included in the total income of the transferor to the extent of such benefit.

**Relationship of husband and wife:** The relationship of husband and wife should subsist both at the time of transfer of asset and at the time when income is accrued.

### **7. GIFT TO PERSON/TRUST/AOP FOR THE BENEFIT OF SON'S WIFE – SEC. 64(1)(viii)**

**(Similar to Sec.64 (1)(vii))**

**(Solve problem no. 11 of assignment problems as rework)**

### **8. INCOME OF MINOR CHILD – SEC.64(1A)**

1) Income of the minor child is taxable in the hands of parent whose income is more before clubbing minor's income.

**ANALYSIS:**

SITUATIONS	CLUBBING PROVISIONS
Relationship of the parent Subsists	In the hands of parent whose income is more before clubbing minor's income.
Relationship of the parent doesn't subsists	Maintaining parent.
No parent is alive	Must file return through guardian and no clubbing is allowed.

Once income is clubbed in the hands of one parent (mother/father), then it will be taxable in the hands of the same parent for succeeding year. Unless A.O is satisfied.

2) **EXCEPTIONS:** In the following 3 cases minor's income is taxable in the hands of minor only.

a) Income is due to manual work

- b) Income is due to skill and talent
- c) Minor child suffering from disability specified under section 80U

**NOTE:**

- 1) If minor child's income is clubbed in the hands of parent then exemption U/S. 10(32) of Rs.1500 p.a. per child is allowed to parent.
- 2) Minor children includes step children, adopted children, minor married daughter.

**TIT BIT:** State whether the Income arising to a minor married daughter can be clubbed with the income of that parent whose total income, before including minor's income, is higher? – Yes

## **9. CONVERSION OF SELF ACQUIRED PROPERTY INTO JOINT PROPERTY- SEC. 64(2)**

Section 64(2) deals with the case of conversion of self-acquired property into property of a HUF.

- 1) Where an individual, who is a member of the HUF, converts at any time after 31-12-1969, his individual property into property of the HUF of which he is a member or throws such property into the common stock of the family or otherwise transfers such individual property, directly or indirectly, to the family otherwise than for adequate consideration, the income from such property shall continue to be included in the total income of the individual.
- 2) Where the converted property has been partitioned, either by way of total or partial partition, the income derived from such converted property as is received by the spouse on partition will be deemed to arise to the spouse from assets transferred indirectly by the individual to the spouse and consequently, such income shall also be included in the total income of the individual who effected the conversion of such property.
- 3) Where income from the converted property is included in the total income of an individual under section 64(2), it will be excluded from the total income of the family or, as the case may be, of the spouse of the individual.

## **ISSUES W.R.T CLUBBING PROVISIONS**

- 1) **INCOME ON INCOME (NOT TO BE CLUBBED):** A gifts Rs.1,00,000 to Mrs. A. Mrs. A invests Rs.1,00,000 in a company deposit and earns an interest income of Rs.15,000. The next year she invested Rs.1,15,000 in the company deposits. The total interest received in next year is Rs.17,250. How much interest will be clubbed to Mr. A in 2<sup>nd</sup> year?

**SOL.:** Only 15,000 will be included to the total income of Mr. A as the income on income will not be clubbed in other words interest income on interest income of 15,000 will not be clubbed.

- 2) **CAPITAL GAINS ON TRANSFER (CLUBBED):** (If the asset transferred is sold by the assessee, (transferee) State whether capital gains arising from such transfer will be included or not? Yes.
- 3) Mr. A has gifted Gold to Mrs. A. Mrs. A sold that gold and had a capital loss of Rs.20,000. State whether such loss should be clubbed?: Income includes loss also. So such loss will be included.
- 4) If a minor child attained majority during the P.Y. Income of minor child till majority will be clubbed afterwards not to be clubbed.
- 5) **IDENTITY OF ASSET GIFTED CHANGED:** Where cash is gifted by an assessee to his wife & she invests same in deposits, interest income is includable in the assessee's total income.
- 6) If part of the consideration is paid, only that part of the income attributable to transfer for **inadequate consideration** is includable in the hands of the transferor. E.g.: Mr. Y transfers 100 debentures to Mrs.Y (market value 10,000) for a consideration of 5,000. Income on 100 debentures is Rs.500. Income to be clubbed is  $500 \times 50\% = 250$ .
- 7) Exempted incomes will not be clubbed.
- 8) Deductions under Chapter VIA are available for clubbed income and any eligible losses can also be set off against such income.
- 9) If a minor child derives agricultural income, there is no provision under the income tax act requiring the clubbing of such income with the parent's income for rate purposes.

10) Any income from the accretion of the transferred asset is not to be clubbed with the income of the transferor. i.e., the income arising on transferred assets alone have to be clubbed. However, income earned by investing such income (arising from transferred asset) cannot be clubbed.

