"This document contains the provisions of the Income-tax Act, 2025, as amended by the Finance Act, 2026."

FAQs on Clubbing of Income

Q1. What is the meaning of clubbing of income?

Normally, a person is taxed only on income he earns. However, in certain special cases, the income of another person is included (i.e., clubbed) in the taxpayer's taxable income, and in such a case, the taxpayer will be liable to pay tax on their own income (if any) as well as on the income of the other person. The situation in which another person's income is included in the taxpayer's income is called clubbing of income. E.g., a minor child's income is clubbed with their parent's income. Sections 96 to 100 contain various provisions relating to clubbing of income.

Relevant Content

Section - 96

Section – 97

Section – 98

Section – 99

Section – 100

Q2. Do any clubbing provisions exist in case of transfer of income without transfer of asset?

As per section 96, if a person transfers income from an asset owned by him without transferring the asset from which the income is generated, then the income from such an asset is taxed in the hands of the transferor (i.e., person transferring the income).

E.g., Mr Raj has rented out a bungalow he owns. The annual rent of the bungalow is Rs. 84,000. He transferred the entire rental income to his friend Mr Kumar. However, he did not transfer the bungalow. In this situation, the rent of Rs. 84,000 will be taxed in Mr Raj's hands.

Relevant Content

Section - 96

Q3. Do any clubbing provisions exist in case of a revocable transfer?

A revocable transfer is generally a transfer in which the transferor directly or indirectly exercises control/right over the asset transferred or over the income from the asset.

As per section 97, if a transfer is held to be a revocable transfer, then income from the asset covered under a revocable transfer is taxed in the hands of the transferor. The provisions of section 97 will not apply in case of a transfer by way of trust which is not revocable during the lifetime of the beneficiary or a transfer which is not revocable during the lifetime of the transferee.

Relevant Content

Section - 97

Q4. Can remuneration received by spouse of an individual be clubbed with his/her income?

Yes. As per Section 99 of the Income-tax Act, 2025, where an individual has a substantial interest in a concern, any income received by his or her spouse by way of salary, commission, fees or any other form of remuneration from that concern shall be included in the total income of such individual. The remuneration may arise directly or indirectly and may be received in cash or in kind.

However, the clubbing provisions apply only if the spouse receives such remuneration otherwise than on account of the application of his or her technical or professional knowledge, experience, or technical or professional qualifications.

Substantial interest means:

- *In the case of a company:* An individual is deemed to have a substantial interest if, at any time during the tax year, he/she, either alone or together with one or more relatives, beneficially owns equity shares carrying not less than 20% of the voting power.
- *In the case of a non-corporate entity (such as a partnership firm or an AOP):* An individual is deemed to have a substantial interest if, at any time during the tax year, he/she, either alone or together with one or more relatives, is entitled to not less than 20% of the profits of the concern.

Relative, in relation to an individual, means the husband, wife, brother, sister or any lineal ascendant (maternal as well as paternal) or descendant of that individual.

Illustration A

Mr Raja beneficially holds 21% of the voting power in Essem Minerals Pvt. Ltd. Mrs Raja is employed as a Manager in the company's accounts department and receives a monthly salary of ₹84,000. She does not possess any technical or professional qualification, knowledge, or experience in the field of accountancy.

In this case, Mr Raja has a substantial interest in the company, and the remuneration received by Mrs Raja is not attributable to the application of any technical or professional knowledge, experience, or qualification. Accordingly, the salary received by Mrs Raja from Essem Minerals Pvt. Ltd. shall be included in the total income of Mr Raja and taxed in his hands.

Illustration B

Mrs Kumar beneficially holds 25% of the voting power in SM Construction Pvt. Ltd. Mr Kumar is a qualified architect and is employed as a site observer at one of the company's construction projects. He receives a monthly salary of ₹28,400, and such remuneration is commensurate with his professional qualifications, knowledge, and experience.

Although Mrs Kumar has a substantial interest in the company, the remuneration received by Mr Kumar is attributable to the application of his professional qualifications and experience. Therefore, the clubbing provisions of Section 99 shall not apply, and the salary received by Mr Kumar shall be taxable in his own hands.

Relevant Content

Section - 99

Q5. Can income from assets transferred to spouse without adequate consideration be clubbed with the income of transferor-spouse?

As per section 99(1)(a)(ii), if an individual transfers an asset, directly or indirectly, to his/her spouse for inadequate consideration, income arising from the transferred asset shall be included in the total income of the transferor. The clubbing provision also applies if an asset is transferred by one spouse to the other for inadequate consideration.

Illustration 1:

Mr Soham holds 8,400 debentures of Shyamal Minerals Ltd. He gifted these debentures to his wife. Will the income from debentures be clubbed with Mr Soham's income?

**

In this situation, the debentures are transferred to the spouse. The transfer is via gift (i.e., without any consideration) and, hence, the income generated from the transferred asset, i.e., interest on such debentures, will be clubbed with the income of Mr Soham.

Illustration 2:

Mr Kapoor gifted Rs. 8,40,000 to his wife. The said amount is invested by his wife in a company's debentures. Will the income from the debentures purchased by Mrs Kapoor from the gifted money be clubbed with the income of Mr Kapoor?

**

In this case, the asset transferred is money, and subsequently the asset takes the form of debentures; hence, the income from debentures acquired with gifted money will be clubbed. Thus, the interest on debentures received by Mrs. Kapoor will be clubbed with Mr Kapoor's income.

Relevant Content

Section – 99

Q6. Are there any situations in which the clubbing provisions do not apply in case of income from assets transferred to spouse?

