

Text Book



INCOME TAX

A Textbook for B.Com. & BBM/BBA as per Gulbarga University Kalaburagi,
Karnataka University Dharwad, Rani Chennamma University Belagavi,
Vijaynagar Sri Krishnadevaraya University Bellary and Akkamahadevi
Women's University Vijayapura Syllabus

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9.2 ASSESSMENT OF HINDU UNDIVIDED FAMILY

For Income tax purpose Hindu Undivided Family (HUF) is treated as separate assessee. The income Tax Act has not defined the meaning of Hindu Undivided Family. For the purpose of understanding the meaning of HUF we have to depend on the Hindu Law.

According to Hindu law, a Joint Hindu Family consists of all persons lineally descended from a common ancestor including their wives and unmarried daughters. (Only one member cannot constitute a joint Hindu family.) There must be at least two persons whether male or female to constitute joint Hindu family.

SCHOOLS OF HINDU LAW

Joint Hindu Families are governed by two schools namely Dayabhag School and Mitakshara School.

a) Dayabhaga School of Thought (দায়ভাগ)

It is applicable to the states of West Bengal, Assam and some parts of Orissa. Under this law (the son does not get any right in the properties merely by birth in the family. His rights will arise only after the death of his father as regards both ancestral and self acquired property of his father.) Hence, the father will be assessed as an individual even for his ancestral property if he has no coparceners. He is considered to be the absolute owner of all properties until his death. After his death, if there are two or more coparceners in the family, the income from ancestral property will be taxable in the hands of HUF.

b) Mitakshara School of Thought (মিতাক্ষর)

It is applicable to the whole of India except the states of West Bengal, Assam and some parts of Orissa. According to this school, (the male members of joint Hindu family acquire right in the joint family property by birth and become coparceners.) However, after the passing of Hindu Succession (Amendment) Act 2005, the position of daughters has changed. The daughters of a coparcener become coparceners of the family by birth in the same manner as the son.

Generally, (the joint Hindu family is managed by the eldest male member of the family called the Karta) (The income from such joint property will be assessed as income of Hindu undivided family.) However, the income from self-acquired property of father is taxable in the hands of father as an individual.

Status of HUF:

For claiming the status of Hindu undivided family, the following conditions should be satisfied.

a) Common Property of the Family

The common property of the family consists of

- i) Ancestral property
- ii) Other property acquired with the help of ancestral property

New chapter.

Assessment of Hindu Undivided Families

2 marks question answer.

(1) Hindu undivided Family means:- According to Hindu law, a joint Hindu Family consists of all persons lineally descended from a common ancestor, including their wives and unmarried daughters & sons. — only one member cannot constitute a joint Hindu family, — there must be at least two persons, whether male or female to constitute joint Hindu family.

(2) Schools of Hindu law.

Joint Hindu Families (JHF) are governed by two schools

(1) Dayabhaga School and (2) Mitakshara School.

(1) Dayabhaga School of thought.

It is applicable to the state of West Bengal, Assam, and some parts of Orissa. — under this law — the son does not get any right in the properties merely by birth in the family. His rights will arise only after the death of his father as regards both ancestral and self acquired property of his father.

(2) Mitakshara School of thought.

It is applicable to the whole of India except the states of West Bengal, Assam, and some parts of Orissa. According to the school — The male members of joint Hindu family acquire right in the joint family property by birth and become coparceners.

(3) Karta means:- The joint Hindu family is managed by the eldest male member of the family called the Karta.

The income from such joint property will be assessed as income of Hindu Undivided Family.

(4) Common property of the family

(1) Ancestral property.

(2) Other property acquired with the help of ancestral property.

(3) Any property self acquired by any member, with his personal income and treated by him as the property of the family.

(5) Coparceners

Coparceners in the family:- It means there must be coparceners who are entitled to claim their share on partition.

(1) All persons includes their wives and unmarried daughters & sons.

(2) widows of the members of the family

③ Husband and wife.

④ Brothers only.

⑥ Assessment of Hindu Undivided Family.

Any Income received by a HUF is calculated under four head.

① Income from house property.

② Income from Business or profession.

③ Income from Capital gains.

④ Income from other sources.

⑦ Total partition.

If the entire property is divided among all the Coparceners fully. It is said to be total partition and the joint family ceases to exist.

⑧ Partial partition.

one or more members get their share of the property and sever the relation with the family. the remaining members may enjoy the status of HUF.

EXERCISES**SECTION-A**

1. What is Joint Hindu Family?
2. Name the schools governing Joint Hindu Family.
3. What is Dayabhaga School?
4. What is Mitakshara School?
5. Distinguish between Dayabhaga School and Mitakshara School.
6. What is Hindu Undivided Family?
7. State any two incomes which are not treated as Hindu Undivided Family Incomes.
8. How do you treat income from converted property?
9. How do you treat salary paid by Hindu Undivided Family to its Karta or any member?
10. How do you treat Directors fees received by a member of Hindu Undivided Family?
11. How do you treat salary, bonus, commission received by a member of Hindu Undivided Family acting as a working partner in the firm?
12. State any two deductions allowed to Hindu Undivided Family u/s 80.
13. What is total partition of Hindu Undivided Family?
14. What is partial partition of Hindu Undivided Family?

SECTION-B

1. Calculate income from business of Hindu undivided family from the following information. Profits from family business as per P & L A/c Rs.50,000. This profit was computed after debiting the following items:

- ✕ a) Salary to Karta Rs.10,000
- II ✓ b) Loss from speculation business Rs.5,000
- II ✓ c) An irrecoverable loan given to a relative of Karta Rs.12,500

Ans: Income from Business Rs.67,500

Note:

1. Salary paid to Karta is allowed assuming that it is reasonable and is paid as per agreement
 2. Loss from speculation business is not set off against any income except other speculation profit
2. From the following information, compute income from business of Hindu undivided family.

