



Income Tax Department

Central Board of Direct Taxes



Clubbing of Income under the Indian Income Tax Act, 1961



Introduction:

Clubbing of income refers to including another person's income in the taxpayer's total income under certain circumstances as per the Income Tax Act, 1961. This is done to prevent tax evasion by transferring income to another person. **The provisions of clubbing of income are applicable only to individuals and no other type of assessee like firm/HUF/Company, etc.**

What is Clubbing of Income?

Clubbing of income refers to a situation where a person is taxed for the income earned by another person. Under specific conditions, the income earned by other individuals (spouse, minor child, etc.) is added to the income of the taxpayer.

Why Clubbing of Income?

The Income Tax Department introduced these provisions to ensure people don't reduce their taxable income by transferring it to family members in lower tax brackets.

Key Provisions under Clubbing of Income:

1. Transfer of Income without Transfer of Assets [Section 60]:

If a person transfers income to another person without transferring the asset, the income will still be taxable in the hands of the transferor.

2. Revocable Transfer of Assets [Section 61]:

Any income from an asset that can be transferred back to the taxpayer at any point in time is considered a revocable transfer, and the income is taxable in the hands of the transferor.

3. Income of Spouse [Section 64(1)(ii), 64(1)(iv), 64(1)(vii)]:

If an individual transfers any asset to their spouse, not under an agreement to live apart, the income generated from that asset will be

clubbed with the transferor's income.

4. Income from Assets Transferred to Son's Wife [Section 64(1)(vi)], 64 (1) (viii)]:

Income from assets transferred to the son's wife, either directly or indirectly, is taxable in the hands of the transferor.

5. Income of a Minor Child [Section 64(1A)]:

The income of a minor child is clubbed with the income of the parent whose income is higher. Exceptions are provided for income earned by the minor from manual work or specialized knowledge, etc.

6. Income from HUF [Section 64(2)]:

If a taxpayer converts individual property into a Hindu Undivided Family (HUF) or transfers property to an HUF without adequate consideration, the income from such property is clubbed with the taxpayer's income.

Exceptions to Clubbing of Income:

1. Income from Personal Skill or Manual Work:

Income earned by a spouse through personal skill or manual work is not subject to clubbing.

2. Income of a Minor Child: The income of a minor child on which clubbing applies can be reduced by an exemption of Rs. 1,500 per child, as provided under Section 10(32).

3. Income of Spouse from Independent Funds: If the spouse earns income from assets acquired out of their independent funds, such income is not clubbed.

Tax Implications:

The clubbed income is taxed at the applicable rates of the taxpayer in whose hands it is included. This can result in a higher tax liability, especially when income is transferred to individuals in lower tax brackets.

Conclusion:

Understanding the provisions of clubbing of income is essential to avoid unintentional tax evasion and penalties. Proper planning and compliance with these rules ensure smoother tax filing and legal tax-saving opportunities.



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