## 10. CROSS TRANSFERS

In the case of cross transfers also (e.g., A making gift of Rs. 50,000 to the wife of his brother B for the purchase of a house by her and a simultaneous gift by B to A's minor son of shares in a foreign company worth Rs. 50,000 owned by him), the income from the assets transferred would be assessed in the hands of the deemed transferor if the transfers are so intimately connected as to form part of a single transaction, and each transfer constitutes consideration for the other by being mutual or otherwise. Thus, in the instant case, the transfers have been made by A and B to persons who are not their spouse or minor child so as to circumvent the provisions of this section, showing that such transfers constituted consideration for each other.

[CIT v. Keshavji Morarji [1967] 66 ITR 142]

### SECTION 2: PROBLEMS FOR CLASSROOM DISCUSSION

**PROBLEM NO.1:** Mr. S is a trader, the income details are:

Income from his business	90,000
Salary derived from an educational institution by Mrs. S.	50,000
Interest on company deposits derived by Deepu (Minor son). These deposits were made by his father's father about 6 years ago.	12,000
Receipts from sale of paintings made by Dipali (Minor daughter)	60,000
Lottery Income to Chandu (Minor son)	6,000

Compute the assessable income of Mr. S. (SIMILAR: N18(N) - 5M) (ANS: GROSS TOTAL INCOME OF MR. S: RS 1,05,000)

(SOLVE PROBLEM NO. 6 OF ASSIGNMENT PROBLEMS AS REWORK)

Note: \_\_\_\_\_

**PROBLEM NO.2:** During the previous year 2020-21, the following transactions occurred in respect of Mr. A.

- Mr. A had a fixed deposit of Rs. 5,00,000 in Bank of India. He instructed the bank to credit the interest on the deposit @ 9% from 01-04-2020 to 31-03-2021 to the savings bank account of Mr. B, son of his brother, to help him in his education.
- Mr. A holds 75% share in a partnership firm. Mrs. A received a commission of Rs. 25,000 from the firm for promoting the sales of the firm. Mrs. A possesses no technical or professional qualification.
- Mr. A gifted a flat to Mrs. A on 1<sup>st</sup> April, 2020. During the previous year 2020-21, Mrs. A's "Income from house property" (computed) was Rs. 52,000.
- Mr. A gifted Rs. 2,00,000 to his minor son who invested the same in a business and he derived income of Rs. 20,000 from the investment.
- Mr. A's minor son derived an income of Rs. 20,000 through a business activity involving application of his skill and talent.

During the year, Mr. A got a monthly pension of Rs. 10,000. He had no other income. Mrs. A received salary of Rs. 20,000 per month from a part time job.

Discuss the tax implications of each transaction and compute the total income of Mr. A, Mrs. A and their minor child. (OLD PM, SIMILAR: N19 (N) - 5M) (ANS: MR. A: RS.2,10,500; MRS. A: RS.1,90,000; MINOR CHILD: 20,000)

(SOLVE PROBLEM NO. 2, 3 OF ASSIGNMENT PROBLEMS AS REWORK)

Note: \_\_\_\_\_

**PROBLEM NO.3:** Mr. Dhaval and his wife Mrs. Hetal furnish the following information:

S.No.	Particulars	Rs.
i)	Salary income (computed) of Mrs. Hetal	4,60,000
ii)	Income of minor son 'B' who suffers from disability specified in Section 80U	1,08,000
iii)	Income of minor daughter 'C' from singing	86,000
iv)	Income from profession of Mr. Dhaval	7,50,000
v)	Cash gift received by 'C' on 02.10.2020 from friend of Mrs. Hetal on winning of singing competition	48,000
vi)	Income of minor married daughter 'A' from company deposit	30,000

Compute the total income of Mr. Dhaval and Mrs. Hetal for the Assessment Year 2021-22.

(OLD PM, SIMILAR: RTP M19 (N&O)) (ANS: MR. DHAVAL IS RS.7,78,500; MRS. HETAL IS RS.4,60,000)

(SOLVE PROBLEM NO. 1, 4 OF ASSIGNMENT PROBLEMS AS REWORK)

**PROBLEM NO.4:** Determine the Gross Total Income of Mr. Ram and his wife:

- a) Ram & his wife are partners in a firm, their shares of profit: 45,000 & 50,000.
- b) Their 17 years old son has been admitted to the benefits of another firm, from which he received Rs.26,000 as his share of profit and Rs.24,000 as interest on capital. The capital was invested out of the minor's own funds amounting to Rs.2,50,000.
- c) A house property in the name of Ram was transferred to his wife on 30<sup>th</sup> Nov, 2020 for adequate consideration. The property has been let at a rent of Rs.4,000 per month.
- d) 14% Debentures of Rs.2,00,000 & Rs.1,00,000 purchased 5 years ago are in the names of Ram & his wife. His wife had in the past transferred Rs.1,00,000 out of her income to Ram for the purchase of the debentures in Ram's name.
- e) Ram had transferred Rs.60,000 to his wife in 2001 without any consideration which was given as a loan by her to Sumitra. She earned Rs.15,000 as interest during the earlier years which was also given on loan to Sumitra. During the previous year 2020-21, she received interest at 10% p.a. on Rs.75,000.
- f) Ram transferred Rs.60,000 to a trust. The income accruing from its investment amounted to Rs.9,000, out of which Rs.6,000 shall be utilised for the benefit of his son's wife and Rs.3,000 for the benefit of his son's minor Child.
- g) Ram transferred to his wife 2,400 shares in 1998 without consideration. The co. issued 600 bonus shares to Mrs. Ram in 1998. On 01-01-2021 the co. paid dividend @ 5 per share. Mrs. Ram sold entire holdings on 01-03-2021 and made a gain of 50,000 & 90,000 on original & bonus shares.

