

Income of other Person Included In Assessee's ToTAl Income (Clubbing Of inCOme)

INTRODUCTION

Under the Income-tax Act, income of a person is chargeable to tax only in the case of that person and not in the case of any other person. In certain cases, with a view to reduce the tax burden, persons having huge taxable income may shift a portion of their income to persons who do not have taxable income or are taxable at a lower rate or fall under lower slab rates of taxable income. This may be achieved by transferring or gifting the income generating assets or by augmenting the revenue earning capacity of certain family members.

Legislature has considered it appropriate to enact the provisions of Sections 60 to 65 with a view to check such measures. In view of these provisions, although the income may be derived by a person, it is sought to be clubbed in the case of another person and taxed, so as to protect the interest of the revenue. Since, clubbing provisions uniformly operate both with reference to income as well as loss, sometimes these provisions may be advantageous to the tax payer. The loss of a person having no taxable income or lower Slab of taxable income may get shifted to a person who has higher slab of taxable income and therefore may save tax to that extent.

CLUBBING WHERE INCOME IS TRANSFERRED — Sec. 60

According to Sec. 60, when income alone is transferred without transfer of the asset giving rise to such income, it is deemed to be the income of the transferor. It does not matter whether such transfer is revocable or irrevocable. For example, Mr. X who is carrying on business declares that the profit derived from such business shall belong to his brother, Mr. Y, without transferring the business. Transfer of profits without corresponding transfer of assets invite application of Sec. 60 and accordingly, the income shall be clubbed in the hands of Mr. X.

REVOCABLE TRANSFER OF ASSETS [SEC. 61]

Where a person makes revocable transfer of asset to any person, income arising from such asset shall be included in the hands of the transferor.

Exceptions [sec. 62]:-

- i. Where a person transfers an asset to a revocable trust, which is not revocable during the lifetime of the beneficiary, and,
- ii. Where a person transfers an asset to another person, which is not revocable during the lifetime of the transferee; or

However, the transferor should not derive any direct or indirect benefit from such income in either case. Moreover, clubbing of income will commence as and when the power to revoke arises.

DEFINITION OF 'TRANSFER' AND 'REVOCABLE TRANSFER' - Sec. 63

For the purpose of the above provisions, the terms "Transfer" and "Revocable transfer" are defined u/s. 63 as under:



- a) A transfer shall be deemed to be revocable if-
 - (i) It contains any provision for the re-transfer directly or indirectly of the whole or any part of the income or assets to the transferor or
 - (ii) It gives the transferor a right to re-assume power directly or indirectly over the whole or any part of the income or assets.
- b) "Transfer" includes any settlement, trust, covenant, agreement or arrangement.

INCOME OF INDIVIDUAL TO INCLUDE INCOME OF SPOUSE, MINOR CHILD, ETC [Sec 64]



A)

Salary received by spouse: where an assessee has substantial interest in a concern, and his or her spouse receives any income directly or indirectly by way of salary, commission, fees or any other form of remuneration whether in cash or in kind from such concern, such income is included in the hands of the assessee:

If both the spouses have substantial interest in the concern, then such income of either of them shall be clubbed in the hands of husband or wife whose total income (excluding the income referred to in this clause) is greater.

For the purposes of this clause, an individual shall be deemed to have a substantial interest in a concern-

- i. In a case where the concern is a company, if its equity shares carrying not less than twenty per cent of the voting power are, at any time during the previous year, owned beneficially by such person or partly by such person and partly by one or more of his relatives;
- ii. In any other case, if such person is entitled, or such person and one or more of his relatives are entitled in the aggregate, at any time during the previous year, to not less than twenty per cent of the profits of such concern

Exception:-

No clubbing of income, where the spouse possesses technical or professional qualifications and the income is solely attributable to the application of his or her technical or professional knowledge and experience.

B) Transfer of asset to spouse for inadequate consideration:

Where an assessee transfers, directly or indirectly, any asset (other than house property), to his or her spouse for

- *Inadequate consideration and*
- *Not under an agreement to live apart.*

The income arising directly or indirectly to the spouse from such asset shall be included in the hands of the transferor.

