

INCOME OF OTHER PERSONS INCLUDED IN TOTAL INCOME OF ASSESSEE

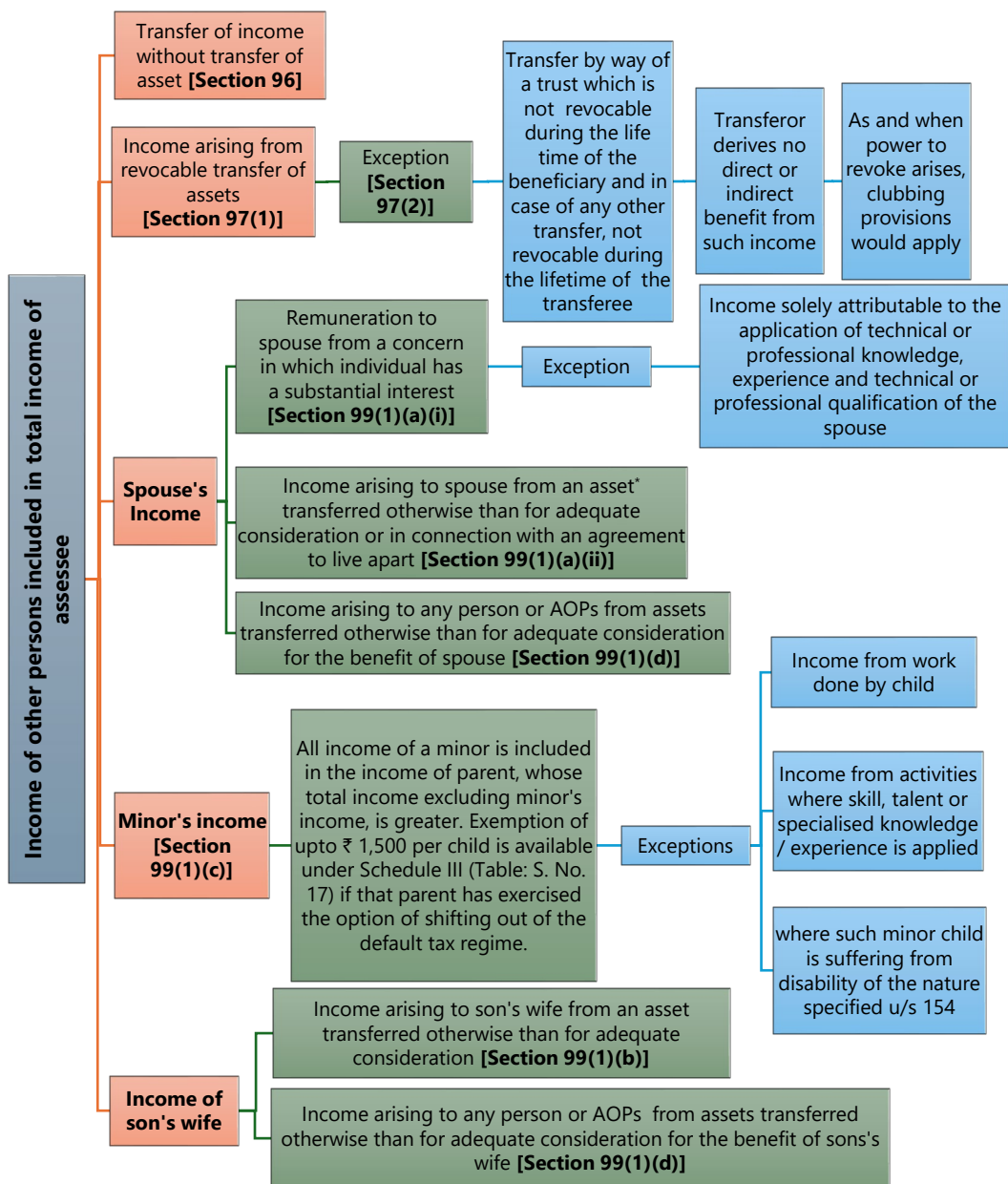


LEARNING OUTCOMES

After studying this chapter, you would be able to -

- ◆ **identify** when clubbing provisions are attracted and apply the same in computing total income of the assessee;
- ◆ **examine** the circumstances when income of the spouse is included in the income of the individual and apply the same in computing total income of the individual;
- ◆ **examine** the circumstances when income of son's wife is included in the hands of the individual and apply the same in computing total income of the individual;
- ◆ **identify** the nature of income of minor in respect of which clubbing provisions are not attracted;
- ◆ **examine** how minor's income is included in the hands of the parent and compute the amount to be included in the hands of the parent;
- ◆ **examine** the circumstances when income of HUF is included in the hands of a member of the HUF.

CHAPTER OVERVIEW



* In case of transfer of house property to spouse without adequate consideration, transferor will be deemed as owner of such property as per section 25(a). In such a case, section 99(1)(a)(ii) will not apply.



1. STRUCTURED SECTIONAL LEARNING

Section	Particulars
2(25)	Meaning of child
2(94)	Meaning of relative
96	Transfer of income without transfer of assets
97	Chargeability of income in transfer of assets
98	"Transfer" and "revocable transfer" defined
99	Income of individual to include income of spouse, minor child, etc.
100	Liability of person in respect of income included in income of another person



2. INTRODUCTION

Under Income-tax, an assessee is generally taxed in respect of his own income. However, there are certain cases where an assessee has to pay tax in respect of income of another person. The provisions for the same are contained in Chapter V of Income-tax Act, 2025, in sections 96 to 100 of the Act. These provisions, also known as clubbing provisions, were introduced with the purpose of discouraging transfer of assets with an intention to escape taxation by the assessee.



Why have clubbing provisions been introduced?

In the case of individuals, income-tax is levied on a slab system on the total income. The tax system is progressive i.e., as the income increases, the applicable rate of tax increases. Some taxpayers in the higher income bracket tend to divert some portion of their income to their spouse, minor child etc. to minimize their tax burden. To prevent such tax avoidance, clubbing provisions have been incorporated in the Act, under which income arising to certain persons (like spouse, minor child etc.) have to be included in the income of the person who has diverted his income for the purpose of computing tax liability.

These provisions provide that if a person transfers an asset or income with the intention of avoiding or reducing tax liability, the income arising from such asset

shall be taxed in the hands of the transferor, provided the conditions specified in the relevant sections are fulfilled. In other words, the income earned by the transferee will be clubbed with the income of the transferor.

These provisions can be categorized as follows:

- ◆ Income of other persons included in total income of assessee [Sections 96-98]
- ◆ Income of other persons included in total income of individual [Section 99]



3. INCOME OF OTHER PERSONS INCLUDIBLE IN TOTAL INCOME OF ASSESSEE

3.1 Transfer of income without transfer of asset [Section 96]

- (i) If any person transfers the income from any asset without transferring the asset itself, such income is to be included in the total income of the transferor.
- (ii) It is immaterial whether the transfer is revocable or irrevocable and whether it was made before the commencement of this Act or after its commencement.



Mr. A confers the right to receive rent in respect of his house property on his wife, Mrs. A, without transferring the house itself to her. In this case, the rent received by Mrs. A will be clubbed with the income of Mr. A.

ILLUSTRATION 1

Mr. Vatsan has transferred, through a duly registered document, the income arising from a godown to his son, without transferring the godown. In whose hands will the rental income from godown be charged?

SOLUTION

Section 96 expressly states that where there is transfer of income from an asset without transfer of the asset itself, such income shall be included in the total income of the transferor. Hence, the rental income derived from the godown shall be clubbed in the hands of Mr. Vatsan.

3.2 Chargeability of income in transfer of assets [Section 97]

All income arising to any person by virtue of a **revocable transfer of assets** is to be included in the total income of the transferor [Section 97(1)].

Meaning of certain terms [Section 98]

Term	Meaning
Transfer	Transfer includes any settlement, trust, covenant, agreement or arrangement
Revocable transfer	Transfer is deemed to be revocable if - (i) it contains any provision for the direct or indirect re-transfer of the whole or any part of the income or assets to the transferor, or (ii) it, in any way, gives the transferor a right to re-assume power directly or indirectly over the whole or any part of the income or the assets.

This clubbing provision will operate even if only part of income of the transferred asset had been applied for the benefit of the transferor. Once the transfer is revocable, the entire income from the transferred asset is includible in the total income of the transferor.

**Exception where clubbing provisions are not attracted even in
case of revocable transfer [Section 97(2)]**

Section 97(1) will not apply -

- (i) where a transfer is by way of trust which is not revocable during the life time of the beneficiary; and in case of any other transfer, which is not revocable during the life time of the transferee and
- (ii) the transferor does not derive any direct or indirect benefit from such income.

If the transferor receives direct or indirect benefit from such income, such income is to be included in his total income even though the transfer may not be revocable during the life time of the beneficiary or transferee, as the case may be.

As and when the power to revoke the transfer arises, the income arising by virtue of such transfer will be included in the total income of the transferor.

EXAMPLE

Mr. Rajesh transfers his house property to a trust for the benefit of Mr. Ramesh till his death. This is a situation of irrevocable transfer till the death of Mr. Ramesh. Hence, till then, the income from house property would be taxable in the hands of the transferee i.e., trust. However, after the death of Mr. Ramesh, the income from house property would be included in the total income of Mr. Rajesh as on that date, the transfer has become revocable.