(ANS.: GROSS TOTAL INCOME OF MR. RAM AND MRS. RAM IS RS.1,10,400,1,56,200)

(SOLVE PROBLEM NO. 5, 7, 8 OF ASSIGNMENT PROBLEMS AS REWORK)

Note: \_\_\_\_\_

**PROBLEM NO.5:** On 21-03-2021, Mr. Janak gifted to his wife Mrs. Thilagam 200 listed shares, which had been bought by him on 19-04-2019 at Rs. 2,000 per share. On 01-06-2020, bonus shares were allotted in the ratio of 1:1. All these shares were sold by Mrs. Thilagam as under:

Date of Sale	Manner of sale	No. of Shares	Net sales Value (Rs.)
21.05.2020	Sold in recognized stock exchange, STT paid	100	2,20,000
21.07.2020	Private sale to an outsider	All bonus shares	1,25,000
28.02.2021	Private sale to her friend Mrs. Hema (Market value on this date was Rs.2,10,000)	100	1,70,000

Briefly state the income-tax consequences in respect of the sale of the shares by Mrs. Thilagam, showing clearly the person in whose hands the same is chargeable, the quantum and the head of income in respect of the above transactions. Detailed computation of total income is NOT required.

Net sales value represents the amount credited after all taxes, levies, brokerage, etc., and the same may be adopted for computing the capital gains.

(ANS.: ORIGINAL SHARES TAXABLE IN THE HANDS OF MR. JANAK: LTCL IS RS. 38,304; LTCG IS RS.20,000; AND BONUS SHARES TAXABLE IN THE HANDS OF MRS. THILANGAM: STCG IS RS. 1,25,000)  
(SOLVE PROBLEM NO. 11 OF ASSIGNMENT PROBLEMS AS REWORK)

Note: \_\_\_\_\_

**PROBLEM NO.6:** A proprietary business was started by Smt. Rani in the year 2018. As on 01.04.2019 her capital in business was Rs. 3,00,000.

Her husband gifted Rs.2,00,000 on 10.04.2019, which amount Smt. Rani invested in her business on the same date. Smt. Rani earned profits from her proprietary business for the Financial year 2019-2020, Rs.1,50,000 and Financial year 2020-21 Rs.3,90,000. Compute the income, to be clubbed in the hands of Rani's husband for the Assessment year 2021-22 with reasons.

(NEW SM, OLD PM, SIMILAR: RTP M18 (N&O)) (ANS.: THE INCOME TO BE CLUBBED IN THE HANDS OF SMT.RANI'S HUSBAND IS RS.1,20,000) (SOLVE PROBLEM NO. 9, 10 OF ASSIGNMENT PROBLEMS AS REWORK)

**PROBLEM NO.7:** Mr. Ramesh gifted a sum of Rs. 5 lacs to his brother's minor son on 16-04-2020. On 18-04-2020, his brother gifted debentures worth Rs. 6 lacs to Mrs. Ramesh. Son of Mr. Ramesh's brother invested the amount in fixed deposit with Bank of India @ 9% p.a. interest and Mrs.Ramesh received interest of Rs. 45,000 on debentures received by her.

Discuss the implications under the provisions of the Income-tax Act, 1961.

(OLD PM, M15 - 5M, SIMILAR: RTP N17, N18 (N&O), M19 (O) - 3M)

(ANS: RS. 43,500 CLUBBED TO THE INCOME OF MR.RAMESH'S BROTHER; RS. 37,500 CLUBBED TO THE INCOME OF MR. RAMESH) (SOLVE PROBLEM NO. 12 OF ASSIGNMENT PROBLEMS AS REWORK)

Note: \_\_\_\_\_

### SECTION 3: PRINTED SOLUTIONS FOR CLASSROOM DISCUSSION

#### PROBLEM NO. 1

##### Computation of Mr. S Income

Income from business		90,000
Salary of Mrs. S (Note 1)	-	
Interest on deposits-Deepu	12,000	
<b>Less: Exemption U/s 10 (32) (Note 2)</b>	1,500	10,500
Receipts from painting to deepali (Note 3)	-	
Lottery Income to chandu	6,000	
<b>Less: Exemption U/s 10(32)</b>	1,500	4,500
<b>Gross Total Income</b>		<b>1,05,000</b>

Note:

1. Since Mr. S is not having any substantial interest in the educational Institution Sec.64 1(ii) is not applicable
2. Since Mr. S is having higher income compared to Mrs. S so the income of minor child will be taxable in the hands of Mr. S.
3. Since income derived by Deepali is by application of skill & talent not subject to clubbing

**PROBLEM NO. 2**

Computation of total income of Mr. A, Mrs. A and their minor son for the A.Y. 2021-22

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

**NOTES:**

- 1) As per section 60, in case there is a transfer of income without transfer of asset from which such income is derived, such income shall be treated as income of the transferor. Therefore, the fixed deposit interest of Rs. 45,000 transferred by Mr. A to Mr. B shall be included in the total income of Mr. A.
- 2) As per section 64(1)(ii), in case the spouse of the individual receives any amount by way of income from any concern in which the individual has substantial interest (i.e. holding shares carrying at least 20% voting power or entitled to at least 20% of the profits of the concern), then, such income shall be included in the total income of the individual. The only exception is in a case where the spouse possesses any technical or professional qualifications and the income earned is solely attributable to the application of her technical or professional knowledge and experience, in which case, the clubbing provisions would not apply.

