FINANCIAL & MANAGEMENT A/C-3

Income of Other Person Included in Assessee's Total Income (Sections 60 to 65) Clubbing of Income

Clubbing of income means including the income of another person in the total income of the assessee in specified circumstances under the Income-tax Act. The purpose is mainly to prevent tax avoidance by transferring income/assets to another person.
Under the **Income-tax Act, 1961**, **Sections 60 to 65** deal with situations where **income of another person is included in the assesse's total income**. These provisions are commonly called **"Clubbing of Income"** provisions.

◈ Section 60 – Transfer of Income without Transfer of Asset

- If a person **transfers only the income** but **retains ownership of the asset**,
- The **income is taxable in the hands of the transferor**.

Example:
Mr. A owns a house and transfers only rental income to Mr. B.
➞ Rent will be **taxable in Mr. A's hands**.

◈ Section 61 – Revocable Transfer of Assets

- If an asset is transferred under a **revocable agreement**,
- Income from such asset is **taxable in the hands of the transferor**.

🔷 Section 62 – Exception to Revocable Transfer

Income is **NOT clubbed** if:

- Transfer is **irrevocable**, and
- Transfer is:
  - For the **lifetime of the beneficiary**, or
  - For a fixed period where transferor gets no benefit.

🔷 Section 63 – Meaning of Revocable Transfer

A transfer is considered **revocable** if:

- It can be **cancelled** or
- Transferor can **reassume control** over the asset or income.

🔷 Section 64 – Income of Spouse / Minor Child

This is the **most important clubbing section**

(a) Income of Spouse

Income is clubbed if:

- Asset is transferred to spouse **without adequate consideration**, or
- Income arises from concern in which spouse has **substantial interest** (salary in company)

Exceptions:

- Transfer under **agreement to live apart**
- Income from **personal skill or technical qualification**

(b) Income of Minor Child

- Minor's income is **clubbed with parent's income**.
- Included in income of **parent with higher income**.

Not clubbed:

- Income from **manual work**
- Income from **skill, talent or specialized knowledge**
- Income of **minor suffering from disability (Section 80U)**

Exemption: ₹1,500 per child per year (Section 10(32))

� Section 65 – Transfer to Son's Wife / Daughter-in-law

- Income from assets transferred to **son's wife without**
- **adequate consideration**
- **Clubbing applies** in hands of transferor.

Summary Table

Section	Particulars
60	Transfer of income without transfer of asset
61	Revocable transfer of assets
62	Irrevocable transfer for specified period
63	Definition of revocable transfer
64	Income of spouse , minor child, son's wife
65	Transfer to Son's Wife / Daughter-in-law

Example -1

Mr. Raj owns a house property which earns rent of ₹2,40,000 per annum.
He transfers the **right to receive rent** to his friend Mr. Amit but **ownership of the house remains with Mr. Raj**.
Further, Mr. Raj transfers a fixed deposit of ₹5,00,000 to his brother under a **revocable agreement**. Interest earned during the year is ₹40,000.
Compute Mr. Raj's taxable income from these transaction

Solution:
Total Income Included in Mr. Raj's Income

Particulars	**Amount (₹)**
House rent income	2,40,000
Interest on FD	40,000
Total Clubbed Income	**2,80,000**

(1) Transfer of income without transfer of asset – Section 60

- Ownership of house remains with Mr. Raj
- Only income is transferred

✓ Rent of ₹2,40,000 is **taxable in Mr. Raj's hands**

(2) Revocable transfer – Section 61

- Transfer can be revoked
- Income is clubbed with transferor

✓ Interest of ₹40,000 is **taxable in Mr. Raj's hands**

Example 2

Mr. Arjun gifted ₹6,00,000 to his wife Mrs. Arti without consideration.
Mrs. Arti invested the amount in:

- Fixed Deposit earning interest of ₹48,000
- She also earned salary of ₹1,20,000 from a company where she works using her professional skills.

Compute the income taxable in the hands of Mr. Arjun.