Important points-

- i. Income to the extent of inadequacy of consideration shall only be clubbed.
Eg. If debentures having FMV 20 lakhs, are transferred to spouse for 8 lakhs and interest of Rs 2 lakhs is received on them, then Rs. 1.2 lakhs (ie., 2*12120) shall only be clubbed.
- ii. Income on income is not to be clubbed.
Eg :-if spouse invests the interest received on debentures into bank FD, interest received on such bank FD shall not be clubbed.
- iii. Income on converted assets is subject to clubbing.
Eg: -if debentures are sold and the sale consideration is invested into house, the income from house shall be clubbed.
- iv. All incomes including capital gains are subject to clubbing provisions.
Eg:-capital gain on sale of debentures will also be clubbed.
- v. If the asset is invested in a business, the profits and gains arising from such business shall be clubbed to the following extent:

$\frac{\text{Profits of the business} \times \text{Value of the assets aforesaid as on the first day of the previous year}}{\text{Total investment in the business as on the said day}}$

- vi. If the asset is invested as capital contribution in a firm, the interest received from the firm shall be clubbed to the following extent: For the purposes of this clause, an individual shall be deemed to have a substantial interest in a concern-
- i. In a case where the concern is a company – beneficially holding (self + relatives) equity shares carrying 20% or more voting power, at any time during the previous year:
 - ii. In any other case - entitled (self + relatives) to 20% or more of the profits of such concern anytime during the PY.

$\frac{\text{Interest receivable} \times \text{value of the asset aforesaid as on the first day of the previous year}}{\text{Total investment by way of capital contribution in the firm as on the said day}}$

(Note:- remuneration and share of profit of partner will not be clubbed)

- vii. Exempt incomes are not to be clubbed.
Eg:- if money received from husband is invested in agricultural land by wife, income from agriculture shall not be clubbed.
- viii. Loss from the asset is also required to club.
- ix. Consideration includes consideration in kind, which is measurable in terms of money. However, natural love and affection is not to be considered as adequate consideration.

Exceptions:-

- a. Asset transferred before marriage
- b. Income arising after termination of marriage
- c. Asset transferred for adequate consideration or
- d. Asset transfer under the agreement to live apart.

C) Transfer of asset to son's wife for inadequate consideration.

Where an assessee transfers, directly or indirectly, any asset to his or her Sons Wife for Inadequate consideration the income arising directly or indirectly to the son's wife from such asset shall be included in the hands of the transferor.

Transfer of asset for inadequate consideration to any person for the benefit of spouse or son's wife. Where an assessee transfers, directly or indirectly, any asset

- To any person or association of persons
- For inadequate consideration
- For the immediate or deferred benefit of his or her spouse, or son's wife.

The income arising directly or indirectly to such person or association of persons from such asset shall be included in the hands of the transferor.

Illustration 1

Mr. Kundanis a Chartered Account in Practice. He engages his wife Mrs. Surbhi as an employee for audit works and pays a sum of Rs. 20,000 p.m. towards salary. Mrs. Surbhi before marriage has completed her CA article ship training and is presently awaiting result of the final examination. Examine the tax implication in respect of the above transaction.

Solution:

Where the spouse of the assessee has qualification and experience, the remuneration obtained by virtue of the exercise or application of such qualification, experience and skill will not be subjected to clubbing because of the proviso to Sec. 64(1). Therefore, the income of Mrs. Surbhi should not be clubbed with that of Mr. Kundan. However, the Assessing Officer has power u/s. 40A(2) to examine the reasonableness of the salary paid to a relative and disallow to the extent it is excessive or unreasonable.

Illustration 2

Mrs. Dimple transferred her immovable property for an inadequate consideration to RSA Co. Ltd. subject to a condition that, a sum of Rs. 5,00,000 per annum out of the rental income shall be utilized for the benefit of her son's wife. Mrs. Dimple claims that she will not be held taxable as she no longer owned the property. State whether the contention of Mrs. Dimple is valid in law.

