INCOME TAX ACT, 2025 • INCOME TAX RULES, 2026

CHAPTER V

Income of Other Persons

Included in Total Income of Assessee

("Clubbing of Income")

Part Two — Component-Wise Tabulated Analysis

Sections 96 to 100

DETAILED EDITION • TAX YEAR 2026 – 2027

In Plain Language — For Practitioners, Articles & Employees

GURUKRIPA

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The Clubbing Principle

Income legally arises in the hands of one person — but is taxed in the hands of another.

WHO EARNS THE INCOME

Spouse • Son's Wife
Minor Child • HUF
Trust • Transferee

→ CLUBBED

WHO PAYS THE TAX

THE ASSESSEE

(individual / HUF / transferor / parent / spouse with greater income)

THE ANTI-AVOIDANCE PRINCIPLE

Look through assignment.
Tax true earner.

FIVE CLUBBING SITUATIONS

1 Income Without Asset	**2** Revocable Transfer	**3** Spouse / DIL	**4** Minor Child	**5** HUF Conversion
Sec. 96	Sec. 97 / 98	Sec. 99(1)(a)/(b)/(d)	Sec. 99(1)(c)	Sec. 99(3)/(4)
Assigning income only	*Asset transferred but recoverable*	*Family transfers without consideration*	*Minor's income on parent's return*	*Individual to HUF deemed transfer*

Eight Sub-Parts at a Glance

A

Income Without Asset Transfer

Sec. 96

B

Revocable Transfer of Assets

Sec. 97 & 98

C

Spouse's Income

Sec. 99(1)(a)

D

Son's Wife's Income

Sec. 99(1)(b)/(d)

E

Minor Child's Income

Sec. 99(1)(c)

F

Proportion Formula

Sec. 99(2)

G

HUF Conversion

Sec. 99(3)/(4)

H

Tax Liability

Sec. 100

Plus • Comprehensive Worked Computation (Mr. Krishnan) • Master Computation Proforma • Practitioner Takeaways

Three Key Concepts You Will See Throughout

01 "Substantial Interest"

Sec. 99(5)(a)(iii)

20% or more beneficial ownership of equity shares (in a company) or 20% or more share of profits (in any other concern) — held individually or together with relatives — at any time in the tax year.

02 "Adequate Consideration"

Throughout Sec. 99

Money or money's-worth equal to or close to the fair market value of the asset transferred. Love and affection, sense of obligation, or natural duty are NOT adequate consideration.

03 "Transfer" — Inclusive

Sec. 98(a)

Includes any settlement, trust, covenant, agreement or arrangement — whether revocable or non-revocable — by which the legal title or income-generating right is shifted, even partially.

PART A

Transfer of Income Without Transfer of Assets

Section 96

TRANSFER OF INCOME WITHOUT TRANSFER OF ASSETS – CHARGE

VERBATIM TEXT

All income arising to any person by virtue of a transfer,–
(a) whether revocable or not, and whether effected before or after the commencement of this Act; and
(b) where there is no transfer of assets from which such income arises,
shall be chargeable to income-tax as the …

ANALYSIS & PLAIN LANGUAGE

What is taxed	Income that arises to ANY person by virtue of a transfer of income only – without the underlying asset being transferred.
Who is charged	The TRANSFEROR (the original owner of the asset) – not the recipient who actually receives the income.
Revocability irrelevant	Sec. 96 applies whether the transfer is revocable or not. If only the income (not the asset) is assigned, the source remains with the transferor and tax follows the source.
Time of transfer	Applies to transfers effected BEFORE or AFTER the commencement of the 2025 Act – there is no grandfathering.
Common examples	(i) Owner of a house assigns rent to a friend without selling the house; (ii) Bondholder assigns the future interest coupons without parting with the bond; (iii) Patentholder assigns the royalty to a relative while retaining the patent.
Distinction from gift	If you give your friend ₹ 1,00,000 from rent already received – that's a gift after tax. But if you assign the FUTURE rent stream itself – Sec. 96 taxes the rent in your hands as it arises.

ILLUSTRATION

Assignment of rent
Mr. A owns a house in Chennai with annual rent of ₹ 4,80,000. By a written deed dated 01.04.2026, he assigns the rent for TY 2026-27 to his nephew without transferring the house.
Solution: The house (asset) continues to belong to Mr. A. Only the income has been assigned. Sec. 96 treats the entire ₹ 4,80,000 as Mr. A's income chargeable under "Income from House Property" – the nephew's receipt is not relevant. Even if the assignment is irrevocable, the result is the same.

CONDITIONS FOR INVOKING SEC. 96

ANALYSIS & PLAIN LANGUAGE

Condition 1 – sub-section (a)	There must be a TRANSFER. Word "transfer" carries an inclusive meaning under Sec. 98(a) – settlement, trust, covenant, agreement, arrangement (Table 6).
Condition 2 – sub-section (b)	There must be NO transfer of the underlying ASSET. Once the asset itself is transferred, Sec. 96 stops applying – then Sec. 97 (revocable transfer) or Sec. 99 (clubbing of relatives' income) may operate instead.
Both conditions cumulative	Both (a) AND (b) must be satisfied. If either is missing, Sec. 96 does not apply.
Effect on transferee	The transferee receives the income but is not taxed on it under Sec. 96. The transferor is taxed; the transferee's receipt is treated as a gift / capital receipt depending on facts.
Effect of subsequent asset transfer	If the same person later transfers the asset itself, the income from a future date will be examined under Sec. 97 (if revocable) or Sec. 99 (if to spouse / relative); Sec. 96 ceases to apply once the asset is transferred.

ILLUSTRATION

Asset later transferred
Mr. B assigns dividends from his shares to his sister on 01.04.2026 (only the future dividend, not the shares). On 01.10.2026 he gifts the SHARES to her.
Solution: For dividends arising 01.04.2026 – 30.09.2026, Sec. 96 applies → taxed in Mr. B's hands. For dividends arising 01.10.2026 onwards, the asset has been transferred; Sec. 96 no longer applies. Whether the dividend is taxed in Mr. B or his sister depends on whether the gift is for adequate consideration and on Sec. 99 (which does not list a sister – so post 01.10.2026 dividends are taxed in the sister's hands).