Solution:

Income Clubbed with Mr. Arjun

Particulars	Amount (₹)
Interest income	48,000
Total Clubbed Income	**48,000**

---

(1) Interest income from gifted amount

- Gift to spouse without consideration
- Income arises from a transferred asset

✓ Interest of ₹48,000 is **clubbed with Mr. Arjun's income** (Section 64)

(2) Salary income of wife

- Earned due to professional skill
- Not connected with gifted asset

Salary of ₹1,20,000 is **NOT clubbed**

Example 3 – Section 64 (Minor Child)

Problem

Mr. Suresh has two minor children:

- Minor son earned ₹30,000 from acting in advertisements.
- Minor daughter earned interest of ₹25,000 from fixed deposit gifted by Mr. Suresh

Mr. Suresh's income is ₹6,00,000 and Mrs. Suresh's income is ₹4,80,000.

Compute the income to be clubbed and exemption available.

Solution

(1) Income of minor son

- Earned from talent (acting)

Not clubbed (Exception under Section 64)

(2) Income of minor daughter

- Interest income from gifted asset

  ✓ Clubbed with income of **parent having higher income**

➞ Higher income parent: **Mr. Suresh**

(3) Exemption under Section 10(32)

- ₹1,500 per minor child (maximum)
- Available for clubbed income

Computation

Particulars	Amount (₹)
Minor daughter’s interest income	25,000
Less: Exemption u/s 10(32)	(1,500)
Income clubbed with Mr. Suresh	**23,500**

Example 4 – Section 65 (Transfer to Son’s Wife)

Mr. Mahesh transferred ₹4,00,000 to his son’s wife without consideration.
She invested the amount in a business and earned profit of ₹60,000 during the year.
Determine the taxability of the profit.

Solution

- Transfer made to **son’s wife**
- Without adequate consideration
- Income arises from transferred asset

✔ Profit of ₹60,000 is **clubbed with Mr. Mahesh’s income** (Section 65)

Income Clubbed

Particulars	Amount (₹)
Business profit	60,000
Taxable in hands of Mr. Mahesh	**60,000**

Example 5 – Combined Comprehensive Questio

Mr. Anand provides the following information:

1. Gifted ₹3,00,000 to wife → Interest earned ₹24,000
2. Minor child earned interest ₹18,000
3. Minor child earned ₹25,000 from singing competitions
4. Transferred FD to brother under revocable agreement → Interest ₹20,000

Compute income taxable in the hands of Mr. Anand.

Solution

Particulars	**Amount (₹)**
Interest from wife's investment	24,000
Minor child interest income	18,000
Less: Exemption u/s 10(32)	(1,500)
Revocable FD interest	20,000
Total Clubbed Income	**60,500**

Singing income of minor child not clubbed

Example 6 From the following information, calculate the gross total income for the assessment year 2022-23 of Shri Jethalal. (5 Marks)

(1) His salary income is Rs. 9,50,000.

(2) Other income of his wife for the previous year is Rs. 3,75,000.

(3) Minor daughter, Tapudi has owns a business. For the previous year ending 31-3-2022, her loss from business is Rs. 40000.

(4) His son Tapu, whose date of birth is 31st July 2003, has a Rs. 9,00,000 fixed deposit in Bank of Baroda. (Rate of interest 6.5%)

(5) On November 23, 2017, he gifted Rs. 6,00,000 to his wife. Including this amount, Rs. 15,00,000 was invested in the commencement of a new business by his wife. For the year ending 31-3-2022, the income of the business is Rs. 4,75,000.
(6) His son Tapu has got the remuneration of Rs. 50,000 for working in the TV show 'Tarak Mehta.'

Example 6 From the following information, calculate the total gross income of Mr. Amitabh Bachchan for the AY 2025-26.

1. Income from the profession of Mr. Bachchan is Rs. 2, 40,000.
2. Mr. Bachchan has sold 2,500, 12 % debentures of Rs.100 each to his wife, Mrs. Jaya Bachchan, for Rs. 2, 00,000. The market value of the debentures on the date of transfer was Rs. 5,00,000.
3. Income from other sources of Mrs. Bachchan is Rs. 1,50,000.
4. Mr. Bachchan and Mrs Bachchan hold 30 % and 40 % equity shares in Aishwariya Ltd., respectively. They are also employee of the company. They are getting a monthly salary of Rs. 20,000 and Rs 25,000 respectively. Both have no professional qualifications for that.
5. Mr. Bachchan gifted a certain amount to his son, Abhishek (17 years old), on September 30, 2022. Abhishek has invested the amount for which interest of Rs. 9,600 was received on 31-03-2023.