In this case, the commission income of Rs. 25,000 received by Mrs. A from the partnership firm has to be included in the total income of Mr. A, as Mrs. A does not possess any technical or professional qualification for earning such commission and Mr. A has substantial interest in the partnership firm as he holds 75% share in the firm.

- 3) According to section 27(i), an individual who transfers any house property to his or her spouse otherwise than for adequate consideration or in connection with an agreement to live apart, shall be deemed to be the owner of the house property so transferred. Hence, Mr. A shall be deemed to be the owner of the flat gifted to Mrs. A and hence, the income arising from the same shall be computed in the hands of Mr. A.

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

- 4) As per section 64(1A), the income of the minor child is to be included in the total income of the parent whose total income (excluding the income of minor child to be so clubbed) is greater. Further, as per section 10(32), income of a minor child which is includable in the income of the parent shall be exempt to the extent of Rs. 1,500 per child.

Therefore, the income of Rs. 20,000 received by minor son from the investment made out of the sum gifted by Mr. A shall, after providing for exemption of Rs. 1,500 under section 10(32), be included in the income of Mr. A, since Mr. A's income of Rs. 2,42,000 (before including the income of the minor child) is greater than Mrs. A's income of Rs. 2,40,000. Therefore, Rs. 18,500 (i.e., Rs. 20,000 - Rs. 1,500) shall be included in Mr. A's income. It is assumed that this is the first year in which clubbing provisions are attracted.

**NOTE:** The provisions of section 56(2)(x) would not be attracted in the hands of the minor son, since he has received a sum of money exceeding Rs. 50,000 without consideration from a relative i.e., his father.

5) In case the income earned by the minor child is on account of any activity involving application of any skill or talent, then, such income of the minor child shall not be included in the income of the parent, but shall be taxable in the hands of the minor child.

Therefore, the income of Rs. 20,000 derived by Mr. A's minor son through a business activity involving application of his skill and talent shall not be clubbed in the hands of the parent. Such income shall be taxable in the hands of the minor son.

### **PROBLEM NO.3**

#### **Computation of Total Income of Mr. Dhaval and Mrs. Hetal for the A.Y. 2021-22**

Particulars		Mr. Dhaval (Rs.)	Mrs. Hetal (Rs.)
Salaries			4,60,000
Profits and gains of business or profession		7,50,000	
<b>Income from other sources:</b>			
Income by way of interest from company deposit earned by minor daughter A [See Note(d)]	30,000		
<b>Less : Exemption under section 10(32)</b>	1,500	28,500	
<b>Total Income</b>		<b>7,78,500</b>	<b>4,60,000</b>

#### **NOTES:**

- The income of a minor child suffering from any disability of the nature specified in section 80U shall not be included in the hands of the parents. Hence, Rs. 1,08,000, being the income of minor son 'B' who suffers from disability specified under section 80U, shall not be included in the hands of either of his parents.
- The income derived by the minor from manual work or from any activity involving exercise of his skill, talent or specialised knowledge or experience will not be included in the income of his parent. Hence, in the given case, Rs. 86,000 being the income of the minor daughter 'C' shall not be clubbed in the hands of the parents.
- Under section 56(2)(x), cash gifts received from any person/persons exceeding Rs. 50,000 during the year in aggregate is taxable. Since the cash gift in this case does not exceed Rs. 50,000, the same is not taxable.

The clubbing provisions are attracted even in respect of income of minor married daughter. The income of the minor will be included in the income of that parent whose total income is greater. Hence, income of minor married daughter 'A' from company deposit shall be clubbed in the hands of the Mr. Dhaval and exemption under section 10(32) of Rs. 1,500 per child shall be allowed in respect of such income.