PART B

Revocable Transfer of Assets

Sections 97 & 98

CHARGE ON REVOCABLE TRANSFER

VERBATIM TEXT

All income arising to any person by virtue of a revocable transfer of assets shall be chargeable to income-tax as income of the transferor and shall be included in his total income.

ANALYSIS & PLAIN LANGUAGE

Trigger	Transfer of the ASSET itself (not just the income) – but the transfer is REVOCABLE within the meaning of Sec. 98(b) (Table 7).
Who is taxed	The transferor – on the income arising to the TRANSFEREE from such revocable transfer.
What is taxed	All income arising from the transferred asset – not merely a share.
Distinction from Sec. 96	Sec. 96 = transfer of INCOME without asset. Sec. 97 = transfer of ASSET that is revocable. Both lead to the same result (income taxed in transferor's hands), but the conditions are different.
Distinction from Sec. 99	Sec. 99 deals specifically with transfers to spouse / minor child / son's wife. Sec. 97 is a wider principle that catches revocable transfers to ANY transferee.

ILLUSTRATION

Revocable trust

Mr. C settled ₹ 50,00,000 worth of shares on a trust under a deed providing that he can revoke the trust at any time after giving 30 days' notice. The trust earns dividend of ₹ 3,00,000 in TY 2026-27.

Solution: The settlement is a transfer of the asset. Because Mr. C retains the right to revoke, the transfer is REVOCABLE. Sec. 97(1) charges the ₹ 3,00,000 dividend as Mr. C's income and not the trust's.

CARVE-OUT – TRUST / LIFETIME EXCEPTION

VERBATIM TEXT

The provisions of sub-section (1) shall not apply,—
(a) where a transfer is by way of trust which is not revocable during the lifetime of the beneficiary and in case of any other transfer, is not revocable during the lifetime of the transferee; and
(b) the transferor does not derive any direct or indirect benefit from such income in cases referred to in clause (a).

ANALYSIS & PLAIN LANGUAGE

Two cumulative conditions	(a) The trust / transfer is irrevocable for at least the LIFETIME of the beneficiary / transferee; AND (b) the transferor derives NO direct or indirect benefit from the income.
Trust route	Settle a trust which is irrevocable till the death of the beneficiary – Sec. 97(1) does not apply during the beneficiary's lifetime.
Other transfers	For non-trust transfers (gift / sale / settlement), the test is irrevocability for the lifetime of the TRANSFEREE.
Direct or indirect benefit	Even a small indirect benefit (e.g., the transferor enjoys rent-free occupation of the property settled, or the income is used to pay the transferor's personal expenses) defeats the carve-out.
Why this carve-out	The legislature recognises genuine, durable settlements that pass real ownership of the income away from the transferor. A lifetime irrevocable trust without back-door benefits is treated as a real transfer.

CHARGE REVIVES ON POWER TO REVOKE

VERBATIM TEXT

Irrespective of the provisions of sub-section (2), all income arising to any person by virtue of such transfer shall be chargeable to income-tax as income of the transferor as and when the power to revoke such transfer arises, and shall then be included in his total income.

ANALYSIS & PLAIN LANGUAGE

When this kicks in	Where a transfer was initially within the carve-out of Sec. 97(2) (lifetime irrevocable, no benefit), but a power to revoke later arises – e.g., on the beneficiary's death, on satisfaction of a contingency, on the expiry of a period.
Effect	From the moment the power to revoke arises, future income is taxed in the transferor's hands under Sec. 97(3) – overriding the carve-out.
Practical example	Settlement irrevocable for 20 years – on the 21st year the transferor regains the power to revoke. From that date, income from the settled asset is again taxed in the transferor's hands.
No retrospective effect	Sec. 97(3) operates prospectively from the date the power to revoke arises – it does not reach back to tax income earned during the irrevocable period.

"TRANSFER" – INCLUSIVE DEFINITION

VERBATIM TEXT

For the purposes of sections 96 and 97, and this section,—
(a) "transfer" includes any settlement, trust, covenant, agreement or arrangement;

ANALYSIS & PLAIN LANGUAGE

Inclusive definition	The word "transfer" is given a wide meaning to catch every form of arrangement – not just legal transfers.
Settlement	A disposition of property in favour of another – with or without consideration.
Trust	Any arrangement creating a fiduciary relationship – express, implied or constructive.
Covenant	A formal written agreement – e.g., a deed of covenant.
Agreement / arrangement	Any informal understanding, oral or written, including circuitous arrangements designed to deflect income.
Why this matters	Sec. 96 and Sec. 97 rely on the existence of a "transfer". By widening the term, the Act prevents an argument that something was "only an arrangement" or "only a covenant" and not a transfer.

DEEMED REVOCABLE TRANSFER

VERBATIM TEXT

SEC 98(b). a transfer shall be deemed to be revocable, if—
(i) it contains any provision for the direct or indirect re-transfer of the whole or any part of the income or assets to the transferor; or
(ii) it, in any way, gives the transferor a right to re-assume power …

ANALYSIS & PLAIN LANGUAGE

Two limbs	Limb (i) – any provision for direct or indirect RE-TRANSFER of income or asset to the transferor; Limb (ii) – any right to RE-ASSUME power directly or indirectly over income or asset.
"Whole or any part"	Even a partial re-transfer or partial right to re-assume power makes the whole transfer revocable for tax purposes.
Direct or indirect	An indirect re-transfer (through an intermediary, a related party, or a contingent right) is equally caught.
Deeming provision	Even if the transfer document calls itself "irrevocable", the law deems it revocable if either limb is satisfied.
Common red flags	(i) Transferor retained a power of appointment; (ii) Transferor named as a beneficiary on a contingency; (iii) Income to be applied for the transferor's debts; (iv) Asset to revert to the transferor on a future event.

ILLUSTRATION

Deemed revocable
Mr. D settles a property on a trust for the benefit of his nephew. The deed provides that if the nephew dies without children, the property reverts to Mr. D.
Solution: This is a contingent right of re-transfer to the transferor – limb (i) of Sec. 98(b). The trust is deemed revocable, and Sec. 97(1) charges the trust's income as Mr. D's income.