ASSESSMENT OF HINDU UNDIVIDED FAMILY

Net profit Rs.4,05,000 after charging salary to members X Rs.9,000 p.m. and Y Rs.15,000 p.m. The debits and credits in the P & L A/c included the following: $(15000 - 12000) = 3000 \times 12 = 36000$ ✓ II

- IV ✓ a) Taxable income from house property Rs.60,000
 II b) Loss from speculation business Rs.45,000
 IV ✓ c) Winnings from lotteries Rs.30,000
 II d) Life insurance premium paid on the lives of members of family Rs.45,000 — ded U/s 80C

Assessing officer considers that Y's salary is excessive. The justified amount is Rs.12,000 p.m.
A. D. D. K.

(VSKUB, B.Com. VI Sem., 2018)

Ans: Income from Business Rs.4,41,000

Note: Loss from speculation business is not set off against any income except other speculation profit.

3. Compute the total income of Hindu undivided family from the following information.

Gross total income	14,00,000
80C Life insurance premium paid on the life of members	40,000
80C Purchase of NSC VIII issue	60,000
80D Health insurance premium paid under mediclaim	15,000
80G Donation to Prime Minister's National Relief Fund — 100%	1,60,000
80DD Expenses incurred on medical treatment of handicapped dependent member — 75000	40,000

Ans: Total income Rs.10,50,000

Hint: Deductions U/s 80C Rs.1,00,000; U/s 80D Rs.15,000; U/s 80DD Rs.75,000; 80G Rs.1,60,000

Note:

- Irrespective of actual expenses incurred for medical treatment of handicapped dependent member, deduction U/s 80DD is allowed at a fixed amount of Rs.75,000
- Donations to Prime Minister's National Relief Fund is fully qualified for deduction U/s 80G and the rate of deduction is 100%

4. Compute the income from business of Hindu undivided family from the following information:

Net profit as per P & L A/c Rs.3,30,000 ✓ I

This profit is arrived at after taking in to account the following:

- a) Salary to Karta Rs.90,000 (In the eyes of assessing officer Rs.60,000 is reasonable) $(90000 - 60000) = 30000$ ✓ II

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- ~~IV~~ b) Salary to other members Rs.30,000
~~IV~~ c) Income from other Sources Rs.60,000
~~IV & V~~ d) Agricultural income in Mysore Rs.75,000
~~IV & V~~ e) Long term capital gains Rs.30,000
~~II~~ f) Purchase of NSC VIII issue Rs.15,000 80C
~~II~~ g) Purchase of household furniture Rs.45,000 80C

Ans: Income from Business Rs.2,55,000

5 marks Question Answers - Section-B.

Solution - 1 :-

Computation of Income from Business of Hindu Undivided Family.
for the A.Y. 2019-2020.

S.NO.	particulars	Amounts.
I)	Net profit as per p & l A/c.	50,000
II)	Add:- Disallowable Expenses	
	1) Loss from Speculation Business Rs = 5000	
	2) An irrecoverable loan given to a relative of Karta	
		17,500
	Income from Business	67,500

Solution - 2 :-

Computation of Income from Business of H.U.F. for the
A.Y. 2019-2020.

S.NO.	particulars	Amount
I)	Net profit as per p & l A/c.	4,05,000
II)	Add:- Disallowable Expenses.	
	① Excess salary paid to Y's $(15000 - 12000) \times 3000 \times 12$	36,000
	② Loss from Speculation business Rs	45,000
	③ Life insurance premium paid on the lives of member of family Rs	45,000
		1,26,000
		5,31,000
III)	Less:- Allowable exp.	NIL
		5,31,000.

IV) Less:- Income not chargeable under this head

(1) Taxable income from house property Rs = 60,000.

(2) winnings from lotteries Rs

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Date

30,000

Income from Business → 4,41,000

Solution No - 3 :-

Computation of Total Income of H.U.F. for the A.Y. 2019-2020.

S.No.	Particulars	Amount
(1)	Gross total Income (14,00,000)	14,00,000
(2)	Less:- Deductions u/s 80,	
	1) u/s 80 C.	
	a) Life insurance premiums paid 40,000	
	b) Purchase of NSC VIII th issue 60,000	
	2) u/s 80 D,	1,00,000
	Health insurance premium paid 15,000	
	3) u/s 80 DD.	
	Treatment of handicapped dependent 75,000	
	4) u/s 80 G.	
	Donation to prime minister's national relief fund (100% of	
	1,60,000)	
	3,50,000	3,50,000
	Total Income →	10,50,000

Solution No. - 4 :-

Computation of Income from Business of H.U.F. for the A.Y. 2019-20.

S.No.	Particulars	Amount
1.	Net profit as per P & L A/c	3,30,000
2.	Add:- Disallowable Expenses.	
	1) Excess salary to Karta (90,000 - 60,000) = 30,000	
	2) Purchase of NSC VIII th issue - Rs 15,000	
	3) Purchase of house hold furniture 45,000	90,000
	4,20,000	
3.	Less:- Allowable Dep.	Nil
	4,20,000	
4.	Less:- Income not chargeable under this head.	
	(1) Income from other sources Rs 60,000	
	(2) Agricultural income in Mysore Rs 75,000	
	(3) Long term capital gains. Rs. 30,000	
	1,65,000	1,65,000
	Income from Business →	2,55,000