Income of other persons includible in total income of assessee

Section 96 -

Transfer of income without transfer of assets

Income shall be clubbed in the hands of the transferor

Section 97 - Revocable transfer of assets to any person

Income shall be clubbed in the hands of the transferor

Exceptions

Transfer by way of trust which is **not revocable during lifetime of the beneficiary** and transferor does not derive any direct/ indirect benefit from such income

In any other case, transfer is not revocable during the lifetime of transferee and transferor does not derive any direct/indirect benefit from such income

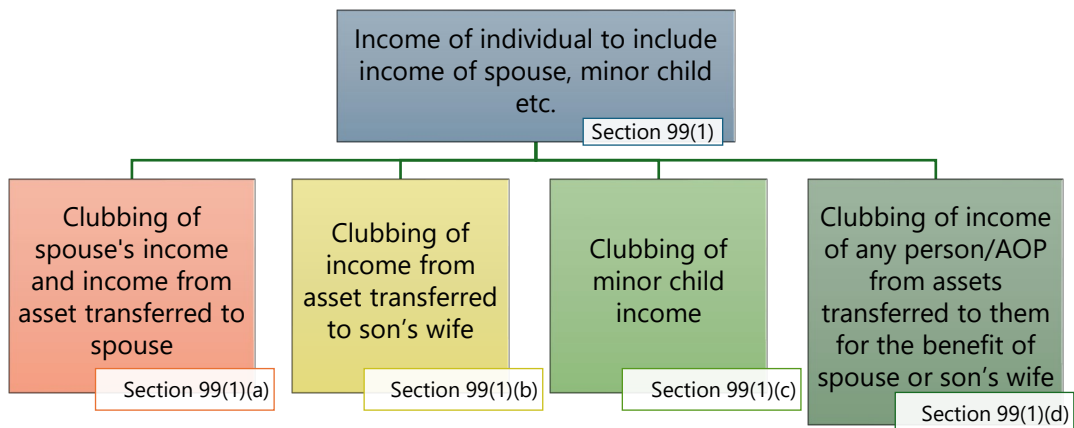
In above two situations, income shall be clubbed in the hands of the transferor if

- transferor derive any direct/indirect benefit from such income or
- as and when the power to revoke the transfer arises



1.	Mr. A transfers rental income from his house property to his wife without transferring the ownership of the house property. In such a case, the rental income will be taxable in the hands of:
(a)	Mrs. A
(b)	Mr. A
(c)	Both Mr. A and Mrs. A equally
(d)	Neither Mr. A nor Mrs. A
2.	Mr. X transfers an asset under a revocable arrangement to Mr. Y. The income arising from such asset shall be taxable in the hands of:
(a)	Mr. Y
(b)	Mr. X
(c)	Both Mr. X and Mr. Y
(d)	The trustee, if any

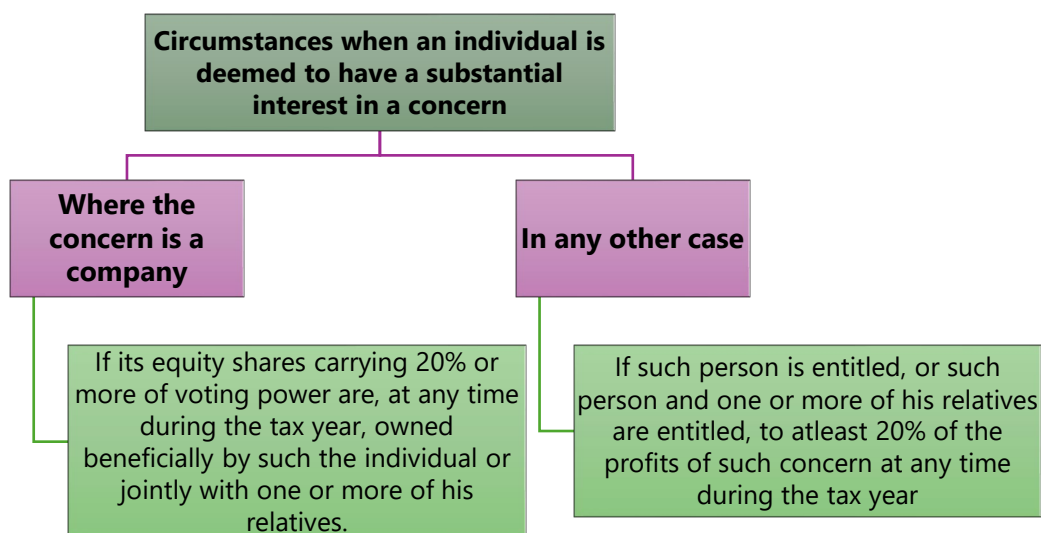
4. INCOME OF OTHER PERSONS INCLUDIBLE IN TOTAL INCOME OF INDIVIDUAL



4.1 Clubbing of spouse's income and income from asset transferred to spouse [Section 99(1)(a)]

Income by way of remuneration from a concern in which individual has a substantial interest [Section 99(1)(a)(i)]

- (i) **Remuneration in cash or kind to spouse from a concern in which the individual has a substantial interest is to be clubbed:** The total income of any individual, for a tax year, shall include all such income which arises, directly or indirectly, to the spouse of such individual by way of salary, commission, fees or any other form of remuneration, whether in cash or in kind, from a concern in which such individual has a substantial interest.



The term '**relative**' in relation to an individual means the husband, wife, brother or sister or any lineal ascendant (maternal as well as paternal) or descendant of that individual [Section 2(94)].

- (ii) **Clubbing provisions will not apply where the remuneration is solely attributable to the application of technical or professional knowledge, experience and technical or professional qualification of the spouse:** Clubbing provisions, however, do not apply where the income is solely attributable to the application of technical or professional knowledge, experience and technical or professional qualification of the spouse. In such an event, the income arising to such spouse is to be assessed in his/her hands.

- (iii) Both husband and wife have substantial interest in a concern:** Where both husband and wife have substantial interest in a concern and both are in receipt of income by way of salary etc. from the said concern, such income will be includible in the hands of either of the spouse whose total income before such inclusion is higher.

Where such income, once included in the total income of either spouse, for a tax year, shall not be included in the income of the other spouse for any succeeding tax year, unless the Assessing Officer is so satisfied, after giving the other spouse an opportunity of being heard.

ILLUSTRATION 2

Mr. X and Mrs. X hold 13% and 8% equity shares in XY (P) Ltd. respectively. They are employed by XY (P) Ltd., without any technical or professional qualification, at a monthly salary of Mr. X: ₹ 90,000 and Mrs. X: ₹ 45,000.

Other income of Mr. X: ₹ 2,00,000 and Mrs. X: ₹ 2,20,000. Compute the total income of Mr. X and Mrs. X for the tax year 2026-27, assuming they pay tax under the default regime under section 202(1).

SOLUTION

Mr. X and Mrs. X, together, hold 21% of the equity shares in XY (P) Ltd., i.e., the employer company. Therefore, both Mr. X and Mrs. X have substantial interest in the company. Since Mr. X and Mrs. X are employed in XY (P) Ltd. without possessing any technical or professional qualification, clubbing provisions will be attracted. Accordingly, salary income of Mr. X from XY (P) Ltd. shall be clubbed with the income of Mrs. X, as her income before such inclusion is higher.

Computation of total income of M. X and Mrs. X for the tax year 2026-27

Particulars	Mr. X (₹)	Mrs. X (₹)
Salary Income of Mrs. X [₹ 45,000 x 12] less standard deduction		4,65,000
Salary Income of Mr. X [₹ 90,000 x 12] less standard deduction		10,05,000
Other Income	2,00,000	2,20,000
Gross total income	2,00,000	16,90,000

ILLUSTRATION 3

Mr. A holds shares carrying 25% voting power in X (P) Ltd. Mrs. A is working as a computer software programmer in X (P) Ltd. at an annual salary of ₹ 2,85,000 (computed). She is, however, not qualified for the job. The other income of Mr. A & Mrs. A are ₹ 7,00,000 & ₹ 4,00,000, respectively. Compute the gross total income of Mr. A and Mrs. A for the tax year 2026-27.

SOLUTION

Mr. A holds shares carrying 25% voting power in X (P) Ltd i.e., a substantial interest in the company. His wife is working in the same company without any professional qualifications for the same. Thus, by virtue of the clubbing provisions of the Act, the salary received by Mrs. A from X (P) Ltd. will be clubbed in the hands of Mr. A.

Computation of Gross total income of Mr. A

Particulars	₹
Salary received by Mrs. A (computed)	2,85,000
Other Income	7,00,000
Gross total income	9,85,000

The gross total income of Mrs. A is ₹ 4,00,000.

ILLUSTRATION 4

Will your answer be different if Mrs. A was qualified for the job?

SOLUTION

If Mrs. A possesses professional qualifications for the job, then the clubbing provisions shall not be applicable.

Gross total income of Mr. A = ₹ 7,00,000 [Other income].