PART C

Clubbing of Spouse's Income

Section 99(1)(a)

SPOUSE'S REMUNERATION FROM SUBSTANTIAL-INTEREST CONCERN

VERBATIM TEXT

SEC 99(1)(a)(i). [income arising directly or indirectly] to the spouse of such individual,—by way of salary, commission, fees or any other form of remuneration, whether in cash or kind, from a concern in which such individual has a substantial interest but shall not include …

ANALYSIS & PLAIN LANGUAGE

What is clubbed	Spouse's remuneration in any form – salary, commission, fees, perks, benefits in kind, sitting fees – from a concern in which the assessee has a substantial interest.
What "concern" means	Any business or profession – company, firm, AOP, BOI, sole proprietorship, society. "Concern" is broader than "company".
"Substantial interest" – Sec. 99(5)(a)(iii)	Company case – ≥ 20% voting power individually OR jointly with relatives. Other case – ≥ 20% share in profits individually OR jointly with relatives. (Table 10.)
Time of test	Substantial interest must subsist at any time during the tax year – even one day is sufficient.
In whose hands	Income clubbed in the hands of the spouse with the GREATER total income before such inclusion [Sec. 99(5)(a)(i)] – Table 13.
Carve-out – professional services	Income SOLELY attributable to the spouse's technical / professional knowledge, experience and qualification is NOT clubbed (Table 9).

ILLUSTRATION

Spouse's salary from family company

Mr. E holds 30% voting power in M/s XY Pvt Ltd. His wife Mrs. E (a graduate but not a chartered accountant) draws a salary of ₹ 6,00,000 p.a. as Director-Operations of the company. Mr. E's other income for TY 2026-27 = ₹ 18,00,000; Mrs. E's other income = ₹ 4,00,000.

Solution: Mr. E has substantial interest (30% > 20%). Mrs. E's role does not require any specialised technical / professional qualification. So her ₹ 6,00,000 is clubbed. Mr. E's income before inclusion (₹ 18,00,000) is greater than Mrs. E's (₹ 4,00,000), so the clubbed ₹ 6,00,000 is added to Mr. E's total income.

TECHNICAL / PROFESSIONAL SERVICES EXCEPTION

ANALYSIS & PLAIN LANGUAGE

The carve-out	If the remuneration is SOLELY attributable to the spouse's technical or professional knowledge, experience and qualification – it is NOT clubbed.
Three cumulative requirements	(i) Technical or PROFESSIONAL knowledge; (ii) Experience; (iii) Technical or professional QUALIFICATION.
"Solely attributable"	The remuneration must be SOLELY for the technical / professional services. If part of it is for services that any layperson could render, the carve-out can fail.
Documentation	Job description, qualification proofs, role-specific KPIs, written contract – all useful to support the carve-out.
Common qualifying roles	Chartered Accountant, Engineer, Doctor, Architect, Software Architect, MBA-with-specialised-domain – where the role demands the qualification.
Common failing roles	Director, General Manager, Administrative Head – where no specific professional qualification is required.

ILLUSTRATION

Carve-out succeeds
Continuing Illustration 5 – assume Mrs. E is a Chartered Accountant employed as the Finance Manager of M/s XY Pvt Ltd, drawing ₹ 6,00,000 specifically for accounting / audit / financial compliance services.
Solution: If the remuneration is solely for her CA-qualified services, the proviso to Sec. 99(1)(a)(i) protects it. ₹ 6,00,000 is NOT clubbed and is taxed only in Mrs. E's hands.

"SUBSTANTIAL INTEREST"

VERBATIM TEXT

SEC 99(5)(a)(iii). an individual shall be deemed to have a substantial interest in a concern,—
(A) in case where the concern is a company, if its shares (not being shares entitled to a fixed rate of dividend whether with or without a further right to participate in profits) carrying not less than 20% of the voting power are, at any time during the tax year, owned …

ANALYSIS & PLAIN LANGUAGE

Company case (A)	≥ 20% of the voting power held BENEFICIALLY by the individual or jointly with relatives. Preference shares with fixed dividend (with or without participating right) are EXCLUDED.
Non-company case (B)	≥ 20% share in PROFITS – held by the individual alone, or jointly with relatives.
Test point	At ANY time during the tax year. A holding for one day is enough.
Beneficial ownership	Looks at the real owner – not just the registered owner. Shares held in nominee name still count if the individual is the beneficial owner.
"Relatives" – meaning	As defined in the 2025 Act – includes spouse, brother, sister, lineal ascendant or descendant of the individual.
Joint test caveat	An individual with 5% holding can still have substantial interest if relatives hold 16% – combined 21% crosses the 20% threshold.

INCOME FROM ASSETS TRANSFERRED TO SPOUSE

VERBATIM TEXT

SEC 99(1)(a)(ii). [income arising directly or indirectly] to the spouse of such individual,—from assets transferred directly or indirectly to him or her by such individual otherwise than for adequate consideration or in connection with an agreement to live apart, subject to …

ANALYSIS & PLAIN LANGUAGE

What is clubbed	Income arising to the spouse from any ASSET transferred by the individual to the spouse, directly or indirectly, otherwise than for adequate consideration.
Assets covered	Any income-producing asset – cash deposited in spouse's bank account, shares, immovable property, mutual fund units, gold, etc.
Direct transfer	Gift / settlement of an asset by the individual to the spouse without sale consideration.
Indirect transfer	Transfer through an intermediary, cross-transfer arrangement (A gifts to B's spouse and B gifts to A's spouse), or any circuitous route.
Adequate consideration	If the spouse pays full market value for the asset out of her own independent funds – Sec. 99(1)(a)(ii) does NOT apply.
What is NOT clubbed	Income from the SPOUSE'S OWN assets (acquired from her own income, savings or inheritance from someone else) – not relevant.

ILLUSTRATION

Cash gift to spouse

Mr. F gifts ₹ 10,00,000 to his wife on 01.04.2026. She invests it in a fixed deposit at 7% p.a. and earns ₹ 70,000 interest in TY 2026-27. She reinvests the ₹ 70,000 interest separately and earns ₹ 4,500 thereon.

Solution: ₹ 70,000 (income from the transferred asset – the gifted ₹ 10,00,000) is clubbed in Mr. F's hands under Sec. 99(1)(a)(ii). The ₹ 4,500 (income on income) is taxable in Mrs. F's hands separately.