Solution:

In case of transfer of any asset, directly or indirectly, to any person otherwise than for adequate consideration, the income arising from such asset for the immediate or deferred benefit of the son's wife shall attract clubbing provisions u/s. 64(1)(viii). Such income shall be included in the computation of total income of the transferor-individual. Therefore, in the given case Mrs. Dimple shall be liable to tax.

MINOR'S INCOME Sec.64(1A)]**a. Basic Principles**

Nature of Transaction	Clubbed in the hands of	Conditions / exceptions
<p>Income of a Minor Child, including Minor Married Daughter.</p> <p>Note: Child includes Step-Child and Adopted Child.</p>	<p>If the Parents' marriage subsists, in the hands of the Parent whose total income is greater, or</p> <p>If the marriage does not subsist, in the hands of the person who maintains the Minor Child.</p> <p>Exemption u/s 10(32): The Parent in whose hands the Minor's Income is clubbed, is entitled to an exemption of 1,500 per child, u/s 10(32).</p>	<p>Following Incomes of Minor Child shall not be clubbed</p> <ol style="list-style-type: none"> Income of a Minor Child suffering any disability specified u/s 80U, Income on account of manual work done by Minor Child. Income on account of any activity involving application of skills, talent or specialized knowledge and experience. If an individual transfers House Property to a Minor Married Daughter, income from that property shall not be clubbed in the Parents' hands. [Sec.27]

TAXABILITY OF INCOME OF MINOR MARRIED DAUGHTER

Source of Income	Clubbed in the hands of
1. Income from House Property, whereth	Clubbing provisions not attracted. Taxable in Minor's hands. Parents-in-law.
(a) Parents	
(b) Parents-in- Law	
(c) Spouse	
(d) Any other Person	Parents. Exemption u/s 10 (32) is applicable.
2. Income under other Heads of Income	
(a) Minor suffering from disability u/s 80U	Clubbing provisions not attracted. Taxable in Minor's hands.
(b) Income earned through - Manual work	Clubbing provisions not attracted. Taxable in Minor's hands.
Skill, Talent and Specialized knowledge	Clubbing provisions not attracted. Taxable in Minor's hands.
Any other source	Parents. Exemption u/s 10 (32) is applicable

Change in Clubbing: Once clubbing of Minors Income is done with that of one parent, it will continue to be clubbed with that parent only, in subsequent years. However, the A.O may club income of Minor with that of other parent if it is necessary to do so, after giving reasonable opportunity of being heard to other parent.

If the assessee transferred part of his share in profits to the Trust for benefit of the children of the Assessee, income from share in the Firm received by the Trust *is not includible* in the Total Income of the Assessee. [CIT vs layantilal D. Patel²⁹⁵ ITR 386 (Guj.)]

Illustration 3

Mr. Mittal has 4 Minor Children consisting of three daughters and one son. The Annual Income of all the children for the Assessment Year 2016-2017 were as follows —

First Daughter (including Scholarship received Rs. 5,000)	10,000
Second Daughter	8,500
Third Daughter (suffering from Disability specified u/s 80U)	4,500
Son	40,000

Mr. Mittal gifted 2,00,000 to his Minor Son who invested the same in the business and derived Income of 20,000 which is included above.

Compute the amount of Income earned by Minor Children to be clubbed in the hands of Mr.Mittal.[Nov, 2014]

Solution:

Computation of Total Income

Particulars	Rs.	Rs.
Annual Income earned by 1 st Daughter	10,000	
Less: Scholarship [Exception to Sec.64(1A)] (assumed that Scholarship is received from a Trust registered u/s 10(23)/12A)	5,000	5,000
Annual Income earned by 2 nd daughter		8,500
Annual Income earned by 3 rd daughter (Exception u/s 64(1A)) Disability u/s 80U [Note: Income of Child suffering from disability u/s 80U shall be taxed only in that Child's hands, and shall not be clubbed in the Parent's hands]		Nil
Annual Income earned by Son (Income derived from Gift already included)		40,000
Total of above		53,500
Less: Exemption u/s 10(32) 1,500 per Child (1,500 x 3) [3rd Daughter not includible]		(4,500)
Income to be clubbed in the hands of Mr. Mittal		49,000

Illustration 4

Mr. Ashish is an Employee of Larsen Limited and has substantial interest in the Company. His Salary is Rs. 25,000 p.m. Mrs. A also is working in that Company at a Salary of Rs. 10,000 p.m. without any professional qualification.

