

Hindu Undivided Family (HUF)

What we will cover

- Introduction to a HUF
- Who can form a HUF
- Joining the HUF
- Income & Tax of HUF
- Smart moves
- Should you go in for a HUF
- Partition of HUF
- Quick pointers

"If you are paying too much tax and all possible deductions have been availed of, the only way to bring down the tax liability is by starting a Hindu Undivided Family (HUF). However, they can do so only after they marry."

- Says a Delhi-based CA

- HUF as another entity
- Entitled to the same exemptions as any other individual taxpayer
- Enjoys the same deductions as you and me
- Effectively gives the karta:
 - an additional basic tax exemption of 1.8 lakh per year,
 - an additional tax deduction under Sections 80C, 80CCF and 80D,
 - the benefit of lower tax slabs.

- Karta of the HUF:
 - Gets a combined basic exemption of ₹ 3.6 lakh p.a.
 - Savings limit of ₹ 2.4 lakh p.a u/s 80C and 80CCF
 - Add another ₹ 30,000 u/s 80D



HOW HUF CUTS TAX

	Individual	+	HUF	Individual
Total income	10,00,000		6,00,000	16,00,000
Less				
80C	1,00,000		1,00,000	1,00,000
80CCF	20,000		20,000	20,000
80D	15,000		15,000	15,000
Taxable income	8,65,000		4,65,000	14,65,000
Basic exemption	1,80,000		1,80,000	1,80,000
Tax payable	1,14,845		29,355	3,00,245

By setting up the HUF, an individual divides his taxable income between two entities. This cuts his annual tax by

₹1.56 lakh

WHO CAN FORM A HUF?

- Any Hindu, Sikh, Jain or Buddhist man can form an HUF - provided he is married
- Automatically constituted when a couple exchanges wedding vows
- Few simple formalities to be completed for the HUF to function as a legal entity

Minimum number of coparceners



- HUF can consist of just two members
 - one of whom is a coparcener
 - For tax purposes, the income of such an entity would not be taxed in the hands of the HUF; it would be taxed in the hands of the sole coparcener
- For an entity to be taxed as an HUF, it should have at least two coparceners
 - The income of the HUF consisting of a husband and wife would not be taxed in the hands of the HUF
 - Except where the husband has received funds on the partition of a larger HUF

Corpus for the HUF

- Any capital asset (property, gold, jewellery, securities, deposits) or cash
- Can't transfer just any asset
- Any personal funds or property given by an individual to the HUF
 - lead to clubbing provisions under Section 64 (2)
 - Income from these assets will be treated as that of the individual
 - defeating the very purpose for which the HUF was established

- With money received as gifts from relatives
 - Tax implication
 - HUF does not enjoy exemption - no tax on gifts received by an individual from specified blood relatives
 - HUF is not an individual, so it has no relatives
 - Any money it gets will be treated as a gift from a stranger.
 - If the value of the assets received as gifts in a year exceeds ₹ 50,000, it will be deemed as income of the HUF and taxed accordingly

- With assets received as part of a will
 - If the property is inherited by the individual, transferring it to the HUF will again lead to clubbing.
 - A person can give property and other assets to his son's HUF but it should be clearly specified that the asset is for setting up the HUF
- With funds received on the dissolution (or full partition) of a larger HUF
 - If the Karta wants to divide the HUF property between the coparceners
 - he can transfer the fund to a newly formed HUF
- If the ancestral property is sold, the proceeds received can also be transferred to the HUF

JOINING THE HUF

- All lineal descendants of the Karta, their spouses and children automatically become members
- Wives join the HUF as members
- Children join on birth as coparceners
- Even the unborn child of a member or co-parcener has an equal share in the HUF
- Till 2005:
 - Daughter ceased to be a member in the HUF after her marriage

- In 2005 the Hindu Succession Act was amended:
 - Equal rights to daughters even after they were married
 - Married women now have rights in two HUFs
 - Father's as a co-parcener
 - Husband's as a member
 - Cannot start a HUF on their own
 - Karta does not have male heirs
 - the HUF property will have to be partitioned among his daughters
 - Mitakshara system - which is followed in most parts of the country, has accepted the change,
 - Dayabhaga school - governs the HUFs in West Bengal and Assam, continues with the bias