ADEQUATE CONSIDERATION / LIVE-APART AGREEMENT – CARVE-OUTS

ANALYSIS & PLAIN LANGUAGE

Carve-out 1 – Adequate consideration	If the spouse acquired the asset by paying ADEQUATE CONSIDERATION (i.e., its full market value) out of her own independent funds – clubbing does not apply.
Source of consideration	The consideration must come from the spouse's own pre-existing funds or independent income – not from a circular arrangement where the individual indirectly funds the consideration.
Carve-out 2 – Live-apart agreement	Transfers "in connection with an agreement to live apart" – e.g., divorce settlement, separation deed – are excluded from clubbing.
What is a "live-apart agreement"	Includes a written separation agreement, a divorce decree, or a court-recognised settlement on the dissolution of marriage. Casual living apart without a formal arrangement may not qualify.
Read with Sec. 25(a)	Clubbing of spouse's income is also "subject to" Sec. 25(a) – which provides specific exemptions / thresholds for certain receipts (covered in Table 21).
Practical advice	For asset transfers between spouses on separation, ensure the agreement is documented, witnessed and reflects genuine separation – this insulates the income from clubbing.

ALLOCATION BETWEEN SPOUSES & AO OPPORTUNITY

VERBATIM TEXT

SEC 99(5)(a). for sub-section (1)(a)(i),—
(i) the income referred to in that clause shall be included in the hands of either of the spouse whose total income before such inclusion is greater; and
(ii) such income, once included in the total income of either spouse, for a …

ANALYSIS & PLAIN LANGUAGE

Allocation rule	Spouse with the GREATER total income before clubbing – takes the clubbed amount.
Calculation point	Compare the two spouses' total incomes BEFORE adding the clubbing item. The higher figure wins; the clubbing income gets added there.
Stickiness	Once income is clubbed in spouse A's hands in year 1, it stays in spouse A's hands in succeeding years – AO cannot shift it merely because spouse B's income later becomes higher.
AO opportunity	AO can move the clubbing to the other spouse only after giving that other spouse an opportunity of being heard. This is a natural-justice safeguard.
Why this rule	Prevents annual flip-flopping based on small year-on-year differences in spouses' incomes.
Important – applies to which limb?	The Sec. 99(5)(a)(i) and (ii) rule applies specifically to Sec. 99(1)(a)(i) – the substantial-interest remuneration limb. For asset-transfer clubbing under (a)(ii) and (b), it is the TRANSFEROR who is taxed.

ILLUSTRATION

Spouse-of-greater-income test
Mr. G – total income before clubbing ₹ 25,00,000. Mrs. G – total income before clubbing ₹ 28,00,000. Both have substantial interest in a family LLP. Mrs. G receives ₹ 5,00,000 as commission from the LLP. The carve-out for technical services does not apply.
Solution: Mrs. G's total income (₹ 28,00,000) is greater than Mr. G's. So the ₹ 5,00,000 commission, even though it is Mrs. G's own receipt, gets clubbed in HER OWN HANDS (which is the same as her returning it normally) – the rule still operates. In TY 2027-28, even if Mr. G's income is higher, the ₹ 5,00,000 will continue to be clubbed in Mrs. G's hands unless the AO gives her an opportunity

PART D

Clubbing of Son's Wife's Income

Section 99(1)(b) and (d)

DIRECT TRANSFER TO SON'S WIFE

VERBATIM TEXT

SEC 99(1)(b). [income arising directly or indirectly] to the son's wife of such individual from assets transferred directly or indirectly on or after the 1st June, 1973, to her by such individual, otherwise than for adequate consideration;

ANALYSIS & PLAIN LANGUAGE

What is clubbed	Income arising to the son's wife (daughter-in-law) from any asset transferred by the individual to her, directly or indirectly, otherwise than for adequate consideration.
Cut-off date	Applies only to transfers made ON OR AFTER 1 June 1973. Pre-1 June 1973 transfers are outside this provision.
Adequate consideration	Same test as for spouse – if she paid full market value out of her own independent funds, no clubbing.
In whose hands	Income clubbed in the hands of the TRANSFEROR (the father-in-law / mother-in-law) – not the son's wife and not the son.
Daughter / son's husband	Notice that clubbing applies to son's WIFE only. Transfers to one's own daughter, or to daughter's husband, are not covered by this clause.
Common scenario	Cash gift to daughter-in-law followed by her investing in FD / shares – the income on the FD / shares is clubbed in the parent-in-law's hands.

ILLUSTRATION

Daughter-in-law's interest income
Mr. H gifts ₹ 8,00,000 to his daughter-in-law on 15.06.2026. She places it in a fixed deposit earning ₹ 56,000 of interest in TY 2026-27.
Solution: Transfer is post-01.06.1973 and without adequate consideration. Sec. 99(1)(b) clubs the ₹ 56,000 interest in Mr. H's hands. (Note – an outright cash gift to a daughter-in-law does not by itself attract Sec. 102 / 92 — old Sec. 56(2)(x) — because she is a relative; but the income from the gifted sum is caught by Sec. 99(1)(b).)

INDIRECT TRANSFER FOR BENEFIT OF SPOUSE / SON'S WIFE

VERBATIM TEXT

SEC 99(1)(d). [income arising directly or indirectly] to any person or association of persons from assets transferred directly or indirectly, otherwise than for adequate consideration to the person or association of persons by such individual, to the extent to which the …

ANALYSIS & PLAIN LANGUAGE

Mischief targeted	The taxpayer transfers an asset to a third person / AOP / trust – but the income is for the immediate or deferred benefit of the spouse or son's wife. The interposition of an intermediary does not save the arrangement from clubbing.
What is clubbed	Income from the transferred asset – TO THE EXTENT it is for the immediate or deferred benefit of the spouse or son's wife.
Conditions	(i) Transfer of asset by the individual to a person / AOP; (ii) Transfer is otherwise than for adequate consideration; (iii) Income is for the immediate or deferred benefit of the spouse or son's wife.
"Immediate or deferred benefit"	Whether the spouse / son's wife enjoys the income now or at a future date – immediate use or accumulation – both are covered.
Cut-off for son's wife	For the son's-wife arm of this clause, only transfers ON OR AFTER 1 June 1973 are caught. The spouse arm has no such cut-off.
Pro tanto clubbing	If only part of the income from the transferred asset is for the spouse / son's wife's benefit, only that part is clubbed.