Mr. Ashish also receives Rs. 30,000 as Income from Securities, Mrs. A owns a House Property which she has let out Rent Received from such House Property is Rs. 12,000 p.m.

Mr. & Mrs. A have three minor children - two twin daughters and one son, Income of the twin daughters is Rs. 2,000 p.a. and that of his son is Rs. 1,200 p.a. Compute the Income of Mr. and Mrs. A.

Solution:**Computation of Total Income**

Particulars	Mr. A	Mrs. A
Income from Salary (25,000 x 12)	3,00,000	
Add: Salary paid to Mrs. A clubbed in the hands of Mr. A [since Mr. A has Substantial Interest in the Company, and Mrs. A does not have professional qualification. (10,000 x 12)]	1,20,000	
Income from House Property (W.N)	-	1,00,800
Income from Other Sources: Income from Securities	30,000	
Total Income (before including Minor's Income)	4,50,000	1,00,800
Add: Income of twin daughters	2,000	
Income of son	1,200	
Less: Exempt u/s 10(32), Rs. 1,500 per Child (1,500 x 3 = 4,500) [restricted to Income clubbed]	(3,200)	
Total Income	4,50,000	1,00,800

Note: Income of a Minor Child shall be clubbed in the hands of Parent whose Total Income is greater before such clubbing and hence is clubbed in the hands of Mr. A.

Working Note:**Computation of Income from House Property**

Particulars	Rs.
Gross Annual Value (12,000 x 12)	1,44,000
<i>Less:</i> Municipal Taxes	NIL
Net Annual Value	1,44,000
<i>Less:</i> Deduction u/s 24 30% of Net Annual Value (1,44,000 x 30%)	(43,200)
Income from House Property	1,00,800

Transfer of self-acquired asset to HUF [sec 64(2)]

Where an individual being a member of a HUF, converts his separate property at any time after 31st December 1969 into HUF property-

- Through the act of impressing such separate property with the character of HUF property, or
- Throwing it into the common stock of the family, or
- Transferring, directly or indirectly, to the family for inadequate consideration

Then the income derived from the converted property or any part thereof shall be included in the hands of the individual and not the family.

However, where the converted property has been the subject matter of a partition (whether partial or total) amongst the members of the family, the income derived from such converted property as is received by the spouse of such individual on partition shall be included in the hands of the individual.

Explanation –“property” includes any interest in property movable or immovable, the proceeds of sale thereof and any money or investment for the time being representing the proceeds of sale thereof and where the property is converted into any other property by any method, such other property.

COMMON POINTS FOR CLUBBING

1. Clubbing provision shall be applied only where there is a transaction of gift. In case the money is lent to the other person (spouse or HUF as the case may be) which creates lender borrower relationship, it is not a transaction and subject matter of transfer.
2. Income on the asset transferred is clubbed but not the income on accretion to the asset.

To illustrate, if shares are gifted by the husband to his wife, dividend income derived from those shares shall be clubbed. If the company issues bonus shares to the shareholders and dividend income is earned by the wife in respect of those bonus shares, the same shall not be clubbed. Wife is chargeable in respect of the dividend income on bonus shares while the husband is liable for the dividend on the gifted shares. However, students may note that dividend income is exempt u/s. 10(34) in the hands of the shareholders.

3. Natural love and affection may be a good consideration but that would not be adequate consideration for the purpose of Sec. 64(1). **Tulsidas Kilachand vs. CIT (1961) 42 ITR 1 (SC)**.
4. A chain of transfers in the form of gifts attracts clubbing provision. It is not necessary that there should be consideration in the technical sense. If there are two transactions and they are interconnected and part of the same transaction, it shall be considered to be a device for evasion of tax and therefore, clubbing provisions shall be invoked.

