

**TEST 13**  
**(CLUBBING)**

**Time : 30 minutes Total Marks : 20 (5 marks Each)**

**Question 1 :** Mr. Karan gifted a sum of ₹ 9 lakhs to his brother's minor son on 1-5-2024. On the same date, his brother gifted debentures worth ₹ 10 lakhs to Mrs. Karan. Son of Mr. Karan's brother invested the amount in fixed deposit with Canara Bank @ 9% p.a. interest and Mrs. Karan received interest of ₹81,000 on these debentures during the previous year 2024-25. Discuss the tax implications under the provisions of the Income- tax Act, 1961.

**Question 2 :** Nishant gifted ₹ 10 lakhs to his wife, Nisha on her birthday on, 1st January, 2023. Nisha lent ₹5,00,000 out of the gifted amount to Krish on 1st April, 2023 for six months on which she received interest of ₹ 50,000.

The said sum of ₹ 50,000 was invested in shares of a listed company on 15th October, 2022, which were sold for ₹ 75,000 on 30th December, 2023. Securities transaction tax was paid on such sale. The balance amount of gift was invested as capital by Nisha in a newly business started on 1.4.2023. She suffered loss of ₹ 15,000 in the business in Financial Year 2023-24.

In whose hands the above income and loss shall be included in Assessment Year 2024-25? Support your answer with brief reasons

**Question 3 :** Mr. X is an employee of Larsen Limited and has substantial interest in the company. His salary is ₹25,000 p.m. Mrs. X also is working in that company at a salary of ₹10,000 p.m. without any professional qualification.

Mr. X also receives ₹ 30,000 as income from securities, Mrs. X owns a house property which she has let out. Rent received from such house property is ₹ 12,000 p.m.

Mr. & Mrs. X have three minor children-two twin daughters and one son. Income of the twin daughters is ₹2,000 p.a. each and that of his son is ₹ 1,200 p.a. Compute the income of Mr. & Mrs. X.

**Question 4 :** Determine the Gross total income of Shri Ram Kumar and Smt. Ram Kumar for the assessment year 2024-25 from the following:

- (i) Salary received by Shri Ram Kumar from a company ₹1,80,000 per annum and Smt. Ram Kumar also doing job in a company and getting salary of ₹2,40,000 per annum
- (ii) Shri Ram Kumar transferred a flat to his wife Smt. Ram Kumar on 1st September, 2023 for adequate consideration. The rent received from this let-out flat is ₹9,000 per month.
- (iii) Shri Ram Kumar and his wife Smt. Ram Kumar both are partners in a firm. Shri Ram Kumar received ₹36,000 and Smt. Ram Kumar received ₹64,000 as interest from the firm and also had a share of profit of ₹12,000 and ₹26,000 respectively.

- (iv) Smt. Ram Kumar transferred 10% debentures worth ₹3,00,000 to Shri Ram Kumar. The whole amount of ₹3,30,000 invested by Shri Ram Kumar in the similar investments and earned income of ₹39,000.
- (v) Mother of Shri Ram Kumar transferred a property to Master Rohit (son of Shri Ram Kumar) in the year 2022. Master Rohit (Aged 13 years) received of ₹15,000 as income from this property on 20th February, 2024.



## TEST 13 SOLUTION (CLUBBING)

**Solution 1:** In the given case, Mr. Karan gifted a sum of ₹ 9 lakhs to his brother's minor son on 1.5.2023 and simultaneously, his brother gifted debentures worth ₹ 10 lakhs to Mr. Karan's wife on the same date. Mr. Karan's brother's minor son invested the gifted amount of ₹ 9 lakhs in fixed deposit with Canara Bank.

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 includible in the hands of the parent, whose total income, before including minor's income is higher. Accordingly, the interest income arising to Mr. Karan's brother's son from fixed deposits would be included in the total income of Mr. Karan's brother, assuming that Mr. Karan's brother's total income is higher than his wife's total income, before including minor's income. Mr. Karan's brother can claim exemption of ₹ 1,500 under section 10(32) (if under old system). Interest on debentures arising in the hands of Mrs. Karan would be taxable in the hands of Mr. Karan as per section 64(1)(iv).

This is because both Mr. Karan 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. Karan, interest received by his spouse on debentures of ₹ 9 lakhs alone would be included and not the entire interest income on the debentures of ₹ 10 lakhs, since the cross transfer is only to the extent of ₹ 9 lakhs.

Hence, only proportional interest (i.e., 9/10th of interest on debentures received) ₹ 72,900 would be includible in the hands of Mr. Karan.

The provisions of section 56(2) 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

**Solution 2 :****Interest on loan**

As per section 64(1)(iv), in computing the total income of any individual, there shall be included all such income as arises directly or indirectly, to the spouse of such individual from assets transferred directly or indirectly, to the spouse by such individual otherwise than for adequate consideration or in connection with an agreement to live apart.

Accordingly, ₹ 50,000, being the amount of interest on loan received by Ms. Nisha, wife of Mr. Nishant, would be includible in the total income of Mr. Nishant, since such loan was given by her out of the sum of money received by her as gift from her husband.