ILLUSTRATION

Trust for benefit of spouse

Mr. I settles ₹ 25,00,000 on a discretionary trust (without adequate consideration) where his wife is the only beneficiary. The trust earns ₹ 1,75,000 income in TY 2026-27.

Solution: The income from the transferred asset is for the spouse's immediate benefit. Sec. 99(1)(d) clubs ₹ 1,75,000 in Mr. I's hands. The trust's separate tax position is overridden by the clubbing rule.

PART E

Clubbing of Minor Child's Income

Section 99(1)(c) and 99(5)(b)

GENERAL RULE – MINOR'S INCOME CLUBBED

VERBATIM TEXT

SEC 99(1)(c). [income arising directly or indirectly] to the minor child of the such individual, but shall not include income accruing or arising–
(i) on account of work done by such child; or
(ii) from activities where his skill, talent, specialised knowledge or experience …

ANALYSIS & PLAIN LANGUAGE

Who is a "minor child"	Any son or daughter of the individual who has not attained the age of 18 on the relevant date. The status is tested for each tax year.
Source of income immaterial	Whether the income is from gift / inheritance / investment / business interest – it is clubbed in the parent's hands. Source is irrelevant; what matters is that the income arises to a minor child.
Includes adopted / step-children	"Child" includes step-children and adopted children of the individual.
What if the minor's income is from a transfer NOT by the parent?	Still clubbed – Sec. 99(1)(c) does not require that the income be from a parent-funded transfer. Even a grandparent's gift to a minor – the income is clubbed in the parent's hands.
Three exceptions (Tables 17 to 19)	(i) earned income; (ii) skill-based income; (iii) income of a disabled minor.
Year of clubbing	The income arising during the year of MINORITY is clubbed. The year the child attains majority – income arising after that date is taxed in the (now-major) child's own hands.

ILLUSTRATION

Investment income of minor
Master J (aged 12) holds shares gifted by his grandfather. Dividend received during TY 2026-27 = ₹ 60,000.
Solution: Master J is a minor. Investment income (not earned, not skill-based, no disability) is clubbed in his parent's hands under Sec. 99(1)(c). Identification of which parent – see Table 20.

EXCEPTION – CHILD'S EARNED INCOME

ANALYSIS & PLAIN LANGUAGE

What this saves	Income accruing or arising to the minor on account of WORK DONE BY THE CHILD.
Examples	Child actor's fees, child model's earnings, money earned by a minor at a part-time job, prize money for participating in a competition through personal effort.
Why excluded	It is the child's own earned income – not investment income flowing from a transfer or accumulation. Clubbing was never intended to discourage minors from earning legitimately.
But income on accumulation IS clubbed	If the minor earns ₹ 5,00,000 as a child actor and saves it in an FD – the FD interest in subsequent years is clubbed (since the interest is investment income, not 'work done by the child').
Tax in minor's hands	The earned income is taxed as if the minor were an independent individual – at slab rates applicable to the minor.

ILLUSTRATION

Child model
Miss K (aged 14) earned ₹ 4,00,000 in TY 2026-27 as a child model. She also received ₹ 50,000 as interest on her FD (the FD was funded by her father's gift two years ago).
Solution: ₹ 4,00,000 earned modelling fees – exception u/s 99(1)(c)(i) – taxed in Miss K's hands. ₹ 50,000 interest on FD funded by father's gift – clubbed in the father's hands under Sec. 99(1)(c) (no exception applies to investment income).

EXCEPTION – SKILL/TALENT-BASED ACTIVITIES

ANALYSIS & PLAIN LANGUAGE

What this saves	Income from activities where the minor's SKILL, TALENT, SPECIALISED KNOWLEDGE OR EXPERIENCE is applied.
Examples	Music recital fees, prize money for a chess tournament, competition prizes won on merit, royalty for a book authored by a child prodigy, fees for a winning sports performance.
Distinction from clause (i)	Clause (i) – "work done" – broader, includes labour and effort. Clause (ii) – specifically requires skill, talent, specialised knowledge or experience – the gain flows from the child's own ability.
Overlap permitted	If the income falls under either clause (i) or clause (ii), the exception applies. The two clauses are alternative.
Documentation	Skill / talent should be evidenced by certificates, recordings, awards, performance contracts where the income is significant.

EXCEPTION – MINOR WITH DISABILITY

ANALYSIS & PLAIN LANGUAGE

What this saves	ANY income (whether earned, skill-based, or investment) of a minor child suffering from a disability of the nature specified in Sec. 154.
Sec. 154 disability list	Includes (legacy provisions equivalent to old Sec. 80U) – blindness, low vision, leprosy-cured, hearing impairment, locomotor disability, mental retardation, mental illness, autism, cerebral palsy, multiple disabilities. Severity threshold typically 40% disability or more (severe ≥ 80%) per medical authority's certificate.
Effect	ALL the minor's income, including investment income, is taxed in the MINOR's own hands. Nothing is clubbed in either parent's hands.
Why this exception	Recognising the additional financial burden on disabled minors and their families – the income is intended to support the child and is therefore not aggregated with parents' income.
Documentation	Disability certificate from a recognised medical authority should be kept on record. The certificate also enables Sec. 154 deduction in the minor's own return.

ILLUSTRATION

Disabled minor
Master L (aged 10) is severely autistic. He has investment income of ₹ 1,80,000 (from FDs and mutual funds funded by his grandparents' gifts).
Solution: By virtue of Sec. 99(1)(c)(iii) r.w. Sec. 154, the entire ₹ 1,80,000 is taxed in Master L's own hands as an independent assessee. Nothing is clubbed in either parent's hands.

IDENTIFICATION OF CLUBBING PARENT

VERBATIM TEXT

SEC 99(5)(b). for sub-section (1)(c), income of minor child shall be included—
(i) in the income of that parent whose total income before such inclusion is greater, in case where the marriage of his parents subsists; or
(ii) in the income of the parent who maintains such child during the tax year, in case where marriage of his parents does not subsist,
and such income, …

ANALYSIS & PLAIN LANGUAGE

Marriage subsists – clause (i)	Income clubbed in the hands of the PARENT WITH THE GREATER total income (before clubbing). Compare both parents' returns; the higher figure takes the clubbing.
Marriage does not subsist – clause (ii)	Where the parents are divorced / legally separated / one is deceased – clubbing in the hands of the parent who MAINTAINS the child during the tax year.
Stickiness rule	Once clubbed in parent A's hands in year 1, continues in parent A's hands for succeeding years – AO can shift only after giving the other parent an opportunity of being heard.
Multiple minor children	The greater-income test is applied separately for each minor child's income. Generally all minors' incomes go to the same parent (the higher-income one), but the law permits split where appropriate.
What if both parents are deceased?	The minor is a separate assessee – represented by the legal guardian; clubbing does not apply (there is no parent in whose handsto club).