Gross total income of Mrs. A = Salary received by Mrs. A i.e., ₹ 2,85,000 (computed) plus other income of ₹ 4,00,000 = ₹ 6,85,000

ILLUSTRATION 5

Mr. B holds shares carrying 30% voting power in Y (P) Ltd. Mrs. B is working as accountant in Y (P) Ltd. getting income under the head salary (computed) of ₹ 3,44,000 without any qualification in accountancy. Mr. B also receives ₹ 30,000 as interest on securities. Mrs. B owns a house property which she has let out. Rent

received from tenants is ₹6,000 p.m. Compute the gross total income of Mr. B and Mrs. B for the tax year 2026-27.

SOLUTION

Since Mrs. B is not professionally qualified for the job, the clubbing provisions shall be applicable.

Computation of Gross total income of Mr. B

Particulars	₹
Income under the head "Salary" of Mrs. B (Computed)	3,44,000
Income from other sources	
- Interest on securities	30,000
Gross total income	3,74,000

Computation of Gross total income of Mrs. B

Particulars	₹	₹
Income from Salary [Clubbed in the hands of Mr. B]		Nil
Income from house property		
Gross Annual Value [₹ 6,000 × 12]	72,000	
Less: Municipal taxes paid	-	
Net Annual Value (NAV)	72,000	
Less: Deductions under section 22		
- 30% of NAV i.e., 30% of ₹ 72,000	21,600	
- Interest on loan	-	50,400
Gross total income		50,400

Income arising to the spouse from an asset transferred otherwise than for adequate consideration [Section 99(1)(a)(ii)]

- (i) **Transfer of asset (other than house property):** Where there is a transfer of an asset (other than house property), directly or indirectly, from one spouse to the other, otherwise than for adequate consideration or in connection with an agreement to live apart, any income arising to the transferee-spouse from the transferred asset, either directly or indirectly, shall be included in the total income of the transferor-spouse.

- (ii) **Transfer of house property:** In the case of transfer of house property, the provisions are contained in section 25. If an individual transfers house property (except under an agreement to live apart) to his spouse, without adequate consideration, the person who transfers the property is considered as the owner of the transferred property and its annual value will be taxed in his hands.
- (iii) **Income from accretion of the transferred asset:** 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 i.e., the income arising on transferred assets alone has to be clubbed. However, income earned by investing such income (arising from transferred asset) cannot be clubbed.
- (iv) **Meaning of adequate consideration:** It is also to be noted that natural love and affection do not constitute adequate consideration. Therefore, where an asset is transferred without adequate consideration, the income from such asset will be clubbed in the hands of the transferor.
- (v) **Transferred asset invested in business or firm [Section 99(2)]:** If the asset transferred, directly or indirectly, by an individual to his spouse is invested by the spouse in any business or in the nature of capital contributed as a partner in a firm or for being admitted to the benefits of partnership in a firm, then proportionate income is to be included in the hands of the individual for the tax year.

The income to be included in the hands of individual, i.e., the transferor for the tax year shall be as follows:

$$A = B \times \frac{C}{D}$$

Where-

- A = Income to be included in the hands of individual i.e., the transferor for the tax year;
- B = Income (such as business profits) and interest (interest on capital contribution by partner) or both arising to the spouse i.e., the transferee from the business or firm during the tax year.
- C = Value of such assets invested or contributed as capital by the spouse i.e., the transferee (i.e. transferred assets which were invested in business/firm) as on first day of tax year

D = Total investment or total capital contribution by the transferee spouse as on first day of tax year.

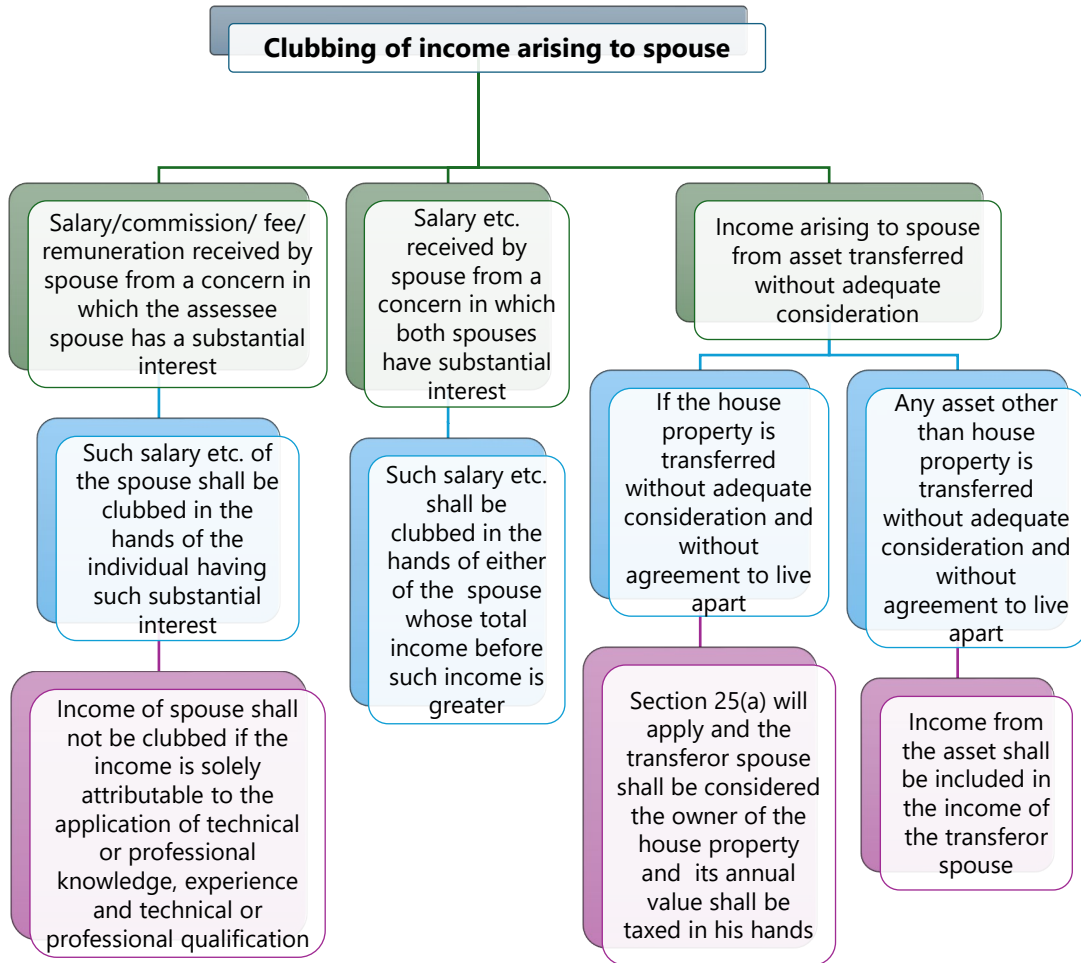


ILLUSTRATION 6

Mr. Vaibhav started a proprietary business on 01.04.2025 with a capital of ₹ 5,00,000. He incurred a loss of ₹ 2,00,000 during the year 2025-26. To overcome the financial position, his wife Mrs. Vaishaly, a software Engineer, gave a gift of ₹ 5,00,000 on 01.04.2026, which was immediately invested in the business by Mr. Vaibhav. He earned a profit of ₹ 4,00,000 during the year 2026-27. Compute the amount to be clubbed in the hands of Mrs. Vaishaly for the tax year 2026-27. If Mrs. Vaishaly gave the said amount as loan, what would be the amount to be clubbed?

SOLUTION

Section 99(1)(ii) provides for the clubbing of income in the hands of the individual, if the income earned is from the assets (other than house property) transferred directly or indirectly to the spouse of the individual, otherwise than for adequate consideration or in connection with an agreement to live apart.

Section 99(2) provides the manner of computation of income to be included in the hands of transferor spouse if the asset transferred by the individual is invested by the spouse in any business or in the nature of capital contributed as a partner in a firm or for being admitted to the benefits of partnership in a firm.

In this case, Mr. Vaibhav received a gift of ₹ 5,00,000 on 1.4.2026 from his wife Mrs. Vaishaly, which he invested in his business immediately. The income to be clubbed in the hands of Mrs. Vaishaly for the tax year 2026-27 is computed as under:

$$A = B \times \frac{C}{D}$$

A = Income to be included in the hands of Mrs. Vaishaly for the tax year 2026-27;

B = Profits from business arising to Mr. Vaibhav from the business for the tax year 2026-27 i.e., ₹ 4 lakhs

C = Value of such asset invested by Mr. Vaibhav as on first day of tax year i.e., on 1.4.2026 i.e., ₹ 5 lakhs

D = Total investment by Mr. Vaibhav as on first day of tax year i.e., on 1.4.2026 i.e., ₹ 10 lakhs (₹ 5 lakhs - ₹ 2 lakhs + ₹ 5 lakhs)

Income to be clubbed in the hands of Mrs. Vaishaly would be as follows:

$$4,00,000 \times \frac{5,00,000}{8,00,000} = ₹ 2,50,000$$

In case, Mrs. Vaishaly gave the said amount of ₹ 4,00,000 as a *bona fide* loan, then, clubbing provisions would not be attracted.

Note: The provisions of section 92(2)(m) would **not** be attracted in the hands of Mr. Vaibhav, since he has received a sum of money exceeding ₹ 50,000 without consideration from a relative i.e., his wife.



