

Tax Planning for handicapped Minor

HINDUSTAN TIMES

Tax Matters/ S.P. Babuta

Monday, November 13, 2006

A Minor is a person who has not attained age of 18 years but he/she may generate some income which is chargeable to income tax. In this issue we shall discuss some of the frequently asked questions regarding the taxation of income of a minor :

Q1: Will the Income of a Handicapped minor be clubbed in the hands of parents?

Ans: Income of minor children is required to be clubbed with the income of the parent whose income is higher. Exceptions to this are:

- a) The income of physically handicapped minor child.
- b) Income of minor child from any manual work done.
- c) Income of minor child on account of any activity involving application of his skill, talent or specialised knowledge or experience.

This means that a handicapped minor is to be assessed in his own capacity and his/her income shall not be clubbed with the income of parent.

Thus a handicapped minor will not pay tax upto an income of Rs. 250000/275000 as the case may be, as illustrated below:

Minimum exemption limit	Rs. 100000/-
Investment u/s 80 C	Rs. 100000/-
Deduction u/s 80 U	Rs. 50000/- (Disability) or 75000/- (Severe Disability)

Taxplanning :

Parents may plan to transfer their funds to the handicapped minor with a view to reducing own income accruing in their hands.

Q2: Whether the minor's return has to be filed separately in addition to that of the parent?

Ans: If the entire income of the minor is includible in the income of the parent , it is not necessary to file the return of the minor separately. The parent gets a deduction of Rs 1500/- per child.

However in case of a minor child whose income is from manual work done or from any skill etc., or in case of a Physically handicapped minor ,separate return has to be filed in respect of such income by the parent on behalf of the minor.

Q3: What will be the tax treatment of minor's income if one of the parent dies or in a situation where both the parents are not surviving?

Ans: If one of the parent dies, the income will be included in the income of surviving parent . But where none of the parents survives ,the income of the minor will not be clubbed with the income of the guardian as the guardian is not to be treated as parents.

In such cases , it is likely that tax is levied in the hands of minor himself , though as representative assessee the guardian will be responsible for all duties to be performed by the minor , as an assessee.

Q4: What shall be the treatment of Income of a minor from admission to benefit of partnership ?

Ans : As a partner one receives remuneration , Interest on capital and share of profit from the firm. Treatment of these are different:

Share of profit : Share of profit from the firm is not taxable in the hands of the partner . So such share is exempt in the hands of minor and therefore not to be included in minor's income as partner and clubbing provision also will not be applicable.

Interest received by the minor on his capital invested in the firm will be clubbed with the income of the parent.

Remuneration : Where the minor is made a working partner of a firm and is paid remuneration in lieu thereof the same also will be entitled to exemption from clubbing provision as remuneration to working partner is due to his owing to manual labour or skill .Therefore remuneration received by the minor working partner from the firm will not be clubbed in the hands of parents.