EXEMPTION U/S 25(a) [OAS. 10(32)] – ₹ 1,500 PER MINOR CHILD

ANALYSIS & PLAIN LANGUAGE

Source of relief	Sec. 25(a) of the 2025 Act provides an exemption [equivalent to old Sec. 10(32)].
Amount	Lower of ₹ 1,500 per minor child OR the actual amount of income to be clubbed in respect of that child.
Application	Available against EACH MINOR child's clubbed income separately. So if 3 minor children's incomes are clubbed, exemption is up to ₹ 1,500 × 3 = ₹ 4,500 in aggregate.
Not available for	Income excluded under the three Sec. 99(1)(c) provisos (earned income, skill income, disabled minor) – because those are not 'clubbed'.
Effect on computation	First compute the clubbing amount per child; then deduct the per-child Sec. 25(a) exemption; the net amount is added to the parent's total income.

ILLUSTRATION

Sec. 25(a) exemption
Mr. M's three minor children have investment income (clubbable) of ₹ 8,000, ₹ 1,200 and ₹ 30,000 respectively. Mr. M's income is greater than his wife's.
Solution: Child 1: clubbing = 8,000 − 1,500 = ₹ 6,500. Child 2: clubbing = 1,200 − 1,200 (capped at actual) = ₹ Nil. Child 3: clubbing = 30,000 − 1,500 = ₹ 28,500. Total added to Mr. M's income = ₹ 35,000.

PART F

Asset Invested in Business / Firm

Section 99(2) — The Proportion Formula

THE PROPORTION FORMULA – SEC. 99(2) – A = B × (C/D)

VERBATIM TEXT

If the asset transferred under sub-section (1)(a)(ii) or (b) is invested by the spouse or son's wife, in any business or in the nature of capital contributed as a partner in a firm, or, as the case may be, for being admitted to the benefits of partnership in a firm, then, the income to be included in the hands of the individual for the tax year shall be as follows:–
A = B …

ANALYSIS & PLAIN LANGUAGE

When the formula applies	(i) Assets transferred by individual to spouse [Sec. 99(1)(a)(ii)] OR son's wife [Sec. 99(1)(b)] – without adequate consideration; AND (ii) those assets are invested by the spouse / son's wife in a business or as capital in a firm.
Variable A	Income to be CLUBBED in the individual's hands for the year.
Variable B	Total income AND/OR interest arising to the spouse / son's wife from the business or firm during the year.
Variable C	Value of the assets transferred and invested, AS ON THE FIRST DAY of the tax year (1 April).
Variable D	Total investment / total capital contribution by the spouse / son's wife AS ON THE FIRST DAY of the tax year.
First-day measurement	Both C and D are measured on 1 April. Mid-year additions (whether by the spouse or by further transfers) do not affect the year's computation.

PRACTICAL APPLICATION – PARTNER'S CAPITAL – WORKED EXAMPLE

ANALYSIS & PLAIN LANGUAGE

Scenario	Mr. N gifts ₹ 6,00,000 cash to his wife on 15.03.2025. She uses this plus her own savings of ₹ 4,00,000 (= ₹ 10,00,000 total) to become a partner in M/s ABC Firm with effect from 01.04.2025.
First day of TY 2026-27	1 April 2026 – Mrs. N's capital in the firm. Assume capital balance is ₹ 12,00,000 (includes ₹ 10,00,000 initial + ₹ 2,00,000 retained earnings).
Tracking the gifted portion	Of the opening capital of ₹ 12,00,000 on 01.04.2026, ₹ 6,00,000 represents the gifted asset (assumed to be tracked separately).
Income from firm in TY 2026-27	Mrs. N receives profit share ₹ 1,80,000 and interest on capital ₹ 1,20,000 = total B = ₹ 3,00,000. (Salary, if any, is excluded.)
Apply formula	C = ₹ 6,00,000; D = ₹ 12,00,000; A = 3,00,000 × (6,00,000 / 12,00,000) = ₹ 1,50,000.
Result	₹ 1,50,000 is clubbed in Mr. N's hands. Balance ₹ 1,50,000 is taxed in Mrs. N's hands.

ILLUSTRATION

Step-wise formula application

Mr. O gifted ₹ 5,00,000 to Mrs. O on 01.10.2025. She invested it in her sole-proprietorship business along with her own ₹ 5,00,000 savings. As on 01.04.2026, total business investment = ₹ 11,00,000 (including ₹ 1,00,000 retained earnings reinvested). Income from business in TY 2026-27 = ₹ 2,20,000.

Solution: C = ₹ 5,00,000 (the gifted amount that was invested); D = ₹ 11,00,000 (total investment as on 01.04.2026); B = ₹ 2,20,000. A = 2,20,000 × (5,00,000 / 11,00,000) = ₹ 1,00,000. Clubbed in Mr. O's hands.

PART G

Conversion of Individual Property into HUF

Section 99(3) and (4)

CONVERSION MODES – IMPRESSING / THROWING-IN / TRANSFER

VERBATIM TEXT

Where a property owned by an individual is converted into property belonging to the Hindu undivided family of which he is a member, through—
(a) the act of impressing such separate property with the character of property belonging to the family; or
(b) throwing it into the …

ANALYSIS & PLAIN LANGUAGE

Three modes covered	(a) Impressing the property with the character of HUF property (a unilateral declaration); (b) Throwing the property into the common stock of the family; (c) Transfer, directly or indirectly, to the family.
Common feature – without adequate consideration	All three modes apply only where the conversion is WITHOUT adequate consideration. A genuine sale at fair market value to the HUF is not caught.
No transfer document required	For modes (a) and (b), no formal deed of transfer is needed – the change of character or the throwing-in itself is the conversion.
Member of the HUF	The individual must be a MEMBER of the HUF that takes the property.
Effect	The Act applies the deeming fictions of Sec. 99(3)(i) and (ii) to all three modes uniformly (Tables 25 and 26).