**Loss from business**

Since the capital was invested in business by Ms. Nisha on 1st April, 2023, and capital invested was entirely out of the funds gifted by her husband, the entire loss of ₹15,000 from the business carried on by Ms. Nisha would also be includible in the total income of Mr. Nishant.

Since income includes loss as per Explanation 2 to section 64, clubbing provisions would be attracted even if there is loss and not income.

**Capital Gain on sale of shares of listed company**

The short-term capital gain of ₹ 25,000 (₹ 75,000, being the sale consideration less ₹ 50,000, being the cost of acquisition) arising in the hands of Ms. Nisha from sale of shares acquired by investing the interest income of ₹ 50,000 earned by her (from the loan given out of the sum gifted to her by her husband), would not be included in the hands of Mr. Nishant.

Income from the accretion of the transferred asset is not liable to be included in the hands of the transferor and therefore such income is taxable in the hands of Ms. Nisha. Since securities transaction tax has been paid, such short-term capital gain on sale of listed shares is taxable @ 15% in the hands of Ms. Nisha

**Solution 3 : Computation of Total Income of Mr. X and Mrs. X for the A.Y. 2024-25**

Particulars	Mr. X (₹)	Mrs. X (₹)
<b>Income from Salaries</b>		
Salary income of Mr. X (₹ 25,000 × 12)	3,00,000	
Salary income of Mrs. X (₹ 10,000 × 12) (Note 1)	1,20,000	
Less: Deduction u/s 16(ia)	(50,000)	-
<b>Income from House Property</b>		
Rent received (₹ 12,000×12)	1,44,000	
Less: Deduction under section 24 @ 30%	<u>(43,200)</u>	1,00,800
<b>Income from other sources</b>		
Income from securities	30,000	
<b>Income before including income of minor children under section 64(1A) (Note 2)</b>	<b>4,00,000</b>	<b>1,00,800</b>
Income of twin daughters (₹ 2,000 per child x 2)	₹ 4,000	-

Less: Exempt u/s 10(32) (₹1,500 x 2)	(₹ 3,000)		
Income of the minor son	₹ 1,200	1,000	
Less: Exempt u/s 10(32)	(₹1,200)	-	
<b>Total Income</b>		<b>4,01,000</b>	<b>1,00,800</b>

**Notes:**

- (1) As per section 64(1), the salary of ₹ 10,000 p.m. received by Mrs. X from the company has to be included in the total income of Mr. X, as Mrs. X does not possess any technical or professional qualification for earning such income and Mr. X has substantial interest in the company.
- (2) As per section 64(1A), the income of a 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 includible in the income of the parent shall be exempt to the extent of ₹ 1,500 per child.

**Solution 4 : Computation of Gross Total Income of Shri Ram****Kumar Income under the head salary**

Salary received	1,80,000.00
Less: Standard deduction u/s 16(ia)	(50,000.00)
Income under the head salary	1,30,000.00

**Income under the head house property**

Gross Annual value (9,000 x 5)	45,000.00
Less: Municipal taxes	Nil
Net Annual value	45,000.00
Less: Standard deduction @ 30% u/s 24(a)	(13,500.00)
Less: Interest on capital borrowed u/s 24(b)	Nil
Income from house property	31,500.00

**Income under the business/Profession**

Interest income from Firm	36,000.00
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**Income under the head other sources**

Interest income of debentures (39,000 / 3,30,000 x 30,000)	3,545.45
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<b>Gross Total Income</b>	<b>2,01,045.45</b>
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**Computation of Gross Total Income of Smt. Ram Kumar****Income under the head salary**

Salary received	2,40,000
Less: Standard deduction u/s 16(ia)	(50,000)
Income under the head salary	1,90,000

**Income under the head house property (Transferred with adequate consideration)**

Gross Annual value (9,000 x 7)	63,000
Less: Municipal taxes	Nil
Net Annual value	63,000
Less: Standard deduction @ 30% u/s 24(a)	(18,900)
Less: Interest on capital borrowed u/s 24(b)	Nil
Income from house property	44,100

**Income under the business/Profession**

Interest income from Firm	64,000
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**Income of Minor son – Rohit**

Income from house property	15,000
Less: Exemption u/s 10(32)	(1,500)

Income under the head house property 13,500

**Income under the head other sources**

Interest on debentures (3,00,000 x 10%) 30,000.00

Interest income of debentures shall be clubbed u/s 64(1) 35,454.55

(39,000 /3,30,000 x 3,00,000)

Income under the head other sources 65,454.55

**Gross Total Income 3,77,054.55**

**Note:**

- (i) Mother of Shri Ram Kumar transferred a Property to master Rohit, it is not mentioned it is House Property, hence it is presumed that it is other than House Property. Accordingly income has been clubbed after exemption under section 10(32).
- (ii) In case of transfer of debentures date of transfer is not given and whether it is transferred for adequate consideration or not is not mentioned. Above solution is given on the assumption that it is transferred for inadequate consideration and clubbing provisions shall be applicable.