To illustrate, Mr. I gifts a sum of Rs. 10 lakhs to Mrs. P. Mr. Pan is the friend of Mrs. I. Again through another transaction, Mr. I gifts a sum of Rs. 10 lakhs to Mrs. P. Though apparently, it appears that no clubbing provision may be applied on these transactions, based on the decision of Supreme court in **CIT v/s KeshavjiMorarji (1967) 66 ITR 142 (SC)**, the cross transfers shall be subjected to clubbing provisions, considering the same as tax evasive device. Accordingly, income derived by Mrs. P out of income gifted by Mr. I shall be clubbed in the hands of Mr. P. Similarly, income derived by Mrs. I out of the amount gifted by Mr. P shall be clubbed in the hands of Mr. I.

5. If the asset transferred is sold by the transferee then capital gain arising on such sale shall be treated as income arising from asset transferred for the purpose of Sec. 64(1) and therefore requires to be clubbed.

SEC 65- LIABILITY OF PERSON IN RESPECT OF INCOME INCLUDED IN THE INCOME OF ANOTHER PERSON

Where income of one person is included in the hands of another person under this Chapter or u/s 27(i), the AO may demand proportionate tax liability from the first mentioned person. Provided that where any such asset is held jointly by more than one person, they shall be jointly and severally liable to pay the tax, which is attributable to the income from the assets so included.

Ex.

Computation of income of Mr. Nayan

Personal income of Nayan	10,00,000
Income of Naina (wife) included	15,00,000
Total Income	25,00,000
Tax on Total Income	5,97,400

AO can demand following amount directly from Naina: Rs. 3,58,440 ($5,97,400 \times 15/25$) and amount demanded from Nayan will be balance of Rs. 2,38,960. Amounts are changed

Illustration 5

On 21-3-2014, Mr. Janak gifted to his wife Mrs. Thilagam 200 listed shares, which had been bought by him on 19-4-2013 at 2000 per share. On 1-6-2014, bonus shares were allotted in the ratio of 1 : 1 All these shares were sold by Mrs. Thilagam as under

Date of Sale	Manner of Sale	No. of Shares	Net sales value
21-5-2014	Sold in recognized stock exchange, STT	100	2,50,000
21-7-2014	Private sale, to an outsider	All bonus shares	1,25,000
28-2-2015	Private sale to her friend Mrs. Hema (Market value on this date was Rs 2,10,000)	100	1,70,000

Briefly state the income-tax consequences in respect of the sale of the shares by Mrs. Thilagam, showing clearly the person in whose hands the same is chargeable, the quantum and the head of income in respect of the above transactions. Detailed computation of total income is NOT required. (5 Marks, IPCC May 2011)

Solution -

Where an asset has been transferred by an individual to his spouse otherwise than for adequate consideration, the income arising from the sale of the said asset by the spouse will be clubbed in the hands of the individual.

Where there is any accretion to the asset transferred, income arising to the transferee from such accretion will not be clubbed. Hence, the profit from sale of bonus shares allotted to Mrs. Thilagam will be chargeable to tax in the hands of Mrs. Thilagam.

Therefore, the capital gains arising from the sale of the original shares has to be included in the hands of Mr. Janak, and the capital gains arising from the sale of bonus shares would be taxable in the hands of Mrs. Thilagam.

Where an asset received by way of gift has been sold, the period of holding of the previous owner should be considered for determining whether the capital gain is long term or short term. The cost to the previous owner has to be taken as the cost of acquisition.

Computation of capital gains on the sale of shares:

Particulars	Sale on 21-5-2014 (100 gifted shares)	Sale on 21-7-2014 (100 Bonus shares)	Sale on 28-2-2015 (100 gifted shares)
Net full value of	2,50,000	1,25,000	1,70,000
<i>Less:</i> Indexed Cost [100 shares x 2,000 x 1024 + 9391]	2,18,104	Nil, in case of bonus shares	2,18,104
Long-term Capital Gains	31,896		-48,104
Short-term Capital Gains		1,25,000	
Taxability	LTCG Exempt under section 10(38) in hands of Mr. Janak	Taxable in hands of Mrs. Thilagam (Accretion in income)	W. Janak will carry forward such loss.