### **PROBLEM NO.4**

**WN - 1:** Share of profits earned by the minor child will not be subject to clubbing as the same was exempted

**WN - 2: Income from House Property:** In the absence of information actual rent is taken as G.A.V. Mr. Ram

G.A.V (Gross Annual Value) (4,000 x 8)	32,000
<b>Less: Municipal Taxes paid</b>	Nil
Net Annual value	32,000
<b>Less: Deductions U/s 24</b>	
Repairs & Maintenance (30% of 32,000)	(9,600)
Taxable Income	22,400

#### **Mrs. Ram**

Gross Annual Value (4,000 x 4)	16,000
<b>Less: Municipal Taxes paid</b>	Nil
Net Annual Value	16,000
<b>Less: Deductions U/s 24</b>	
Repairs 30% of Rs.16,000	4,800
Taxable Income	11,200

## Computation of Income of Mr. Ram

Particulars	Amount (Rs.)
Share of Profits [Sec.10 (2A)]	Exempted
Share of Profits earned by minor (W.N.1)	Exempted
Income from house property (W.N.2)	22,400
Interest on debentures (acquired out of own money) (1,00,000 X 14%)	14,000
Loan given by Mrs. Ram to Sumitra [Sec. 64(1)(IV)]-(60K X 10%)	6,000
Income derived by trust [As per Sec.64 (1)(VIII) (Note.3)	6,000
Income from shares (Dividends) (2,400x5)	12,000
Income from sale of original shares U/s 64 (1)(IV)	50,000
<b>Gross Total Income</b>	
	1,10,400

## Computation of Income of Mrs. Ram

Particulars	Amount (Rs.)
Share of Profits [Sec.10 (2A)]	Exempted
Share of Profits earned by minor (W.N -1)	Exempted
Income from house property (W.N.2)	11,200
<b>Interest on debentures:</b>	
Acquired out of own money	14,000
Gifted to Mr. Ram (Sec. 64(1)(IV)-1,00,000x 14%)	14,000
Loan given to Sumitra (15,000x 10%) ( <b>Note 7</b> )	1,500
Dividends(600x5)	3,000
Income from sale of bonus shares U/s 64 (1)(IV) ( <b>Note 5</b> )	90,000
Interest earned by the minor child from a partnership firm Sec 64 (1A) - ( <b>Note 6</b> ) (24,000- 1,500) Exempt U/s 10(32)	1,33,700
<b>Gross Total Income</b>	22,500
	1,56,200

Working Note:

- 1) Income derived by the son's minor child will not be subject to clubbing in the absence of specific provision.
- 2) Income arising out of additions made to assets given will not be subject to clubbing.
- 3) Income of the minor child will be added to either of parents whose income is higher.
- 4) Income on income not subject to clubbing.

**PROBLEM NO.5**

- 1) Where an asset has been transferred by an individual to his spouse otherwise than for adequate consideration, the income arising from the sale of the said asset by the spouse will be clubbed in the hands of the individual.
- 2) Where there is any accretion to the asset transferred, income arising to the transferee from such accretion will not be clubbed. Hence, the profit from sale of bonus shares allotted to Mrs. Thilagam will be chargeable to tax in the hands of Mrs. Thilagam.
- 3) Therefore, the capital gains arising from the sale of the original shares has to be included in the hands of Mr. Janak, and the capital gains arising from the sale of bonus shares would be taxable in the hands of Mrs. Thilagam.
- 4) Where an asset received by way of gift has been sold, the period of holding of the previous owner should be considered for determining whether the capital gain is long term or short term. The cost to the previous owner has to be taken as the cost of acquisition.

**Income/loss to be clubbed in the hands of Mr. Janak****Long-term capital gains/loss**

S.No.	Particulars	Rs.
1)	<b>Sale of 100 original shares on 21.05.2020</b>	
	Sale consideration	2,20,000
	<b>Less: Cost of acquisition (2,000 x 100)</b>	2,00,000
	<b>Long term capital gain</b>	<b>20,000</b>

2)	<b>Shares sold to a friend on 28.02.2021</b> Sale consideration <b>Less: Indexed cost of acquisition of 100 shares (Rs. 2,000 x 100 x 301/289)</b> <b>Long term capital loss to be included in the hands of Mr. Janak</b>	1,70,000 2,08,304 <b>(38,304)</b>
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**Income taxable in the hands of Mrs. Thilagam**

**Short-term capital gains (on sale of 100 bonus shares)**

Particulars	Amount (Rs.)
Sale consideration	1,25,000
<b>Less: Cost of acquisition of bonus shares</b>	Nil
<b>Short-term capital gains</b>	<b>1,25,000</b>

**TAXABILITY IN THE HANDS OF MRS. HEMA UNDER THE HEAD “INCOME FROM OTHER SOURCES”:** Mrs. Hema has received shares from her friend, Mrs. Thilagam, for inadequate consideration. Even though shares fall within the definition of “property” under section 56(2)(x), the provisions of section 56(2)(x) would not be attracted in the hands of Mrs. Hema, since the difference between the fair market value of shares and actual sale consideration does not exceed Rs. 50,000.

### **PROBLEM NO.6**

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 Rs.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. 2021-22 is computed as under:

Particulars	Smt. Rani's Capital Contribution (Rs.)	Capital Contribution Out of gift from husband (Rs.)	Total (Rs.)
Capital as at 01.04.2019	3,00,000	-	3,00,000
Investment on 10.04.2019 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. 2019-20 to be apportioned on the basis of capital employed on the first day of the previous year i.e. on 01.04.2019	1,50,000		1,50,000
<b>Capital employed as at 01.04.2020</b>	<b>4,50,000</b>	<b>2,00,000</b>	<b>6,50,000</b>
Profit for F.Y.2020-21 to be apportioned on the basis of capital employed as at 01.04.2020 (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.2021-22 is Rs.1,20,000.