3.	<i>Rohan transferred 2,000 shares of XYZ Ltd. to Ms. Neha without any consideration. Subsequently, Rohan and Ms. Neha got married to each other. The dividend income from the shares transferred would be:</i>
(a)	<i>Taxable in the hands of Rohan both before and after marriage</i>
(b)	<i>Taxable in the hands of Rohan before marriage but not after marriage</i>
(c)	<i>Taxable in the hands of Rohan after marriage but not before marriage</i>
(d)	<i>Not taxable in the hands of Rohan either before or after marriage</i>
4.	<i>Mr. Raj transferred shares of ABC Pvt. Ltd. to Mrs. Raj without consideration out of natural love and affection. Mrs. Raj subsequently transferred the shares to her friend and earned short term capital gain of ₹ 3,75,000. The capital gain so arise shall be taxable in the hands of:</i>
(a)	<i>Mrs. Raj</i>
(b)	<i>Mr. Raj</i>
(c)	<i>Mr. Raj or Mrs. Raj, whosoever has the higher total income before clubbing</i>
(d)	<i>Mr. Raj and Mrs. Raj proportionately</i>

4.2 Clubbing of income from asset transferred to son's wife [Section 99(1)(b)]

Income arising to son's wife from the assets transferred otherwise than for adequate consideration by the father-in-law or mother-in-law

- (i) **Asset transferred otherwise than for adequate consideration:** Where an asset is transferred, directly or indirectly, by an individual to his or her son's wife otherwise than for adequate consideration, the income from such asset is to be included in the total income of the transferor.

Natural love and affection do not constitute adequate consideration.

- (ii) **Transferred asset invested in business or firm [Section 99(2)]:** If the asset transferred, directly or indirectly, by an individual to his or her son's wife is

invested by the son's wife in any business or in the nature of capital contributed as a partner in a firm or for being admitted to the benefits of partnership in a firm, then proportionate income is to be included in the hands of the individual for the tax year.

The income to be included in the hands of individual, i.e., the transferor for the tax year shall be as follows:

$$A = B \times \frac{C}{D}$$

Where-

- A = Income to be included in the hands of individual i.e., the transferor for the tax year;
- B = Income (such as business profits) and interest (interest on capital contribution by partner) or both arising to the son's wife from the business or firm during the tax year.
- C = Value of such assets invested or contributed as capital by the son's wife i.e., the transferee (i.e. transferred assets which were invested in business/firm) as on first day of tax year
- D = Total investment or total capital contribution by the transferee son's wife as on first day of tax year.

ILLUSTRATION 7

On 25th December, 2026, Mr. A gifts ₹ 25,00,000 to his daughter in law, Megha. Megha started a business on 1st January, 2027. She invested the amount received from her father-in-law, Mr. A and ₹ 5,00,000 of her own funds in the business. The business earned a profit of ₹ 6,00,000 during the year ended 31.03.2027.

Find the amount taxable in the hands of Mr. A for the tax year 2026-27.

SOLUTION

Section 99(1)(b) 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 son's wife, otherwise than for adequate consideration.

Section 99(2) provides the manner of computation of income to be included in the hands of transferor if the asset transferred by the individual is invested by the son's wife in any business or in the nature of capital contributed as a partner in a firm or for being admitted to the benefits of partnership in a firm.

In this case, Megha received a gift of ₹ 25,00,000 on 25.12.2026 from her father-in-law, Mr. A, with which she started a business on 1.1.2027. The income to be clubbed in the hands of Mr. A for the tax year 2026-27 is computed as under:

$$A = B \times \frac{C}{D}$$

A = Income to be included in the hands of Mr. A for the tax year 2026-27;

B = Profits from business arising to Megha from the business for the tax year 2026-27 i.e., ₹ 6 lakhs

C = Value of such asset invested by Megha as on first day of tax year i.e., on 1.1.2027 i.e., ₹ 25 lakhs

D = Total investment by Megha as on first day of tax year i.e., on 1.1.2027 i.e., ₹ 30 lakhs

Income to be clubbed in the hands of Mr. A would be as follows:

$$6,00,000 \times \frac{25,00,000}{30,00,000} = ₹ 5,00,000$$

Note: The provisions of section 92(2)(m) would **not** be attracted in the hands of Megha, since she has received a sum of money exceeding ₹ 50,000 without consideration from a relative i.e., her father in law.

4.3 Clubbing of minor's child income [Section 99(1)(c)]

- (i) All income of a minor child is to be included in the income of his parent.
- (ii) However, the following income will not be included in the income of his parent:
 - income accruing or arising on account of work done by such minor child or
 - income accruing or arising from activities where his skill, talent or specialized knowledge or experience is applied or
 - where such minor child is suffering from disability of the nature specified in section 154.
- (iii) Where the marriage of his parents subsists, the income of the minor child will be included in the income of that parent whose total income before such inclusion is greater.

- (iv) Where the marriage of his parents does not subsist, the income of the minor will be included in the income of the parent who maintains such minor child during the tax year.
- (v) Such income, once included in the total income of either of the parent, for a tax year, shall not be included in the income of the other parent for any succeeding tax year, unless the Assessing Officer is so satisfied, after giving the other parent an opportunity of being heard.
- (vi) It may be noted that the clubbing provisions are attracted even in respect of income of minor married daughter.

Exemption in respect of clubbed income of minor child [Schedule III (Table: S. No. 17)]

In case the income of an individual (i.e., the parent) includes the income of his/her minor child in terms of section 99(1)(c), exclusion of such income from the total income to the extent such income does not exceed ₹ 1,500 in respect of each minor child whose income is so includible. However, if income of any minor so includible is less than ₹ 1,500, then the entire income shall be exempt.

Exemption under Schedule III (Table: S. No. 17) would be available to the parent only if he/she exercises the option of shifting out of the default tax regime. The same would not be available to him/her under the default tax regime where he/she computes his/her total income as per section 202(1) and pays tax at the concessional rates provided thereunder.

- (vii) In case the asset transferred to a minor child (not being a minor married daughter) otherwise than for consideration or for inadequate consideration is a house property, then, by virtue of section 25(a), the transferor-parent will be considered as the owner of the house property. Therefore, the income from house property will be taxable in the hands of the transferor-parent, being the owner and not in the hands of the minor child. Consequently, clubbing provisions under section 99(1)(c) would not be attracted in respect of such income, due to which the benefit of exemption under Schedule III (Table: S. No. 17) cannot be availed against such income.

However, if the house property is transferred by a parent to his or her minor married daughter, otherwise than for consideration or for inadequate consideration, then, section 25(a) is **not** attracted. In such a case, the income from house property will be included u/s 99(1)(c) in the hands of the parent whose total income before including minor child's income is greater; and

benefit of exemption under Schedule III (Table: S. No. 17) can be availed by that parent in respect of the income so included if he/she exercises the option of shifting out of the default tax regime.

Child in relation to an individual includes a step-child and an adopted child of that individual [Section 2(25)].

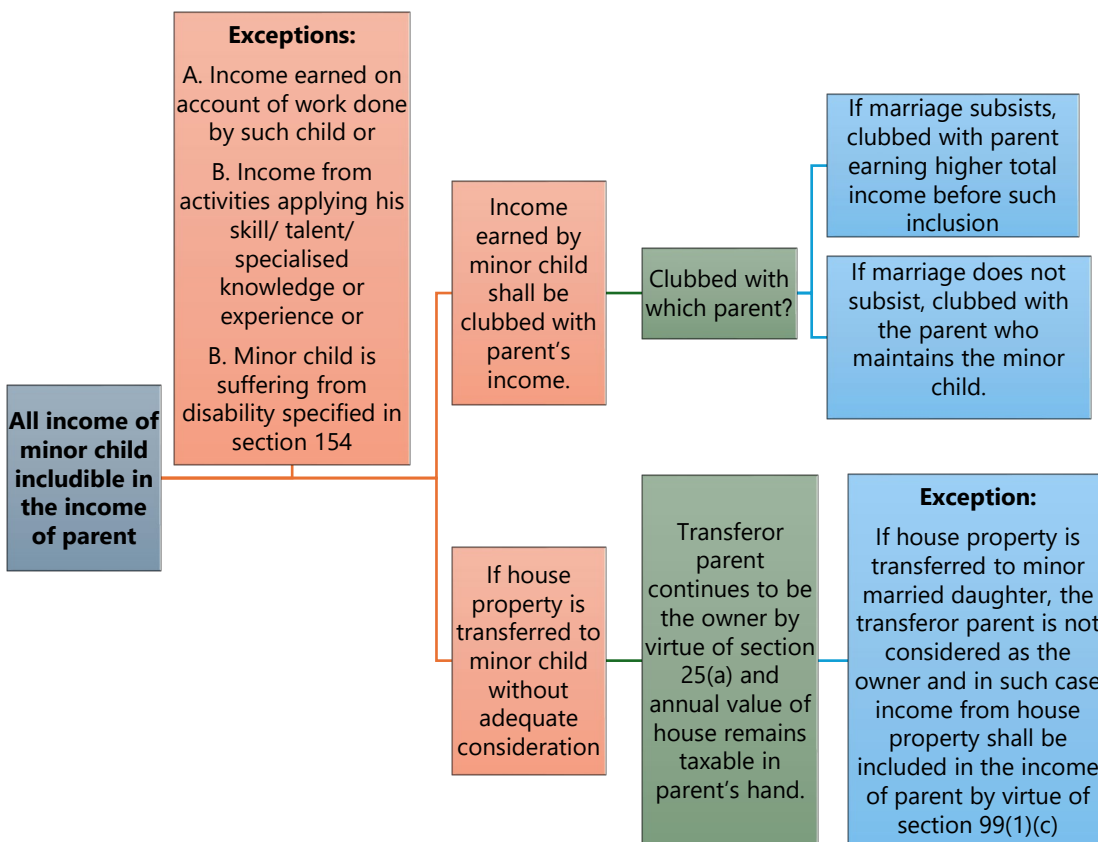


ILLUSTRATION 8

Mr. A has three minor children – two twin daughters, aged 12 years, and one son, aged 16 years. Income of the twin daughters is ₹2,000 p.a. each and that of the son is ₹1,200 p.a. Mrs. A has transferred her flat to her minor son on 1.4.2026 out of natural love and affection. The flat was let out on the same date and the rental income from the flat is ₹10,000 p.m. Compute the income, in respect of minor children, to be included in the hands of Mr. A and Mrs. A u/s 99(1)(c) (assuming that Mr. A's total income is higher than Mrs. A's total income, before including the income of minor children and both Mr. A and Mrs. A exercise the option of shifting out of the default tax regime.

