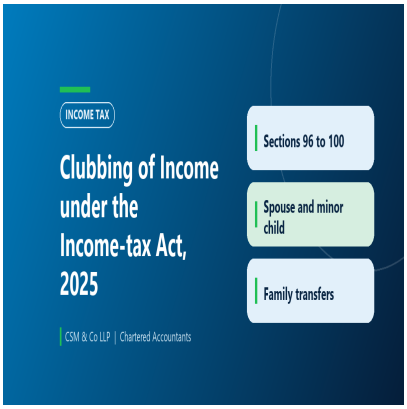

Clubbing of Income under the Income-tax Act, 2025: Sections 96 to 100 for Spouse, Minor Child and Family Transfers (Tax Year 2026-27)

Description

Last updated: 25 September 2026 · Written and reviewed by CA Meet Dhrangadhariya, CSM & Co LLP

Quick summary

- Clubbing means adding another person's income to yours. In the Income-tax Act, 2025 the old sections 60, 61 and 64 are sections 96 to 100 (Chapter V).
- Income from an asset you give to your spouse or daughter-in-law without adequate consideration, and your spouse's pay from a concern in which you hold 20% or more of the shares or profits (unless it is for her or his own professional skill), are added to your income (section 99(1)).
- A minor child's income goes to the parent with the higher total income if the marriage subsists, or to the parent who maintains the child otherwise; income from the child's own work, skill or talent, or a disability, is not clubbed.
- If the spouse invests the gifted money in a business or a firm, the clubbed income is a share of that income worked out by a formula (section 99(2)); in the new tax regime the ?1,500 per child exclusion is not available.

Moving an investment into the name of a spouse, a child or a relative to reduce tax does not always work. The law adds ("clubs") that income back to the person who made the transfer. In the Income-tax Act, 2025, which applies from 01/04/2026, the clubbing rules are in **Chapter V, sections 96 to 100**. They replace the old sections 60, 61, 64 and 65.

Old and new sections

Old section	New section	Subject
60	96	Transfer of income without transfer of the asset
61, 62	97	Revocable transfer of assets

Old section	New section	Subject
63	98	Meaning of “transfer” and “revocable transfer”
64(1)(ii)	99(1)(a)(i)	Spouse’s remuneration from a concern in which you have a substantial interest
64(1)(iv)	99(1)(a)(ii)	Assets transferred to the spouse for inadequate consideration
64(1)(vi)	99(1)(b)	Assets transferred to the son’s wife
64(1A)	99(1)(c)	Income of a minor child
64(1)(vii), (viii)	99(1)(d)	Assets transferred to another person for the benefit of the spouse or son’s wife
64(2)	99(3)	Individual’s property converted into HUF property
65	100	Liability of the other person for the tax on clubbed income

The main cases

1. Transfer of income without the asset (section 96)

All income arising to any person by virtue of a transfer, where there is no transfer of the asset from which it arises, is taxed as the transferor’s income. A transfer includes any settlement, trust, covenant, agreement or arrangement (section 98(a)).

Example. Mr P owns a shop that earns rent of ?12,000 a month. He agrees that the rent will be paid to his friend Mr Q but keeps the shop. The rent is still Mr P’s income.

2. Revocable transfer of assets (section 97)

Income arising from assets transferred under a revocable transfer is taxed as the transferor’s income. A transfer is revocable if it provides for the direct or indirect re-transfer of the income or assets to the transferor, or lets the transferor re-assume power over them (section 98(b)). A transfer is outside section 97 if it is not revocable during the lifetime of the beneficiary or transferee and the transferor gets no direct or indirect benefit from the income. Once the power to revoke arises, the income is taxed as the transferor’s from then on (section 97(3)).

3. Income of the spouse (section 99(1)(a))

- **Remuneration from your concern, section 99(1)(a)(i).** Salary, commission, fees or any other remuneration paid to your spouse by a concern in which you have a substantial interest is included. It is **not** included if it is solely attributable to the spouse’s application of technical or professional knowledge, experience and qualification.
- **Assets transferred, section 99(1)(a)(ii).** Income from assets that you transferred directly or indirectly to

the spouse otherwise than for adequate consideration, or in connection with an agreement to live apart, is included. Where the asset is a house property, section 25(a) deems you the owner.

Substantial interest means shares carrying at least 20% of the voting power (not shares with a fixed dividend) owned by you, alone or jointly with relatives, or, in any other concern, entitlement to at least 20% of the profits, at any time in the tax year (section 99(5)(a)(iii)). The remuneration is included in the hands of the spouse whose total income, before the inclusion, is greater; once included for a year it is not included for the other spouse in later years unless the Assessing Officer is satisfied after hearing that spouse (section 99(5)(a)).

4. Reinvestment by the spouse or son's wife (section 99(2))

If the transferred asset is invested in a business or contributed as capital to a firm, the amount clubbed is not the whole income but a proportion:

A = B x (C / D), where B is the income and interest from the business or firm for the year, C is the value of the transferred assets invested as on the first day of the tax year, and D is the total investment or capital as on that day.