### **PROBLEM NO.7**

In the given case, Mr. Ramesh gifted a sum of Rs. 5 lacs to his brother's minor son on 16.04.2020 and simultaneously, his brother gifted debentures worth Rs. 6 lacs to Mr. Ramesh's wife on 18.04.2020. Mr. Ramesh's brother's minor son invested the gifted amount of Rs. 5 lacs in fixed deposit with Bank of India.

These transfers are in the nature of cross transfers. Accordingly, the income from the assets transferred would be assessed in the hands of the deemed transferor because the transfers are so intimately connected to form part of a single transaction and each transfer constitutes consideration for the other by being mutual or otherwise.

If two transactions are inter-connected and are part of the same transaction in such a way that it can be said that the circuitous method was adopted as a device to evade tax, the implication of clubbing provisions would be attracted.

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

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

This is because both Mr. Ramesh 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. Ramesh, interest received by his spouse on debentures of Rs. 5 lacs alone would be included and not the entire interest income on the debentures of Rs. 6 lacs, since the cross transfer is only to the extent of Rs. 5 lacs.

Hence, only proportional interest (i.e.,  $5/6^{\text{th}}$  of interest on debentures received) Rs. 37,500 would be includable in the hands of Mr. Ramesh.

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.

## SECTION 4: ASSIGNMENT PROBLEMS

**PROBLEM NO.1:** Mr. Mittal has four minor children consisting of three daughters and one son. The annual income of all the children for the Assessment Year 2021-22 were as follows:

Particulars	Amount (Rs.)
Third Daughter (Suffering from disability specified U/s 80U)	4,500
Second Daughter	8,500
First daughter (Including Scholarship received Rs. 5,000)	10,000
Son	40,000

Mr. Mittal gifted Rs. 2,00,000 to his minor son who invested the same in the business and derived income of Rs. 20,000 which is included above.

Compute the amount of Income earned by minor children to be clubbed in the hands of Mr. Mittal.

(OLD PM) (ANS.: TOTAL INCOME TO BE CLUBBED IS 49,000)

**PROBLEM NO.2:** The following are the details of the transactions pertaining to Mr. Sangram, Mrs. Sangeeta (wife) and their two minor sons Master Aayu and Avi for the previous year 2020-21.

- Master Aayu earned Rs. 51,000 by investing Rs. 3,25,000 in a business. The said amount i.e., Rs. 3,25,000, was received as a gift from his father Mr. Sangram.
- Mr. Sangram had a fixed deposit of Rs. 2,00,000 in Canara Bank. He instructed the bank to credit the interest on the deposit @ 9% from 01-04-2020 to 31-03-2021 to the savings bank account of Mr. Babloo, son of his brother, to help him in his education.
- Master Avi derived an income of Rs. 35,000 through an activity involving application of his skill and talent.
- Mr. Sangram gifted a flat to Mrs. Sangeeta on 1<sup>st</sup> April, 2020. During the previous year 2020-21, Mrs. Sangeeta "Income from house property" (computed) was Rs. 5,12,000.
- Mr. Sangram holds 75% share in a partnership firm. Mrs. Sangeeta received a remuneration of Rs. 32,500 from the firm for designing the webpage of the firm. Mrs. Sangeeta possesses no technical or professional qualification.

During the year, Mr. Sangram got a monthly pension of Rs. 50,000. He had no other income. Mrs. Sangeeta received salary of Rs. 12,000 per month from a part time job.

Discuss the tax implications of each transaction and compute the total income of Mr. Sangram, Mrs. Sangeeta and their minor sons

(RTP N16) (ANS: TOTAL INCOME RS.12,12,000; 1,44,000; 35,000)

**PROBLEM NO.3:** Mr. Shashank is an employee of KML (P) Ltd. drawing a monthly salary of Rs. 30,000. He provides you the following information for the previous year 2020-21:

- i) He had a fixed deposit of Rs. 4,00,000 with State Bank of India with interest @10%. He instructed bank to credit such interest on deposit to the saving account of Mr. Ram, his sister's son, to help him in his higher education.
- ii) He gifted a flat to Mrs. Kajal (wife of Mr. Shashank) on April 1, 2020. During the previous year 2020-21, she received a rent of Rs. 20,000 p.m. from letting out the flat.
- iii) He gifted Rs. 10,00,000 to Mrs. Kajal on 1<sup>st</sup> April, 2020 which Mrs. Kajal invested in her business on the same day. Capital in the business before such investment was Rs. 20,00,000. She earned profits from business for the financial year 2020-21 of Rs. 9,00,000.
- iv) His minor son Sandeep earned income from company deposit of Rs. 1,50,000.

