

TEST 9: CLUBBING OF INCOME

Illustration 1

The following information is given by X for the year ending March 31, 2022:

1. On April 10, 1973, X had transferred shares in a foreign company to Mrs. A (his daughter - in-law) without any consideration. During the previous year 2021 - 2022, Mrs. A has received dividend of Rs.4,10,000 from the foreign company.
2. On April 10, 1993, X had transferred debentures of Tata Chemicals to Mrs. A without any consideration. During the previous year 2021 - 2022, Mrs. A has received interest of Rs.3,90,000 from Tata Chemicals. Every year Mrs. A deposits interest income in fixed deposit with SBI and during the previous year 2021 - 2022, fixed deposit interest received from SBI is Rs.40,000.
3. X transfers 1,000 9% debentures of Rs.100 each to Y on the condition that X will have a right to receive 10% interest during X lifetime.
4. X transferred a building to his friend Z on June 15, 2009 on the condition the building will revert back to X after the death of Z. monthly rental income from building is Rs.45,000.

Determine the income of different persons in the aforesaid cases for the assessment year 2022 - 2023.

Illustration 2

X, an individual, is engaged in the business of money - lending. On April 1, 2021, he advances Rs.10,00,000 to his HUF at the market rate of interest of 12 per cent per annum. During the previous year 2021 - 2022, HUF earns Rs.4,00,000 as profit on the money advanced by X (before paying interest). Determine.

1. Is the amount of net income of HUF (i.e. Rs.4,00,000 minus 12 per cent of Rs.10,00,000) includible in the income of X under section 64(2)?
2. Does it make any difference if X is not engaged in the business of money lending?
3. Does it make any change in the applicability of section 64(2), if money is advanced at the rate of 4 per cent whereas the market rate of interest is 12 per cent?
4. Will the transaction come within the scope of sections 60 to 64, if X foregoes his right to receive interest on the sum so advanced before the date of accrual?

Illustration 3

X submits the following information for the year ending March 31, 2022:

1. Son of X (date of birth: August 31, 2001) has a fixed deposit of Rs.40,00,000 in PNB (rate of interest 7 per cent)
2. Minor daughter of X owns a business. For the previous year ending March 31, 2022, her income from business is Rs.(-) 70,000.
3. On October 4, 2015, X gifted Rs.5,00,000 to Mrs. X. This amount (along with her own funds) is used in setting up a sole proprietor business by Mrs. X. On April 1, 2021, her investment in the business is Rs.11,00,000 and for the year ending March 31, 2022 income from the business is Rs.2,78,000.
4. Salary income of X is Rs.11,85,000
5. X holds 10 per cent shares in A Ltd. (a closely held manufacturing company). On June 10, 2021, X transfers these shares by way of gift to Mrs. X. Mrs. X takes a loan of Rs.2,10,000 on January 1, 2021 from the company. Accumulated profit of the company on this date is Rs.40,00,000.
6. X is entitled for a deduction of Rs.90,000 under section 80CCC.
7. Income of Mrs. X for the assessment year 2022 - 2023 is Rs.3,00,000.

Determine the net income and tax liability of X for the assessment year 2022 - 2023.