

CLUBBING OF INCOME



Transfer of Income without transfer of Assets.

- Income is clubbed with **TRANSFEROR WHO TRANSFERS THE INCOME**
- Example
If Mr. A owns a house property and he is transferring the rental income to Mr. B without transferring the house property, then the rental income is taxable in the hands of Mr. A.

Revocable transfer of Asset

- Any income from asset, which is transferred as a condition that it can be revoked, is clubbed with **TRANSFEROR WHO TRANSFERS THE ASSET.**

Salary paid to Spouse

- Salary, Commission, Fees or remuneration paid to spouse from a concern in which an individual has a substantial interest, except where the spouse possesses technical or professional skills and the income is solely attributable to those skills.
- Income is clubbed with the **SPOUSE WHOSE TOTAL INCOME** (excluding income to be clubbed) **IS GREATER.**
- An individual is said to have the substantial interest in the concern if:
 - Company : Person's beneficial shareholding should be more than 20% of voting power either individually or jointly with relatives at any time during the previous year. (Shares with fix rate of dividend not considered)
 - Others : Person either himself or jointly with his relatives is entitled in aggregate to more than 20% of the profits of such concern, at any time during the previous year.

Transfer of Asset to Spouse

- When there is a transfer of an asset to spouse without adequate consideration, any income arising from the transferred asset is clubbed with **TRANSFEROR WHO TRANSFERS THE ASSET**.
- Clubbing not applicable :
 - Where asset is received as part of divorce settlement
 - If asset is transferred before marriage
 - Husband and wife relationship does not exist on the date of accrual of income
 - Asset is acquired by the spouse out of pin money (i.e. an allowance given to the wife by her husband for her personal and usual household expenses)

Transfer of Asset to Son's Wife

- When there is a transfer of an asset to son's wife without adequate consideration, any income arising from the transferred asset is clubbed with **TRANSFEROR WHO TRANSFERS THE ASSET.**

Transfer of Asset to benefit Spouse/Son's wife

- When there is a transfer of an asset to any person or association of persons to benefit the spouse or son's wife either immediately or on deferred basis without adequate consideration, any income arising from the transferred asset is clubbed with **TRANSFEROR WHO TRANSFERS THE ASSET.**

Income of a Minor Child

- Any income arising or accruing to minor child (including step child, adopted child and minor married daughter) is clubbed with **HIGHER EARNING PARENT**. If marriage of child's parents does not subsist, income is clubbed in the income of parent who maintains the child in the previous year.
- Clubbing not applicable :
 - Income of a minor child suffering any disability specified u/s 80U
 - Income on account of manual work done by the minor child.
 - Income on account of any activity involving application of skills, talent or specialized knowledge and experience.
- Parent whose income includes income of a minor child shall be entitled to an exemption of Rs 1,500 in respect of each minor child.