ILLUSTRATION

Throwing property into HUF
Mr. P owns a commercial property earning rent of ₹ 6,00,000 p.a. On 01.04.2026, by a deed, he throws this property into the common stock of his HUF (of which he is the karta).
Solution: This is conversion under mode (b) – throwing into common stock. The HUF appears to own the property post-01.04.2026, but Sec. 99(3) deems the income to be Mr. P's. See Tables 25 and 26 for the consequences.

INCOME FROM CONVERTED PROPERTY

VERBATIM TEXT

SEC 99(3)(i). the individual shall be deemed to have transferred such property, through the family, to the members of such family for being held jointly, and the income derived from such property or part thereof, shall be deemed to be income of the individual;

ANALYSIS & PLAIN LANGUAGE

Deeming fiction	The individual is DEEMED to have transferred the property to the members of the family. The HUF is treated as a conduit.
Effect on income	Income derived from the converted property (or any part of it) is DEEMED to be the individual's income – not the HUF's.
Whole or part	Whether all the income or only a portion is for the individual / family members – clubbing applies pro tanto.
Year-on-year application	The clubbing operates EVERY year so long as the property remains with the HUF (or its members post-partition).
Practical implication	Conversion is essentially a no-effect transaction for income-tax purposes – the rental / dividend / interest from the converted property continues to be the individual's taxable income.

TREATMENT AFTER PARTITION

VERBATIM TEXT

SEC 99(3)(ii). where the property so converted has been the subject-matter of partition (whether partial or total) amongst the member of the family, the income derived from such property as is received by the spouse of the individual on partition, shall be deemed to arise to the spouse from assets transferred indirectly to the spouse and the provisions of sub-section …

ANALYSIS & PLAIN LANGUAGE

What happens on partition	When the converted property (or its descendant assets) is partitioned among the HUF's members, each member gets a share.
Spouse's share	The portion received by the SPOUSE is deemed to have been transferred INDIRECTLY by the individual to the spouse – Sec. 99(1)(a)(ii) (Table 11) is then triggered for the income.
Other members' shares	Income received by other family members (sons, daughters etc.) on partition is governed by the general law – clubbed back in the individual's hands under Sec. 99(3)(i) only as long as the property is with the HUF; once partitioned to a non-spouse member, that arm of clubbing ceases.
Anti-double-taxation	The same income, once clubbed in the individual's hands, is excluded from the HUF's or spouse's total income – avoiding double charge.
Why this rule	Without it, an individual could neutralise the clubbing under Sec. 99(3)(i) by quickly partitioning the HUF and routing the property to the spouse – the law plugs that loophole by treating it as an indirect transfer to the spouse.

CUT-OFF DATE 31.12.1969

VERBATIM TEXT

The provisions of sub-section (3) shall not apply where the property of the individual has been converted into property belonging to the family on or before the 31st December, 1969.

ANALYSIS & PLAIN LANGUAGE

Effect	Conversions made ON OR BEFORE 31 December 1969 are EXCLUDED from Sec. 99(3) clubbing.
Why this date	The original anti-conversion provision came into force in 1970. Conversions completed before that date are grandfathered – they pre-date the policy.
Effect on income today	Income from a property converted on or before 31.12.1969 is taxed in the HUF's hands as normal HUF income – no clubbing.
Burden of proof	The taxpayer must demonstrate (with documentary evidence – deeds, returns, family settlements) that the conversion was completed by 31.12.1969.
Practical relevance today	Becoming rare – very few conversions documented before 1970 are now in active dispute, but the cut-off remains on the statute.

"PROPERTY" – INCLUSIVE MEANING

VERBATIM TEXT

SEC 99(5)(c). for sub-section (3), "property" includes–
(i) interest in property; or
(ii) movable or immovable property; or
(iii) proceeds of sale of such property and any money, property or investment representing such proceeds; or
(iv) where property is converted into any …

ANALYSIS & PLAIN LANGUAGE

Wide definition	"Property" for Sec. 99(3) covers movable, immovable, partial interests, sale proceeds, and substituted property.
Sale proceeds	If the converted property is sold and the proceeds are reinvested in another asset, the new asset (and its income) continues to be "property" for clubbing purposes.
Conversion into another form	If the converted property is converted again into a different form (e.g., shares are sold and proceeds invested in real estate), the chain continues – the new asset is also caught.
Anti-laundering effect	Prevents the taxpayer from breaking the clubbing chain by simply converting the property into another form within the HUF.
Tracking burden	On the taxpayer (and the AO) – to identify and trace the substituted property through successive conversions.

ILLUSTRATION

Illustration – Sale and reinvestment
Mr. Q's property converted into HUF in 2015 was sold by the HUF in 2023 for ₹ 80,00,000. The HUF reinvested the entire ₹ 80,00,000 in a new property. Rent from the new property in TY 2026-27 = ₹ 5,00,000.
Solution: By Sec. 99(5)(c)(iii) and (iv), the new property is "property" for Sec. 99(3) purposes. Sec. 99(3)(i) deems the ₹ 5,00,000 rent to be Mr. Q's income, even though formally the rent flows to the HUF.

PART H

Liability for Tax on Clubbed Income

Section 100

LIABILITY OF PERSON WHOSE INCOME IS CLUBBED

VERBATIM TEXT

Where, income of a person, other than the assessee, arising from any asset, or income from membership of a firm, is included in the total income of the assessee under this Chapter or under section 25(a), then, irrespective of anything to the contrary contained in any other …

ANALYSIS & PLAIN LANGUAGE

Trigger	The clubbed income arises from an ASSET held in the other person's name, OR from MEMBERSHIP of a firm (held by the other person).
Liability of the other person	The person in whose name the asset stands (or who is the partner / member) is liable to pay the portion of tax attributable to the clubbed income – upon service of a NOTICE OF DEMAND by the AO.
Quantum of liability	Only that part of the assessee's tax liability which is ATTRIBUTABLE to the clubbed income. Not the whole of the assessee's tax.
Procedure	AO issues a notice of demand to the other person specifically for the attributable tax. Notice is mandatory – the liability does not arise automatically.
Override of other laws	The Sec. 100 liability operates IRRESPECTIVE of any contrary provision in any other law – e.g., the PoSH Act, Marriage Act, Partnership Act, Trust Act, etc. The recovery right cannot be defeated by another statute's protection.
Includes Sec. 25(a)	Liability also covers the small Sec. 25(a) exempt portion of minor's clubbed income.