The clubbing provisions of section 99(1)(a)(ii) are not applicable in the following situations:

- If the transfer of the asset is for adequate consideration;
- If the transfer of the asset is in connection with an agreement to live apart;

Relevant Content

Section - 99

Q7. Can income from assets transferred to son’s wife without adequate consideration be clubbed with the income of transferor, i.e., father-in-law/mother-in-law?

As per section 99(1)(b), if an asset is transferred by an individual to son’s wife directly or indirectly, without adequate consideration, the income from such asset is to be included in the total income of the transferor. The provisions of clubbing will apply even if the form of asset is changed by the transferee-daughter-in-law.

Relevant Content

Section - 99

Q8. Can income from assets transferred to any person for the benefit of spouse or for the benefit of son’s wife without adequate consideration be clubbed with the income of transferor?

As per Section 99(1)(d), any income arising, directly or indirectly, to any person or AOP from any asset transferred to it without adequate consideration for the direct or indirect benefit of the spouse or the transferor's son's wife shall be included in the total income of the transferor.

Such income shall be clubbed only to the extent it is used by the transferee for the immediate or deferred benefit of the transferor's spouse or the transferor's son's wife.

Relevant Content

Section – 99

Q9. Is a minor child's income clubbed with the income of the parent? |How can a parent claim TDS deducted on his minor child's income?

As per section 99(1)(c), income of a minor child is clubbed with the income of his/her parent (*). Income of a minor child earned on account of manual work or any activity involving application of his/her skill, knowledge, talent, experience, etc. will not be clubbed with the income of his/her parent.

Further, income of a minor will be clubbed with the income of that parent whose income (excluding the minor's income) is higher. If the parents' marriage does not subsist, the minor's income will be clubbed with the income of the parent who maintains the minor.

In case the income of an individual includes income of his/her minor child, such individual can claim an exemption under Schedule III [Table S. No. 17] of Rs. 1,500 or income of the minor so clubbed, whichever is less.

(*) Clubbing provisions will not apply to any income of a minor child suffering from disability specified under section 154.

<u>*Illustration 1*</u>

Mr Raja has two minor children, viz., Master A and Master B. Master A is a child artist and Master B is suffering from diseases specified under section 154. Income of A and B is as follows:

Income of Master A from stage shows: Rs. 1,00,000

Income of Master A from bank interest: Rs. 6,000

Income of Master B from bank interest: Rs. 1,20,000.

Will the income of minor children be clubbed with the income of their parent (Mrs Raja does not have any income)?***

As per section 99(1)(c), the income of minor children is clubbed with the income of that parent whose income (excluding the minor's income) is higher. In this case, Mrs Raja has no income; hence, if any income is to be clubbed, it will be clubbed with Mr Raja's income.

Income of a minor child earned on account of manual work or income from the skill, knowledge, talent, experience, etc., of the minor child will not be clubbed with the income of his/her parent. Thus, income of Master A from stage show will not be clubbed with the income of Mr Raja, but income of Master A from bank interest of Rs. 6,000 will be clubbed with the income of Mr Raja.

Income of a minor suffering from disability specified under section 154 will not be clubbed with the income of his/her parent. Hence, any income of Master B will not be clubbed with the income of Mr Raja.

The taxpayer can claim an exemption under Schedule III [Table S. No. 17]. Thus, in respect of interest income of Rs. 6,000 clubbed in the income of Mr Raja, he will be entitled to claim exemption of Rs. 1,500 under section Schedule III [Table S. No. 17]; hence, net income to be clubbed will be Rs. 4,500 (i.e., Rs. 6,000 – Rs. 1,500).

To claim the benefit of TDS, Mr Raja should file a declaration with the deductor, and the deductor reports the tax deduction in the name of Mr Raja in accordance with Rule 203.

Relevant Content

Section – 99

Rule - 203

Q10. Will any clubbing provision apply in the case of a transfer of an asset to a Hindu Undivided Family (HUF) by its member?

As per section 99(3), when an individual, being a member of HUF, transfers his property to the HUF otherwise than for adequate consideration or converts his property into the property belonging to the HUF (it is done by impressing such property with the character of joint family property or throwing such property into the common stock of the family), then clubbing provisions will apply as follows:

- Before partition of the HUF, entire income from such property will be clubbed with the income of the transferor.
- After partition of the HUF, such property is distributed amongst the members of the family. In such a case, income derived from such property by the spouse of the transferor will be clubbed with the income of the individual and will be charged to tax in his hands.

Relevant Content

Section – 99

Q11. Where the income of one person is clubbed with the income of another, is the income earned by the transferee on such clubbed income also clubbed?

No. The clubbing provisions apply only to the income arising from the transferred asset. Any further income earned by the transferee by investing or accumulating such income (i.e., income on clubbed income) is not clubbed with the income of the transferor and is taxable in the hands of the transferee.

E.g., Mr A gifts Rs. 10,00,000 to his wife, who invests it in a fixed deposit. The interest on the fixed deposit is clubbed with the income of Mr A. However, if the wife reinvests that interest and earns further income, such income on the accumulated income will not be clubbed with Mr A's income and will be taxable in the hands of the wife.

Relevant Content

Section - 99

Q12. If an asset transferred without adequate consideration results in a loss instead of income, will such loss also be clubbed?

Yes. For the purposes of the clubbing provisions, the term 'income' includes a loss. Accordingly, where an asset is transferred otherwise than for adequate consideration and results in a negative income (loss), such loss shall also be clubbed with the income of the transferor and dealt with in the same manner in which income would have been clubbed.

Relevant Content

Section - 99