SOLUTION

Taxable income, in respect of minor children, in the hands of Mr. A is:

Particulars	₹	₹
Twin minor daughters [₹ 2,000 × 2]	4,000	1,000
Less: Exempt under Schedule III (Table: S. No. 17) [₹ 1,500 × 2]	3,000	
Minor son	1,200	Nil
Less: Exempt under Schedule III (Table: S. No. 17) would be lower of ₹ 1200, being the income of minor son or ceiling limit of ₹ 1500	1,200	
Income to be clubbed in the hands of Mr. A		1,000

Note – As per section 25(a), Mrs. A is considered as the owner of house property transferred to her minor son. Natural love and affection do not constitute adequate consideration for this purpose. Accordingly, the income from house property of ₹ 84,000 [i.e., ₹ 1,20,000 (–) ₹ 36,000, being 30% of ₹ 1,20,000) would be taxable directly in her hands as the owner of the said property. Consequently, clubbing provisions under section 99(1)(c) would not be attracted in respect of income from house property, owing to which exemption under Schedule III (Table: S. No. 17) cannot be availed by her.

ILLUSTRATION 9

Compute the gross total income of Mr. A & Mrs. A from the following information assuming both exercise the option of shifting out of the default tax regime:

	Particulars	₹
(a)	Salary income (computed) of Mrs. A	2,30,000
(b)	Income from profession of Mr. A	3,90,000
(c)	Income of minor son B from company deposit	15,000
(d)	Income of minor daughter C from special talent	32,000
(e)	Interest from bank received by C on deposit made out of her special talent	3,000
(f)	Gift received by C on 30.09.2026 from friend of Mrs. A	2,500

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

SOLUTION

As per the provisions of section 99(1)(c), all the income of a minor child has to be clubbed in the hands of that parent whose total income before including the income of the minor is greater. The income of Mr. A is ₹ 3,90,000 and income of Mrs. A is ₹ 2,30,000. Since the income of Mr. A is greater than that of Mrs. A, the income of the minor children have to be clubbed in the hands of Mr. A. It is assumed that this is the first year when clubbing provisions are attracted.

Income derived by a minor child from any activity involving application of his/her skill, talent, specialised knowledge and experience is not to be clubbed. Hence, the income of minor child C from exercise of special talent will not be clubbed.

However, interest from bank deposit has to be clubbed even when deposit is made out of income arising from application of special talent.

The Gross Total Income of Mrs. A is ₹ 2,30,000. The total income of Mr. A is as follows:

Computation of gross total income of Mr. A for the tax year 2026-27

Particulars	₹	₹
Income from profession		3,90,000
Income of minor son B from company deposit	15,000	
Less: Exempt under Schedule III (Table: S. No. 17)	1,500	13,500
Income of minor daughter C		
From special talent – not to be clubbed	-	
Interest from bank	3,000	
Gift of ₹ 2,500 received from a non-relative is not taxable under section 92(2)(m) being less than the aggregate limit of ₹ 50,000	Nil	
	3,000	
Less: Exempt under Schedule III (Table: S. No. 17)	1,500	1,500
Gross Total Income		4,05,000



5.	Mr. A gifted ₹ 18,00,000 to his daughter-in-law, Riya on 1.7.2026. Riya started a new business and invested ₹ 18,00,000 received from Mr. A and ₹ 6,00,000 of her own funds. The business profit for the tax year 2026-27 was ₹ 4,80,000. The amount taxable in the hands of Mr. A shall be:
(a)	₹ 4,80,000
(b)	₹ 3,60,000
(c)	₹ 1,20,000
(d)	Nil
6.	Ms. Priya, minor daughter earned ₹ 40,000 from classical dance performances and ₹ 5,000 as bank interest on deposits made out of such income during the T.Y. 2026-27. Which of the following is correct?
(a)	Entire ₹ 45,000 is taxable in Priya's hands
(b)	Entire ₹ 45,000 is clubbed in the hands of parent
(c)	₹ 40,000 is taxable in Priya's hands and ₹ 5,000 is clubbed in the hands of parent
(d)	Entire income is exempt
7.	Mrs. A transferred a house property to her minor son without adequate consideration. Rental income from such property shall be taxable in the hands of:
(a)	Minor son
(b)	Mrs. A
(c)	Mr. A
(d)	Mr. A or Mrs. A whose income is higher

4.4 Clubbing of income of any person/AOP from assets transferred to them for the benefit of spouse or son's wife [Section 99(1)(d)]

All income arising directly or indirectly to any person or association of persons, from the assets transferred, directly or indirectly, otherwise than for adequate consideration to such person or association of persons by the individual is includible in the total income of the individual to the extent to which the income from such assets is for the immediate or deferred benefit of

- ◆ the transferor's spouse or
- ◆ the transferor's son's wife

Note: Where any asset is transferred by a person to any other person without consideration or for inadequate consideration, the provisions of 92(2)(m) would get attracted in the hands of transferee, if conditions specified thereunder are satisfied.

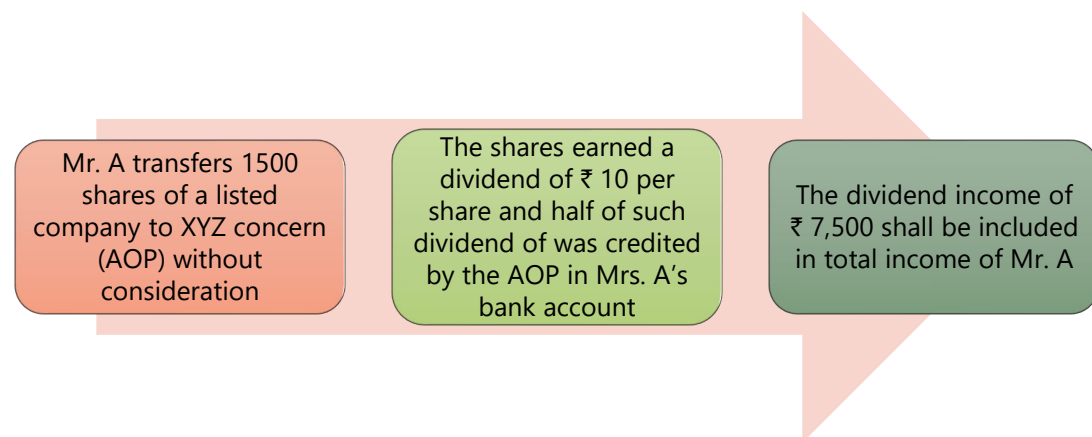


ILLUSTRATION 10

Mrs. Kasturi transferred her immovable property to ABC Co. Ltd. subject to the condition that out of the rental income, a sum of ₹ 36,000 per annum shall be utilized for the benefit of her son's wife.

Mrs. Kasturi claims that the amount of ₹ 36,000 (utilized by her son's wife) should not be included in her total income as she no longer owned the property.

Examine with reasons whether the contention of Mrs. Kasturi is valid in law.

SOLUTION

The clubbing provisions under section 99(1)(d) are attracted in case of transfer of any asset, directly or indirectly, otherwise than for adequate consideration, to any person to the extent to which the income from such asset is for the immediate or deferred benefit of son's wife. Such income shall be included in computing the total income of the transferor individual.

Therefore, income of ₹ 36,000 meant for the benefit of daughter-in-law is chargeable to tax in the hands of transferor i.e., Mrs. Kasturi in this case.

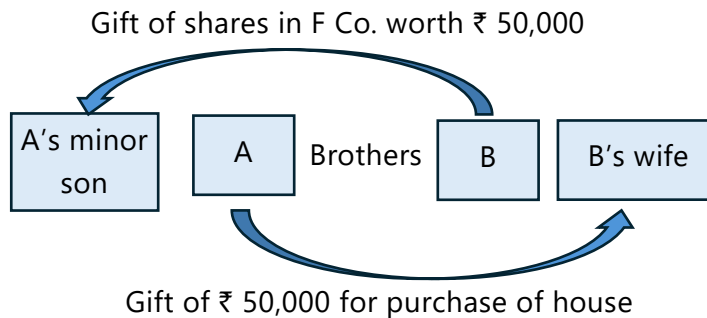
The contention of Mrs. Kasturi is, hence, not valid in law.