ILLUSTRATION

Illustration – Notice to spouse
Mr. R's wife earned ₹ 10,00,000 of dividend on shares gifted by him. The dividend was clubbed in Mr. R's hands; his total tax for the year was ₹ 12,00,000, of which ₹ 3,00,000 is attributable to the clubbed dividend.
Solution: AO can issue a notice of demand for ₹ 3,00,000 to Mrs. R (in whose name the shares stand) under Sec. 100(a). She is liable to pay that portion. Mr. R remains liable for the full ₹ 12,00,000 in his assessment, but the AO has an additional recovery channel against Mrs. R for the ₹ 3,00,000 attributable to her clubbed dividend.

JOINT AND SEVERAL LIABILITY

VERBATIM TEXT

SEC 100(b). where any such asset is held jointly by more than one person, they shall be jointly and severally liable to pay such tax;

ANALYSIS & PLAIN LANGUAGE

When this kicks in	Where the income-producing asset is held JOINTLY by more than one person.
Joint and several liability	All joint holders are jointly AND severally liable. AO can recover the entire attributable tax from any one of them, or from all of them in any combination.
Internal apportionment	Internal apportionment among joint holders is a matter of contract / equity between them – not the AO's concern.
Practical effect	Useful where one joint holder is a non-resident or has insufficient assets – AO can pursue the other joint holder for the full attributable tax.
Scope	Limited to the attributable tax – joint and several liability does not extend to the assessee's other tax liabilities.

APPLICATION OF CHAPTER XIX-D RECOVERY PROVISIONS

VERBATIM TEXT

SEC 100(c). the provisions of Chapter XIX-D shall apply accordingly.

ANALYSIS & PLAIN LANGUAGE

What Chapter XIX-D contains	The recovery / collection provisions of the 2025 Act – arrest, attachment of property, garnishee orders, certificate proceedings before the Tax Recovery Officer, etc. (Equivalent to old Chapter XVII-D / Second Schedule recovery rules.)
Effect	Once a notice of demand is issued under Sec. 100(a), the entire armoury of recovery available against a defaulting taxpayer becomes available against the other person.
Practical examples	Bank accounts can be attached, salary can be garnisheed, immovable property can be attached and sold, the person can be declared an assessee in default.
Right of appeal / objection	The other person retains rights to object to the quantum, file appeals (under the appellate hierarchy), seek stay – the procedural protections continue.
Co-ordination with the assessee's case	If the assessee successfully appeals and the clubbing is reversed, the recovery against the other person also collapses correspondingly.

Mr. Krishnan — Comprehensive Worked Computation

FACTS • TY 2026-27 • Mr. Krishnan, aged 50

- Owns 30% of M/s KrishnaTech Pvt Ltd. Wife (graduate, no professional qualification) draws ₹ 8,00,000 salary as Director-Operations.
- TY 2024-25: gifted ₹ 12,00,000 cash to wife → placed in FD → TY 2026-27 interest = ₹ 84,000.
- Gifted ₹ 5,00,000 to daughter-in-law on 10.05.2024 → invested in equity MFs → dividend in TY 2026-27 = ₹ 22,000.
- Son aged 16 (no disability): ₹ 1,80,000 from chess tournament (skill-based) + ₹ 25,000 bank interest on father's gift.
- Daughter aged 9: ₹ 12,000 dividend on shares gifted by grandmother.
- Wife's separate income from her own earlier earnings = ₹ 1,20,000.
- Settled ₹ 20,00,000 on irrevocable trust for unmarried sister (no benefit) → trust earned ₹ 1,40,000.
- Mr. Krishnan's other personal income = ₹ 30,00,000.

#	Item	Treatment	Section	Clubbed (₹)
1	Wife's salary (no prof. qualification, sub. interest)	Clubbed in Mr. Krishnan (greater income)	*99(1)(a)(i)*	8,00,000
2	FD interest from cash gifted to wife	Clubbed in Mr. Krishnan (asset transferred without consideration)	*99(1)(a)(ii)*	84,000
3	DIL's MF dividend on cash gift	Clubbed in Mr. Krishnan (gift after 01.06.1973)	*99(1)(b)*	22,000
4	Son's chess prize money (skill-based)	*EXEMPT from clubbing (skill carve-out)*	*99(1)(c)(ii)*	**Nil**
5	Son's bank interest (₹ 25,000) – minus ₹ 1,500 exemption	Clubbed in Mr. Krishnan (greater-income parent)	*99(1)(c) + 25(a)*	23,500
6	Daughter's dividend (₹ 12,000) – minus ₹ 1,500 exemption	Clubbed in Mr. Krishnan	*99(1)(c) + 25(a)*	10,500
7	Wife's separate income (own earlier earnings)	*NOT clubbed (no transfer from Mr. K)*	—	**Nil**
8	Trust income for unmarried sister (irrevocable, no benefit)	*NOT clubbed (Sec. 97(2) carve-out)*	*97(2)*	**Nil**
	TOTAL CLUBBING ADDITION			**9,40,000**

Practitioner Takeaways

01

Trace every gift from spouse / DIL / minor

When a family member shows passive income, ask: did the asset come from the assessee? If yes — clubbing applies under Sec. 99.

02

Distinguish capital from yield

Sec. 99 clubs INCOME from the transferred asset, not the asset itself. Income from accretions / re-investments of the income generally does NOT cascade.

03

₹ 1,500 per minor exemption

Sec. 25(a) [old 10(32)] exempts ₹ 1,500 per minor child whose income is clubbed — apply per child, not aggregate.

04

Skill ≠ assignment

A minor's skill / talent income (chess, music, modelling, sports prize money) escapes clubbing under Sec. 99(1)(c)(ii). Document the skill nexus carefully.

05

Greater-income parent

Where parents are both alive and not separated, clubbed in the parent with the GREATER total income before clubbing — verify with both parents' projections.

06

Sec. 100 — joint and several

AO can recover from the assessee OR from the person whose income is clubbed. Advise clients on documentation of the clubbing calculation in both files.

END OF PART TWO

Thank You

Income of Other Persons — Sections 96 to 100

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