Dayabhaga

- Father is the sole owner of the joint family property
- No other member can enforce the partition of the HUF as long as Karta is alive

Mitakshara

- Property belongs to the HUF, not to an individual
- Can be partitioned even during the lifetime of the Karta

- A husband and wife can form an HUF
 - but a wife can only be a member, not a co-parcener
 - The HUF income will not be assessed separately
 - A member has equal rights
 - Only a co-parcener can demand the partition of the HUF
 - Only the birth of a child will give the unit the status of an HUF for tax purposes

INCOME & TAX OF HUF

- Five basic heads of income:

- capital gains
- rent
- profit from business
- income from other sources

- ~~salary~~

- invest the initial corpus as well as the gifts received in subsequent years
- Ancestral property can be let out
- Start a business
- Interest and royalty incomes

- Karta will have to maintain the books of accounts of the HUF and file tax returns on its behalf
- Date of filing tax returns and the tax rate are no different from that of individual taxpayers
- Need to invest to save tax under Section 80C and 80CCF

SMART MOVES

- Insure the family's health:
 - Can get a group health insurance cover (in case of a large family of 20-25 people) at a low price
- Pay Karta for services:
 - If the Karta does not have a high income, the HUF can pay him a salary for his services
 - Salary will be taxed as his income
 - Fully deductible from HUF income
- Use HUF income for expenses:
 - income earned by the HUF can be used for the household expenses of the family

- A co-parcener can take a larger home loan to reduce his personal tax liability because the HUF income is enough to take care of his living expenses
- **Distribute income to co-parceners:**
 - Karta can gift money to the coparceners from the income earned by the HUF
 - This income is tax-free in the hands of the co-parceners
 - In this manner, a person with a high income will be able to get tax-free income

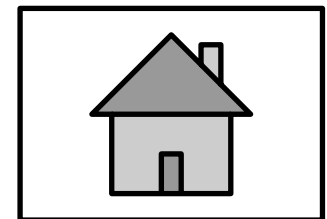
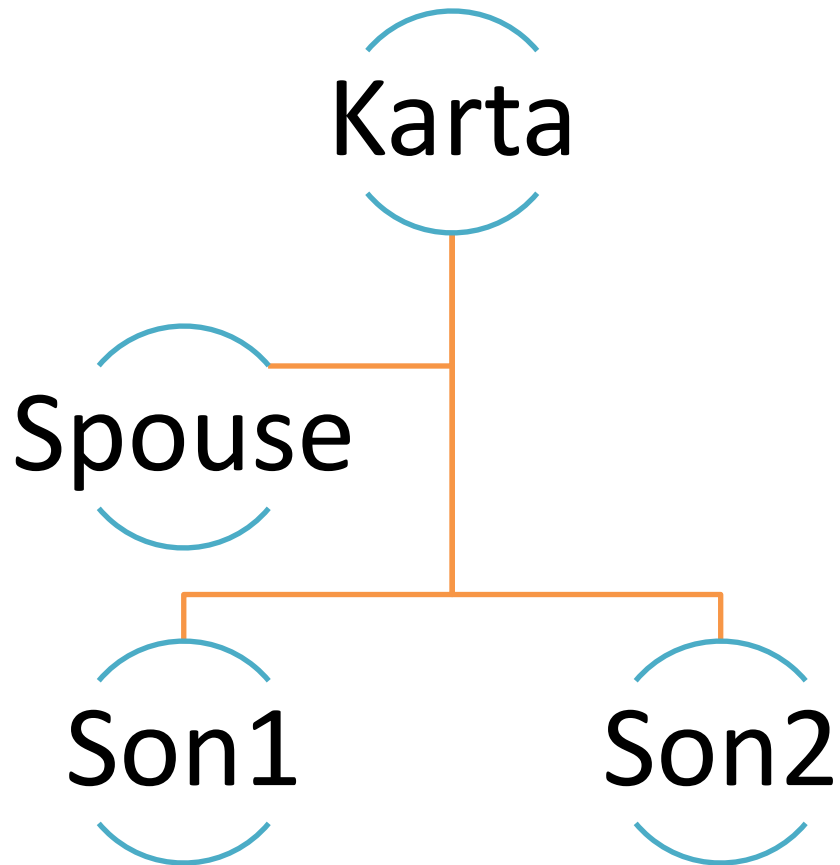
- Give loan for business:
 - HUF can also give loans to the Karta or coparceners for setting up a business
 - The HUF can charge interest on the loan. Interest paid on any business loan is fully deductible.
 - For the borrower, it will be like taking money from one pocket and putting it in another and getting tax deduction on the interest.
 - A caveat here:
 - If the coparcener borrows money to start the same business in which the HUF is engaged, the tax authorities may raise an objection
 - Have been cases where income from businesses started by coparceners after borrowing funds from the HUF have been treated as HUF income