In order to attract the clubbing provisions under section 99(1)(d), the transfer should be otherwise than for adequate consideration. In this case, it is presumed that the transfer is otherwise than for adequate consideration and therefore, the clubbing provisions are attracted. Moreover, the provisions of section 92(2)(m) would also get attracted in the hands of ABC Co Ltd., if the conditions specified thereunder are satisfied.

Note – *If the transfer was for adequate consideration, the provisions of section 99(1)(d) would not be attracted.*

 5. CROSS TRANSFERS

In the case of cross transfers also (e.g., A making gift of ₹ 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 ₹ 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 that they 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.



The Supreme Court, in case of *CIT v. Keshavji Morarji* [1967] 66 ITR 142, observed that if two transactions are inter-connected and are parts 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. Accordingly, the income arising to Mrs. B from the house property should be included in the total income of B and the dividend from shares transferred to A's minor son would be taxable in the hands of A, assuming that Mr. A's income is greater than that of Mrs. A income. This is because A and B are the indirect transferors to their minor child and spouse, respectively, of income-yielding assets, so as to reduce their burden of taxation.

ILLUSTRATION 11

Mr. Vasudevan gifted a sum of ₹ 6 lakhs to his brother's wife on 14-06-2026. On 12-07-2026, his brother gifted a sum of ₹ 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 01-08-2026 at 9% interest. Examine the consequences of the above under the provisions of the Income-tax Act, 2025 in the hands of Mr. Vasudevan and his brother.

SOLUTION

In the given case, Mr. Vasudevan gifted a sum of ₹ 6 lakhs to his brother's wife on 14.06.2026 and simultaneously, his brother gifted a sum of ₹ 5 lakhs to Mr. Vasudevan's wife on 12.07.2026. The gifted amounts were invested as fixed deposits in banks by Mrs. Vasudevan and his brother's wife. 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. It was so held by the Apex Court in *CIT vs. Keshavji Morarji (1967) 66 ITR 142*.

Accordingly, the interest income arising to Mrs. Vasudevan in the form of interest on fixed deposits would be included in the total income of Mr. Vasudevan and interest income arising in the hands of his brother's wife would be taxable in the hands of Mr. Vasudevan's brother as per section 99(1), to the extent of amount of cross transfers i.e., ₹ 5 lakhs.

This is because both Mr. Vasudevan and his brother are the indirect transferors of the income to their respective spouses with an intention to reduce their burden of taxation.

However, the interest income earned by his spouse on fixed deposit of ₹ 5 lakhs alone would be included in the hands of Mr. Vasudevan's brother and not the interest income on the entire fixed deposit of ₹ 6 lakhs, since the cross transfer is only to the extent of ₹ 5 lakhs.

6. **CONVERSION OF SELF-ACQUIRED PROPERTY INTO THE PROPERTY OF A HINDU UNDIVIDED FAMILY [SECTION 99(3)]**

Section 99(3) deals with the case of conversion of self-acquired property into property of a Hindu undivided family.

- (1) Where a property owned by an individual is converted into property of the HUF of which he is a member, through
 - the act of impressing such individual property with the character of property belonging to the family or
 - throwing such property into the common stock of the family or
 - transfers such individual property, directly or indirectly, to the family
 without adequate consideration, then the income from such property shall continue to be included in the total income of the individual.
- (2) Where the converted property has been the subject-matter of partition (whether partial or total) amongst the member of the HUF, the income

derived from such converted property as is received by the spouse of the individual on partition will be deemed to arise to the spouse from assets transferred indirectly by the individual to the spouse and provisions of section 99(1)(a) shall apply.

- (3) Where income from the converted property is included in the total income of an individual under section 99(3), it will be excluded from the total income of the family or the spouse of the individual.

ILLUSTRATION 12

Mr. Amit transferred his self-acquired property to his HUF consisting of himself, his wife, Mrs. A, minor son X and major son Y. Annual income from the property is ₹ 1,00,000. Discuss the tax implications for the tax year 2026-27 assuming he shifts out of the default regime.

Also examine the tax implication on members of HUF on partition of the transferred property. Assume Mrs. A is a house wife.

SOLUTION

Under section 99(3), the conversion of self-acquired property into HUF property attracts clubbing provisions, hence the annual income of ₹ 1,00,000 from the transferred property shall be assessable in the hands of Mr. A.

If the HUF partitions the said property, the income from the partitioned property shall be taxable as follows:

Particulars	A (₹)	Mrs. A (₹)	Minor Son X (₹)	Major Son Y (₹)
Share in income of converted property (1/4)	25,000	25,000	25,000	25,000
Share of Mrs. A clubbed with Mr. A	25,000	(25,000)		
Share of minor son [Clubbed in the hands of Mr. A since his income is greater than Mrs. A]	25,000		(25,000)	
Less: Exempt under Schedule III (Table: S. No. 17)	(1,500)			
Taxable Income	73,500	Nil	Nil	25,000

7. INCOME INCLUDES LOSS

As per Section 99(5)(d), 'income' would include 'loss'. Accordingly, where the specified income to be included in the total income of the individual is a loss, such loss will be taken into account while computing the total income of the individual.

8. DISTINCTION BETWEEN SECTION 96, 97 AND SECTION 99

It may be noted that the main distinction between the two sections is that section 97 applies only to a revocable transfer made by any person while section 99 applies to revocable as well as irrevocable transfers made only by individuals.

Clubbing provisions are attracted in respect of income arising from the assets transferred, however, income arising on accretion of income arising from transferred asset, would not be clubbed except in case of minor child.



Mr. X transferred debentures of ₹ 50,000 carrying 10% p.a. interest to his wife. The interest income of ₹ 5,000 would be clubbed in the hands of Mr. X. However, in case his wife deposited ₹ 5,000 in fixed deposits @8% p.a., the interest income of ₹ 400 arising on FDR would not be clubbed in the hands of Mr. X.

Quiz Time

8.	Mr. A gifted ₹ 5 lakhs to the wife of his brother, while his brother simultaneously gifted ₹ 5 lakhs to Mr. A's wife. Both amounts were invested in bank deposits. Such arrangement is known as:
(a)	Revocable transfer
(b)	Deemed partition
(c)	Cross transfer
(d)	Indirect transfer through trust

9.	<i>Mr. R converted his self-acquired property into HUF property. On partition, his minor daughter received a share producing income of ₹ 20,000. Mr. R's income is higher than Mrs. R's income. Such income of minor daughter shall be:</i>
(a)	<i>Taxable in daughter's hands only</i>
(b)	<i>includible in the income of Mr. R</i>
(c)	<i>includible in the income of Mrs. R</i>
(d)	<i>Exempt from tax</i>
10.	<i>Mr. A transferred debentures worth ₹ 1,00,000 carrying 12% interest to his wife. The wife earned interest of ₹ 12,000 and reinvested the same in fixed deposits earning ₹ 960 interest. Which of the following is correct?</i>
(a)	<i>Both ₹ 12,000 and ₹ 960 are includible in the income of Mr. A</i>
(b)	<i>Only ₹ 12,000 is includible in the income of Mr. A</i>
(c)	<i>Only ₹ 960 is includible in the income of Mr. A</i>
(d)	<i>Nothing is includible in the income of Mr. A</i>



LET US RECAPITULATE

Section	Transferor	Transferee	Subject matter of transfer	Taxability	Conditions for clubbing
96	Any assessee	Any person	Income from an asset	Income from the asset shall be taxable in the hands of the transferor.	Income transferred without transferring the asset.
97(1)	Any assessee	Any person	Any asset	Income from the asset shall be taxable in the hands of the transferor.	The transfer should be a revocable transfer, i.e., the transferor has the right to resume power over the income or the asset or the transfer provides for retransfer of the income or the asset back to the transferor.
99(1)(a)(i)	-	-	-	Income arising to spouse by way of remuneration from a concern in which the individual has a substantial interest shall be taxable in	Remuneration received should not be attributable to the application of technical or professional knowledge, experience and technical or professional

				the hands of the individual.	qualification of the spouse.
99(1)(a)(ii)	Individual	Spouse	Any asset other than house property, transferred directly or indirectly	Income from the asset shall be taxable in the hands of the transferor.	Transfer shall be without adequate consideration and without an agreement to live apart
99(1)(b)	Individual	Daughter in law	Any asset transferred directly or indirectly	Income from the asset shall be taxable in the hands of the transferor.	Transfer shall be without adequate consideration
99(1)(c)	Individual	Minor child	-	All income of minor child, except the minor child who is suffering from disability of the nature specified in section 154, shall be taxable in the hands of such parent whose total income before such inclusion is greater.	Income of minor child should not be derived ♦ on account of work done by such minor child or ♦ from activities where his skill, talent or specialized knowledge or experience is applied
99(1)(d)	Individual	Any person/ AOP	Any asset transferred directly or indirectly	Income from such asset shall be taxable in the hands of the	Transfer shall be without adequate consideration and for

				transferor to the extent it is for the benefit of spouse or daughter in law.	immediate or deferred benefit of the spouse or daughter-in-law of the individual.
99(2)	Individual	Spouse or daughter in law	Any asset transferred directly or indirectly	*Proportionate business profit or interest on capital shall be included in the income of the transferor.	Transfer shall be without adequate consideration. Transferred asset shall be invested in a business or as capital contribution as a partner in a firm for being admitted to benefits of partnership in a firm.
99(3)	Individual	His HUF	Any self-acquired property transferred directly or indirectly	Income from the property shall be taxable in the hands of the transferor.	#Transfer or conversion of self-acquired property into HUF property shall be without adequate consideration.
25	Individual	Spouse/ minor child (except minor married daughter)	House property	The transferor shall be considered to be the owner of the house property under section	Transfer shall be without adequate consideration to spouse and minor child and without an