Example. Mrs L receives ?10,00,000 from her husband and puts it in her own business, in which she has invested a total of ?25,00,000. The business earns ?3,00,000 in the year. The clubbed amount is ?3,00,000 x 10,00,000 / 25,00,000 = ?1,20,000. If instead she puts the gift in a fixed deposit and earns ?70,000 of interest, the whole ?70,000 is clubbed.

5. Daughter-in-law and indirect transfers (section 99(1)(b) and (d))

Income from assets transferred by you to your son's wife (on or after 01/06/1973) for inadequate consideration is clubbed, and so is income of any person or association of persons from assets you transferred for inadequate consideration, to the extent the income is for the immediate or deferred benefit of your spouse or son's wife.

6. Minor child (section 99(1)(c) and (5)(b))

The income of a minor child is included in the income of the parent whose total income (before the inclusion) is greater, if the parents' marriage subsists. If it does not subsist, it is included in the income of the parent who maintains the child during the tax year. Income earned because of work done by the child, or from activities where the child's skill, talent, specialised knowledge or experience is used, and income of a child with a disability specified in section 154, is not included.

An exclusion of **?1,500 per minor child** is allowed under Schedule III, Table Sl. No. 17. Section 202(2)(a)(i) lists serial number 17 among the exemptions that are **not** available in the new tax regime, so the ?1,500 is available only in the old regime.

7. Property converted into HUF property (section 99(3) and (4))

If you convert your separate property into HUF property (by treating it as family property, throwing it into the common stock or transferring it to the family without adequate consideration), income from that property is treated as yours. If it is later partitioned and your spouse receives a share, that share's income is clubbed under section 99(1)(a). This does not apply to property converted on or before 31/12/1969.

Who pays the tax on clubbed income (section 100)

The person in whose name the asset stands, or who is a member of the firm, is liable for the part of the tax levied on you that is attributable to the clubbed income, on a notice of demand from the Assessing Officer. Joint holders are jointly and severally liable.

Planning points

1. **Gifts to parents and other relatives** (other than the spouse, son's wife and minor child) do not trigger these sections by themselves, so income earned by a parent on gifted money is taxed in the parent's hands. Check whether another section, such as the gift rules, applies to the gift itself.
2. **Gifts to an adult child** are outside section 99(1) but should be recorded properly.
3. **Fair-value transactions** with a spouse (a loan with interest, a sale at market value) are outside the "inadequate consideration" test, but they need to be genuine and documented.
4. **Losses**: the definition of "income" for this section includes loss (section 99(5)(d)), so a loss from clubbed assets can also be clubbed.

Whether income earned after a divorce, or on assets transferred before the marriage, is clubbed is a question of case law that was not reviewed for this post.

How CSM & Co LLP can help

We review family investment structures, advise on gifts, HUF and trust arrangements and handle clubbing issues in returns and assessments. Please reach out to our team and we will be happy to assist.

Frequently asked questions

Which sections of the 2025 Act deal with clubbing of income?

Chapter V, sections 96 to 100. Section 96 covers transfer of income without the asset, section 97 revocable transfers, section 98 defines "transfer" and "revocable", section 99 covers income of the spouse, daughter-in-law, minor child and HUF conversions, and section 100 makes the other person liable for the tax on the clubbed income.

If I gift money to my wife and she earns interest on it, who pays tax?

You do. Income arising to the spouse from assets you transferred directly or indirectly without adequate consideration is included in your total income (section 99(1)(a)(ii)). The exceptions are a transfer in connection with an agreement to live apart, and cases where the asset is a house property covered by section 25(a), which taxes you as deemed owner.

Whose income is the minor child's income added to?

To the parent with the higher total income before the inclusion, if the parents' marriage subsists. If it does not, to the parent who maintains the child during the tax year (section 99(5)(b)). Income from work done by the child, from skill, talent or specialised knowledge, or where the child has a disability specified in

section 154, is not included.

How much exclusion is there for a minor child’s income?

?1,500 per minor child under Schedule III, Table Sl. No. 17. Section 202(2)(a)(i) lists that serial number among the exemptions that are not available in the new tax regime, so the exclusion applies only if you are in the old regime.

Is my wife’s salary from my company clubbed with mine?

Only if you hold shares carrying 20% or more of the voting power, or are entitled to 20% or more of the profits, in the concern (alone or with relatives), and her pay is not solely attributable to the application of her own technical or professional knowledge, experience and qualification (section 99(1)(a)(i) and (5)(a)). It is clubbed with the spouse who has the greater income before the inclusion.

Is the other person liable for the tax on clubbed income?

Yes. The person in whose name the asset stands, or who is a member of the firm, is liable to pay the part of the tax attributable to the clubbed income on a notice of demand, and joint holders are jointly and severally liable (section 100).

Official sources

- Income Tax Department: Income-tax Act, 2025 (sections 25, 96 to 100, 154, 202, Schedule III)

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Author
meetsoni