Illustration 6

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

Particulars	Rs.
Income from B's profession	45,000
Mrs. B's salary as fashion designer	76,000
Minor son f3 (<i>interest on fixed deposits with a bank which were gifted to him by his</i>)	10,000
Minor daughter P's earnings from sports	95,000
D's winnings from lottery (gross)	1,95,000

Solution

	Mr. B	Mrs. B	Minor son D	Minor daughter P
Income from B's profession	45,000	—	—	—
Mrs. B's salary as fashion designer	—	76,000	—	—
Minor son D (<i>interest on fixed deposits with a bank which were gifted to him by his uncle</i>) [WN-1]	—	10,000	—	—
Minor daughter P's earnings from sports [WN-3]	—		—	95,000
D's winnings from lottery (gross) [WN-4]	—	1,95,000	—	—
Less exemption u/s 10(32) [WN-2]	—	-1,500	—	—
Total Income	45,000	2,79,500	—	95,000

Working Notes:

- (1) Income from fixed deposit of 10,000 arising to the minor son D, shall be clubbed in the hands of the mother, Mrs. B as "Income from other sources", *since her income is greater than income of Mr. B before including the income of the minor child.*
- (2) As per section 10(32) income of a minor child which is includible in the income of the parent shall be exempt to the extent of t 1,500 per child. The balance income would be clubbed in the hands of the parent as "Income from other sources".
- (3) 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.

Illustration 7

During the previous year 2014-15 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% from 01-04-2013 to 31-03-2015 to the savings bank account of Mr. B, son of his brother, to help him in his education.
- (b) Mr. A holds 75% 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, 2014. During the previous year the flat generated a net income of 52,000 to Mrs. A.
- (d) Mr. A gifted 2,00,000 to his minor son who invested the same in a business and he got a share 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.

Discuss the tax implications of each transaction and compute the total income of Mr. A, Mrs. A and their minor child.

Solution:

Computation of total income of Mr. A, Mrs. A and their minor child (*amount in Rs.*):

Particulars		Mr. A	Mrs. A	Minor Son
Salary income (of Mrs. A)		-	2,40,000	
Pension income (of Mr. A) (Rs.10,000 x 12)		1,20,000		
Income from House Property	[WN-3]	52,000		
Income from other sources		45,000		
Interest on Mr. A's fixed deposit with BOI (T 5,00,000 x 9%)	[WN-1]	0		
Commission received by Mrs. A from a partnership firm, in which Mr. A has substantial interest	[WN-2]	25,000		
Income before including income of minor son u/s 64(1A)		0		
		2,42,000	2,40,000	
Income of the minor son from the investment made in the business out of the amount gifted by Mr. A	[WN-4]	18,500	-	-
Income of the minor son through a business activity involving application of his skill and talent	[WN-5]	-	-	20,000
Total Income		2,60,500	2,40,000	20,000

Working Notes :

- (1) As per section 60, 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 Rs. 45,000 transferred by Mr. A to Mr. B shall be included in the total income of Mr. A.
- (2) As per section 64(1)(ii), 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 Rs 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% share in the **firm**.
- (3) According to section 27(i), 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 deemed to be the owner of the house property so transferred. Hence, Mr. A shall be deemed to 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.

- (4) As per section 64(1A), the income of the minor child is to be included in the total income of the parent whose total income (excluding the income of minor child to be so clubbed) is greater. Further, as per section 10(32), income of a minor child which is includible in the income of the parent shall be exempt to the extent of Z 1,500 per child.

Therefore, the income of Z 20,000 *received by minors* on from the investment made out of the sum gifted by Mr. A shall, after providing for exemption of Z 1,500 under section 10(32), be included in the income of Mr. A, since Mr. A's income of Z 2,42,000 (before including the income of the minor child) is greater than Mrs. A's income of Z 2,40,000. Therefore, Z 18,500 (i.e., Z 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.

- (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 Z 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.