				25(a) and agreement to income from live apart to such house spouse. property shall be assessable in his hands.	
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$$\begin{array}{lcl}
 \text{*Proportionate} & & \text{Value of asset invested or capital} \\
 \text{business profit or} & & \text{contributed by transferee on first day of tax} \\
 \text{interest on capital} & = & \text{year out of transferred assets} \\
 & & \text{Business profit or} \\
 & & \text{interest on capital} \\
 & & \text{arising to transferee} \\
 & & \text{for the tax year} \\
 & \times & \frac{\text{Total investment or capital contribution by}}{\text{transferee on first day of tax year}}
 \end{array}$$

Where the converted property is transferred to the members of the HUF on total or partial partition of the family, the income from the converted property received by the spouse of the transferor shall be clubbed with the income of the transferor.

**TEST YOUR KNOWLEDGE**

1. Mr. Sharma has four minor children - 2 daughters and 2 sons. The annual income of 2 daughters was ₹9,000 and ₹4,500 and of sons were ₹6,200 and ₹4,300, respectively. The daughter who has income of ₹4,500 was suffering from a disability specified under section 154.

Compute the amount of income earned by minor children to be clubbed in hands of Mr. Sharma assuming he has exercised the option of shifting out of the default tax regime.

2. During the tax year 2026-27, the following transactions occurred in respect of Mr. A.
- (a) Mr. A had a fixed deposit of ₹5,00,000 in Bank of India. He instructed the bank to credit the interest on the deposit @ 9% p.a. from 1-4-2026 to 31-3-2027 to the savings bank account of Mr. B, son of his brother, to help him in his education.
 - (b) Mr. A holds 75% profit share in a partnership firm. Mrs. A received a commission of ₹25,000 from the firm for promoting the sales of the firm. Mrs. A possesses no technical or professional qualification.
 - (c) Mr. A gifted a flat to Mrs. A on April 1, 2026. During the tax year 2026-27, Mrs. A's "Income from house property" (computed) was ₹52,000 from such flat.
 - (d) Mr. A gifted ₹2,00,000 to his minor son who invested the same in a business and he derived income of ₹20,000 from the investment.
 - (e) Mr. A's minor son derived an income of ₹20,000 through a business activity involving application of his skill and talent.

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

Examine the tax implications of each transaction and compute the total income of Mr. A, Mrs. A and their minor child assuming that they exercise the option of shifting out of the default tax regime.

3. Mr. A has gifted a house property valued at ₹ 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 ₹ 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?

4. A proprietary business was started by Smt. Rani in the year 2024. As on 1.4.2025 her capital in business was ₹ 3,00,000.

Her husband gifted ₹ 2,00,000 on 10.4.2025 to her and such sum is invested by Smt. Rani in her business on the same date. Smt. Rani earned profits from her proprietary business for the Financial Year 2025-26 ₹ 1,50,000 and Financial Year 2026-27, ₹ 3,90,000. Compute the income, to be clubbed in the hands of Rani's husband for the tax year 2026-27 with reasons.

5. Mr. B is the Karta of HUF, whose members derive income as given below:

	Particulars	₹
(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

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

6. Nishant gifted ₹ 10 lakhs to his wife, Nisha on her birthday on 1st January, 2026. Nisha lent ₹ 5,00,000 out of the gifted amount to Krish on 1st April, 2026 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, 2026, which were sold for ₹ 75,000 on 30th December, 2026. 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 1.4.2026. She suffered loss of ₹ 15,000 in the business in tax year 2026-27.

In whose hands the above income and loss shall be included in Tax Year 2026-27. Support your answer with brief reasons.

7. Mrs. and Mr. Naresh Yadav have two minor children, Mahi and Nonu. The following are the receipts in the hands of Mahi and Nonu during the year ended 31-3-2027:

- (i) Mahi received a gift of ₹ 85,000 from her friend's father on the occasion of her birthday.
- (ii) Nonu won a prize money of ₹ 3,00,000 in National Sports competition. This was invested in debentures of a company, from which interest of ₹ 25,000 (gross) accrued during the year.

Mr. Naresh's income before considering clubbing provisions is higher than that of his wife and he has opted out of the default tax regime.

Explain how these items will be considered for taxation under the provisions of the Income-tax Act, 2025. Detailed computation of income is not required.

8. Mr. Mahadev, a noted bhajan singer of Rajasthan and his wife Mrs. Dariya furnish the following information relating to the Tax Year 2026-27.

		₹
1	Income of Mr. Mahadev-professional bhajan singer (computed)	5,65,000
2	Salary income of Mrs. Dariya (computed)	3,80,000
3	Loan received by Mrs. Dariya from Ramu & Jay (Pvt) Ltd. (Mrs. Dariya holds 35% shares of the Co. The Co. has incurred losses since its inception 2 years back)	2,50,000
4	Income of their minor son Golu from winning singing reality show on T.V.	2,50,000
5	Cash gift received by Golu from friend of Mr. Mahadev on winning the show	21,000
6	Interest income received by minor married daughter Gudia from deposit with Ramu & Jay Pvt Ltd.	40,000

Compute total taxable income of Mr. Mahadev & Mrs. Dariya for the Tax Year 2026-27 if both of them are paying tax under default tax regime under section 202(1).

ANSWERS

1. As per section 99(1)(c), the income accruing or arising to a minor child shall be included in the total income of the parent. However, income of a minor child suffering from disability specified under section 154 would not be included in the income of the parent but would be taxable in the hands of the minor child. Therefore, in this case, the income of daughter suffering from disability specified under section 154 should not be clubbed with the income of Mr. Sharma.

Under Schedule III (Table: S. No. 17), income of each minor child includible in the hands of the parent under section 99(1)(c) would be exempt to the extent of the actual income or ₹ 1,500, whichever is lower. Mr. Sharma would be eligible for exemption under Schedule III (Table: S. No. 17) since he has exercised the option of shifting out of the default tax regime. The remaining income would be included in the hands of the parent.

Computation of income earned by minor children to be clubbed with the income of Mr. Sharma

Particulars		₹
(i)	Income of one daughter	9,000
	Less: Income exempt under Schedule III (Table: S. No. 17)	1,500
	Total (A)	7,500
(ii)	Income of two sons (₹ 6,200 + ₹ 4,300)	10,500
	Less: Income exempt under Schedule III (Table: S. No. 17) (₹ 1,500 + ₹ 1,500)	3,000
	Total (B)	7,500
	Total Income to be clubbed as per section 99(1)(c) (A+B)	15,000

Note: It has been assumed that:

- (1) The income does not accrue or arise to the minor children from activities where his or her skill, talent, specialized knowledge or experience is applied;

- (2) The income of Mr. Sharma, before including the minor children's income, is greater than the income of Mrs. Sharma, due to which the income of the minor children would be included in his hands; and
- (3) This is the first year in which clubbing provisions are attracted.

2. Computation of total income of Mr. A, Mrs. A and their minor son for the tax year 2026-27

Particulars	Mr. A (₹)		Mrs. A (₹)	Minor Son (₹)
Income under the head "Salaries"				
Salary income (of Mrs. A)		-	2,40,000	-
Pension income (of Mr. A) (₹ 10,000×12)		1,20,000	-	
Less: Standard deduction under section 19(1) (Table: S. No. 2)		50,000	50,000	
		70,000	1,90,000	
Income from House Property [See Note (3) below]		52,000	-	-
Income from other sources				
Interest on Mr. A's fixed deposit with Bank of India (₹ 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	-	-
Income before including income of minor son under section 99(1)(c)		1,92,000	1,90,000	-

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
Total Income		2,10,500	1,90,000	20,000

Notes:

(1) As per section 96, 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 ₹ 45,000 transferred by Mr. A to Mr. B shall be included in the total income of Mr. A.

(2) As per section 99(1)(a)(i), 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 ₹ 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% profit share in the firm.

(3) According to section 25(a), 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 considered as the owner of the house property so transferred. Hence, Mr. A shall 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 92(2)(m) 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 99(1)(c), the income of the minor child is to be included in the total income of the parent whose total income before including the income of minor child is greater. Further, as per Schedule III (Table: S. No. 17), 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.

Therefore, the income of ₹ 20,000 received by minor son from the investment made out of the sum gifted by Mr. A shall, after providing for exemption of ₹ 1,500 under Schedule III (Table: S. No. 17), be included in the income of Mr. A, since Mr. A's income of ₹ 1,92,000 (before including the income of the minor child) is greater than Mrs. A's income of ₹ 1,90,000. Therefore, ₹ 18,500 (i.e., ₹ 20,000 – ₹ 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 92(2)(m) would not be attracted in the hands of the minor son, since he has received a sum of money exceeding ₹ 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 ₹ 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.