Mr. Shashank and Mrs. Kajal do not have any other income during the P.Y. 2020-21. Compute the total income of Mr. Shashank and Mrs. Kajal for A.Y. 2021-22. (MTP N18 - 6M)

(ANS.: TOTAL INCOME OF SHASHANK: RS. 10,16,500; MRS. KAJAL: RS. 6,00,000)

**PROBLEM NO.4:** Compute the gross total income of Mr. & Mrs. A from the following information:

Particulars	Amount (Rs.)
Salary income (computed) of Mrs. A	2,30,000
Income from profession of Mr. A	3,90,000
Income of minor son B from company deposit	15,000
Income of minor daughter C from special talent	32,000
Interest from bank received by C on deposit made out of her special talent	3,000
Gift received by C on 30.09.2019 from friend of Mrs. A	2,500

Brief working is sufficient. Detailed computation under various heads of income is NOT required.

(NEW SM, OLD PM) (ANS.: RS.4,05,000)

**PROBLEM NO.5:** Mr. Dhaval has an income from salary of Rs.3,50,000 and his minor children's income are as under:

Particulars	Amount (Rs.)
<b>Minor daughter has earned the following income:</b>	
From a TV show	50,000
From interest on FD with a bank (deposited by Mr. Dhaval from his income)	5,000
<b>Minor son has earned the following income:</b>	
From the sale of a own painting	10,000
From interest on FD with a bank (deposited by Mr. Dhaval from his income)	1,000

Compute the gross total income of Mr. Dhaval.

(OLD PM) (ANS.: RS.3,53,500)

**PROBLEM NO.6:** Mr. B is the Karta of a HUF, whose members derive income as given below

	Particulars	Amount (Rs.)
i)	Income from B's profession	45,000
ii)	Mrs. B's salary as fashion designer	76,000
iii)	Minor son D (interest on fixed deposits with a bank which were gifted to him by his uncle)	10,000
iv)	Minor daughter P's earnings from sports	95,000
v)	D's winnings from lottery (gross)	1,95,000

Discuss the tax implications in the hands of Mr. and Mrs. B.

(NEW SM, OLD PM) (ANS.: MR. B: RS 45,000; MRS. B: RS 2,69,500)

**PROBLEM NO.7:** Mr. A has three minor children - two twin daughters and one son. Income of the twin daughters is Rs. 2,000 p.a. each and that of the son is Rs. 1,200 p.a. Compute the income, in respect of minor children, to be clubbed in the hands of Mr. A.

(NEW SM) (ANS.: INCOME TO BE CLUBBED IN THE HANDS OF MR. A RS.1000)

**PROBLEM NO.8:** Mr. Sharma has four children consisting 2 daughters and 2 sons. The annual income of 2 daughters were Rs. 9,000 and Rs. 4,500 and of sons were Rs. 6,200 and Rs. 4,300, respectively. The daughter who has income of Rs. 4,500 was suffering from a disability specified under section 80U.

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

(*NEW SM, OLD PM (ANS.: CLUBBING INCOME IN THE HANDS OF MR. SHARMA IS RS.15,000)*)

**PROBLEM NO.9:** Mr. Vaibhav started a proprietary business on 01.04.2019 with a capital of Rs. 5,00,000. He incurred a loss of Rs. 2,00,000 during the year 2019-20. To overcome the financial position, his wife Mrs. Vaishali, a software Engineer, gave a gift of Rs. 5,00,000 on 01.04.2020, which was immediately invested in the business by Mr. Vaibhav. He earned a profit of Rs. 4,00,000 during the year 2020-21. Compute the amount to be clubbed in the hands of Mrs. Vaishali for the Assessment Year 2021-22. If Mrs. Vaishali gave the said amount as loan, what would be the amount to be clubbed?

(*NEW SM, OLD PM, RTP M16 (ANS.: CLUBBING INCOME IN THE HANDS OF MRS. VAISHALI IS RS.2,50,000)*)

**PROBLEM NO.10:** The following are the particulars of income of Mr. Sameer and his two minor children:

Particulars	Amount (Rs.)
Income from Salary	3,50,000
Minor daughter has earned the following income:	
• From a TV show	50,000
• From interest on FD with a bank (deposited by Mr. Sameer from his income)	5,000
Minor son has earned the following income:	
• From the sale of a own painting	10,000
• From interest on FD with a bank (deposited by Mr. Sameer from his income)	1,000

(*MTP N17 (ANS.: GROSS TOTAL INCOME: RS. 3,53,500)*)

**PROBLEM NO.11:** Akash gifted Rs.5 lakhs to his wife Suman on her birthday on, 1st March, 2020. Suman lent such amount of Rs.5,00,000 to Karuna on 1<sup>st</sup> April, 2020 for six months on which she received interest of Rs.50,000. The said sum of Rs.50,000 was invested in shares of a listed company on 13<sup>th</sup> October, 2020, which were sold for Rs.70,000 on 30th March, 2021. Securities transactions tax was paid on such sale.

In whose hands the above income and loss shall be included in Assessment Year 2021-22.

(*MTP1 M19 (N&O) (ANS.: RS. 50,000 OF INTEREST INCOME WOULD BE ADDED IN AKASH'S INCOME; RS. 20,000 OF STCG WOULD BE TAXABLE IN THE HANDS OF SUMAN)*)

**PROBLEM NO.12:** Mrs. Kasturi transferred her immovable property to ABC Co. Ltd. subject to a condition that out of the rental income, a sum of Rs. 36,000 per annum shall be utilized for the benefit of her son's wife. Mrs. Kasturi claims that the amount of Rs. 36,000 (utilized by her son's wife) should not be included in her total income as she no longer owned the property. State with reasons whether the contention of Mrs. Kasturi is valid in law.