3. As per section 25(a), an individual who transfers without adequate consideration any house property to his spouse (except under an agreement to live apart), shall be considered to be the owner of the house property so transferred.

Therefore, in this case, Mr. A would be the owner of the house property transferred to his wife Mrs. B without consideration.

As per section 99(1)(b), income arising to the son's wife from assets transferred, directly or indirectly, to her by an individual otherwise than for adequate consideration would be included in the total income of such individual.

Income from let-out property is ₹ 2,10,000 [i.e., ₹ 3,00,000, being the actual rent calculated at ₹ 25,000 per month less ₹ 90,000, being deduction under section 22(1)(a) @30% of ₹ 3,00,000]

In this case, income of ₹ 2,10,000 from let-out property arising to Mrs. C, being Mr. A's son's wife, would be included in the income of Mr. A, applying the provisions of section 25(a) and section 99(1)(b). Such income would, therefore, not be taxable in the hands of Mrs. C.

In case the property was gifted to Mr. A's son, the clubbing provisions under section 99 would not apply, since the son is not a minor child. Therefore, the income of ₹ 2,10,000 from letting out of property gifted to the son would be taxable in the hands of the son.

It may be noted that the provisions of section 92(2)(m) would not be attracted in the hands of the recipient of house property, since the receipt of property in each case was from a "relative" of such individual. Therefore, the stamp duty value of house property would not be chargeable to tax in the hands of the recipient of immovable property, even though the house property was received by her or him without consideration.

Note - The first part of the question can also be answered by applying the provisions of section 99(1)(b) directly to include the income of ₹ 2,10,000 arising to Mrs. C in the hands of Mr. A. [without first applying the provisions of section 25(a) to consider Mr. A as the owner of the house property transferred to his wife Mrs. B without consideration], since section 99(1)(b) speaks of clubbing of income arising to son's wife from indirect transfer of assets to her by her husband's parent, without consideration. Gift of house property by Mr. A to Mrs. C, via Mrs. B, can be viewed as an indirect transfer by Mr. A to Mrs. C.

4. Section 99(1)(ii) provides for the clubbing of income in the hands of the individual, if the income earned is from the assets (other than house property) transferred directly or indirectly to the spouse of the individual, otherwise

than for adequate consideration or in connection with an agreement to live apart.

Section 99(2) provides the manner of computation of income to be included in the hands of transferor spouse if the asset transferred by the individual is invested by the spouse in any business or in the nature of capital contributed as a partner in a firm or for being admitted to the benefits of partnership in a firm.

In this case, Smt. Rani received a gift of ₹ 2,00,000 on 10.4.2025 from her husband, which she invested in her business immediately. The income to be clubbed in the hands of her husband for the tax year 2026-27 is computed as under:

$$A = B \times \frac{C}{D}$$

A = Income to be included in the hands of her husband for the tax year 2026-27;

B = Profits from business arising to Smt. Rani from the business for the tax year 2026-27 i.e., ₹ 3,90,000

C = Value of such asset invested by Smt. Rani as on first day of tax year i.e., on 1.4.2026 i.e., ₹ 2 lakhs

D = Total investment by Smt. Rani as on first day of tax year i.e., on 1.4.2026 i.e., ₹ 6.50 lakhs (₹ 3 lakhs + ₹ 2 lakhs + ₹ 1.50 lakhs)

Income to be clubbed in the hands of her husband would be as follows:

$$3,90,000 \times \frac{2,00,000}{6,50,000} = ₹ 1,20,000$$

5. Clubbing of income and other tax implications

As per the provisions of section 99(1)(c), in case the marriage of the parents subsists, the income of a minor child shall be clubbed in the hands of the parent whose total income before including the income of the minor child, is greater. In this problem, it has been assumed that the marriage of Mr. B and Mrs. B subsists.

Further, in case the income arises to the minor child from activities involving skill, talent, specialized knowledge or experience of the child, then, the same shall not be clubbed in the hands of the parent.

Tax implications

- (i) Income of ₹ 45,000 from Mr. B's profession shall be taxable in the hands of Mr. B under the head "Profits and gains of business or profession".
- (ii) Salary of ₹ 1,000 (₹ 76,000 less standard deduction under section 19(1) (Table: S. No. 2) of ₹ 75,000) shall be taxable as "Salaries" in the hands of Mrs. B.

However, if Mrs. B exercises the option of shifting out of default tax regime, salary of ₹ 26,000 (₹ 76,000 less standard deduction under section 19(1) (Table: S. No. 2) of ₹ 50,000) shall be taxable as "Salaries".

- (iii) Income from fixed deposit of ₹ 10,000 arising to the minor son D, shall be clubbed in the hands of the father, Mr. B as "Income from other sources", since Mr. B's income is greater than income of Mrs. B before including the income of the minor child.

As per Schedule III (Table: S. No. 17), 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 if such parent exercises the option of shifting out of the default tax regime. The balance income would be clubbed in the hands of the parent as "Income from other sources".

- (iv) Income of ₹ 95,000 arising to the minor daughter P from sports shall not be included in the hands of the parent, since such income has arisen to the minor daughter on account of an activity involving application of her skill.
- (v) Income of ₹ 1,95,000 arising to minor son D from lottery shall be included in the hands of Mr. B as "Income from other sources", since Mr. B's income is greater than the income of Mrs. B before including the income of minor child.

Note – Mr. B can reduce the tax deducted at source from such lottery income while computing his net tax liability.

- 6.** As per section 99(1)(a)(ii), the income arises directly or indirectly to the spouse of 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 to be included in the total income of such individual.

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.

Since the capital was invested in business by Ms. Nisha on 1st April, 2026, 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 99(5)(d), clubbing provisions would be attracted even if there is loss and not income.

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@20% in the hands of Ms. Nisha under section 196.

7. (i) Gift received from non-relative by minor daughter Mahi

Gift of ₹ 85,000 received by minor daughter Mahi, from non-relative would be taxable, since the amount of gift exceeds ₹ 50,000. It would be included in the hands of her father, Mr. Naresh Yadav, since his income before considering clubbing provisions is higher than that of his wife.

Exemption of ₹ 1,500 would be allowed in respect of the aggregate income of minor daughter Mahi so included in the hands of Mr. Naresh Yadav under Schedule III (Table: S. No. 17).

(ii) Prize money of ₹ 3,00,000 in National Sports Competition/Interest on debentures received by minor son Nonu

Income derived by a minor child from any activity involving application of his/her skill, talent, specialised knowledge and experience is not to be included in the hands of parent. Hence, the prize money of ₹ 3,00,000

won in National Sports Competition by minor son Nonu from exercise of special talent would not be included in the income of either parent.

However, interest of ₹ 25,000 on debentures has to be included in the hands of her father, Mr. Naresh Yadav, even if the investment is made out of income arising from application of special talent.

Exemption of ₹ 1,500 would be allowed in respect of the aggregate income of minor son Nonu so included in the hands of Mr. Naresh Yadav under Schedule III (Table: S. No. 17).

8. Computation of Taxable income of Mr. Mahadev for tax year 2026-27

Particulars	₹
Professional income (bhajan singer)	5,65,000
Income of minor son – Golu	
♦ Income from winning singing reality show on T.V. Income derived by a minor child from any activity involving application of his/her skill, talent, specialized knowledge and experience is not to be included in the hands of parent. Hence, ₹ 2,50,000 earned by minor son Golu from reality show on TV would not be included in the income of either parent.	Nil
♦ Cash gift received by Golu from friend of Mr. Mahadev on winning the show The cash gift received by his minor son Golu (not on account of his skill) from his friends would not be taxable, since its value does not exceed ₹ 50,000.	Nil
Income of minor married daughter – Gudia	
Interest income on deposit with Ramu & Jay Pvt Ltd.	40,000
Less: Exemption under Schedule III (Table: S. No. 17) [Not allowable]	<u>Nil</u>
	<u>40,000</u>
[Income of minor daughter would be included in the hands of Mr. Mahadev, since his income, before including minor daughter's income, is higher than his wife's income.]	
Taxable Income	6,05,000

Computation of Taxable income of Mrs. Dariya for tax year 2026-27

Particulars	₹
Salary income (computed)	3,80,000
Loan received from Ramu & Jay (Pvt) Ltd. [Such loan amount would not be considered as deemed dividend under section 2(40)(e), even though Mrs. Dariya has substantial interest (holding 20% shares or more) in the Ramu & Jay (Pvt) Ltd., a closely held company, since the company does not have any accumulated profits on account of losses incurred in last 2 years from inception]	Nil
Taxable Income	3,80,000



Q. No.	ANSWERS	
1.	(b)	Mr. A
2.	(b)	Mr. X
3.	(d)	Not taxable in the hands of Rohan either before or after marriage
4.	(b)	Mr. Raj
5.	(b)	₹ 3,60,000
6.	(c)	₹ 40,000 is taxable in Priya's hands and ₹ 5,000 is clubbed in the hands of parent
7.	(b)	Mrs. A
8.	(c)	Cross transfer
9.	(b)	includible in the income of Mr. R
10.	(b)	Only ₹ 12,000 is includible in the income of Mr. A