(*NEW SM (ANS.: KASTURI CONTENTION IS NOT VALID)*)

## SECTION 5: ADDITIONAL PROBLEMS FOR STUDENTS SELF PRACTICE

- Under section 61, income arising by virtue of a revocable transfer of asset is taxable in the hands of the transferor. Is there any exception to this rule?
- State in whose income, the following incomes will be included:
  - M transferred Rs.50,000 to his daughter-in-law in 2018 without any consideration. She received Rs.12,000 as interest on this amount during the previous year.
  - R transferred his self-acquired property to the HUF, of which he is a member. During the previous year 2020-21 the HUF earned an income of Rs.42,000 from this property.
  - R transferred his self-acquired property to the HUF of which he is a member. The HUF earns an income of Rs.42,000 per annum. During the previous year 2020-21 the HUF is partitioned and the property is divided as under:

R	1/5th of share
R's minor son	1/5th of share
R's major son	1/5th of share
Mrs. R	1/5th of share
R's Brother	1/5th of share

iv) R transferred debentures worth Rs.5,00,000 to his wife on 01.04.2016. The debentures carry an interest of 12% per annum. Mrs. R accumulates the interest of Rs.60,000 per annum, which she receives on the debentures. The accumulated amount of interest of Rs.1,80,000 is invested in a fixed deposit with a bank and Mrs. R receives interest amounting to Rs.15,000 on this FDR.

3) R held 18 percent shares in a private limited company. He gifted all the shares to his wife, G on 01.10.2020. On 01.11.2020, G obtained a loan of Rs.90,000 from the company, when the company's accumulated profit was Rs.60,000. What are the tax implications of the above transactions?

**LIST OF IMPORTANT CONCEPTS**

**LIST OF IMPORTANT CLASSROOM PROBLEMS - 2, 3, 4, 6, 7**

**LIST OF IMPORTANT ASSIGNMENT PROBLEMS - 1, 3, 6, 7, 9**

**[APPLICABLE FOR WEEKEND EXAMS ONLY BUT NOT FOR ANY OTHER EXAMS]**

**SECTION 6: PAST EXAM QUESTIONS**

**Q.No.1.** Mr. Ghouse has four minor children consisting 2 daughters and 2 sons. The annual income of 2 daughters was Rs. 7,500 and Rs. 5,000 and of sons were Rs. 5,500 and Rs. 1,250 respectively. The daughter who was having income of Rs. 5,000 was suffering from a disability specified u/s.80U. Work out the amount of income earned by minor children to be clubbed in the hands of Mr. Ghouse? (NO7 - 5M)

**Q.No.2.** Mr. Vatsan has transferred through a duly registered documents the income arising from a godown to his son, without transferring the godown. In whose hands will the rental income from godown be charged? (NEWSM)

**Q.No.3.** Explain the circumstances under which income of other persons is included in the Assessee's total income under Sec.60 to 64 of the Income-tax Act?

**Q.No.4.** Briefly discuss the provisions of the Income-tax Act. 1961 relating to tax consequences arising on conversion of self-acquired property into property belonging to the HUF of which he is a member?

**Q.No.5.** Smt. Shanti carried on business with the gifted funds of her husband Mahesh. For the previous year ending 31.03.21. Shanti incurred a loss of Rs.2 Lakhs, which Mahesh wants to set-off from his taxable income. Discuss whether this can be done.

**Q.No.6.** Mr. A gifts cash Rs.1,00,000 to his brother's wife Mrs. B, Mr. B gifts cash of Rs. 1,00,000 to Mrs. A from cash gifted to her, Mrs. A invests in a fixed deposit, income there from is Rs. 10,000 Aforesaid Rs. 10,000 will be included in the total income of \_\_\_\_\_. [Reason: Refer Sec.64(1)(iv)]

**Q.No.7.** Mr. Y who is physically handicapped minor (suffering from a disability of the nature specified in Sec.80U) earns Bank Interest of Rs. 50,000 and Rs. 60,000 from marking bags manually by himself. The Total Income of Mr. Y shall be computed in the hands separately. (T)

**Q.No.8.** Mr. Vasudevan gifted a sum of Rs. 6 lakhs to his brother's wife on 14-06-2020. On 12-07-2020, his brother gifted a sum of Rs. 5 lakhs to Mr. Vasudevan's wife. The gifted amounts were invested as fixed deposits in banks by Mrs. Vasudevan and wife of Mr. Vasudevan's brother on 01-08-2020 at 9% interest. Discuss the consequences of the above under the provisions of the Income-tax Act, 1961 in the hands of Mr. Vasudevan and his brother. (NEWSM) (INTEREST ON FIXED DEPOSITS - MR. VASUDEVAN AND INTEREST INCOME ARISING IN THE HANDS OF HIS BROTHER'S WIFE - TAXABLE IN THE HANDS OF MR. VASUDEVAN'S BROTHER)