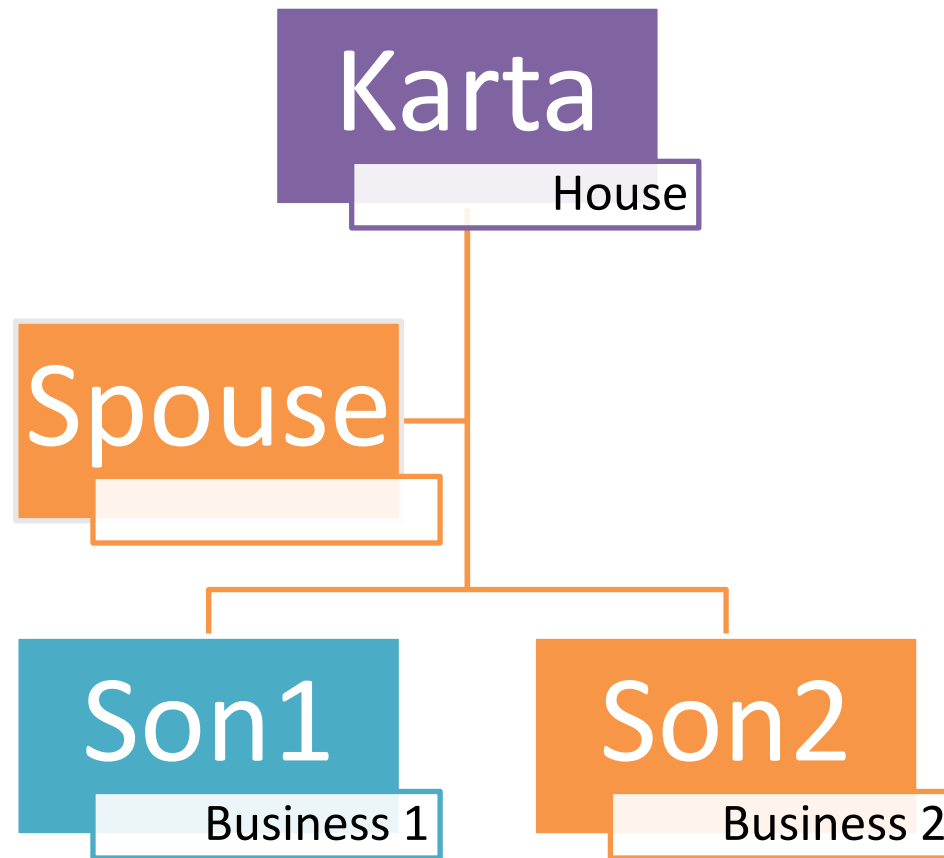
SHOULD YOU GO IN FOR A HUF

- Suits taxpayers who also have :
 - income from ancestral property
 - expect to inherit financial assets
 - Will be able to divert the inheritance to the HUF
 - preventing their personal tax liability from shooting up
- Useful for taxpayers with a very high savings rate
 - Whose Section 80C limit is quickly exhausted by the Provident Fund and children's school fee
 - Will be able to get tax benefits on other investments, such as insurance premium, equity-linked saving schemes and fixed deposits

Partition of HUF

- To reduce tax liability
- The partition should result in separate independent taxable units
- Works best when members of the HUF have no other sources of income





QUICK POINTERS

- HUF is defined as consisting of a common ancestor and all his lineal male descendants together with their wives and unmarried daughters
- No formal action is required to create an HUF
- Family is a group of people related by blood or marriage
- Unmarried daughter and daughter in law is also member
- HUF continues even in the hands of females after the death of sole male member

- HUF need not consist of two male members- even one male member is enough
- Generally, the senior most male member of the family acts as Karta
- Any other male member can also act as Karta with the consent of the other member
- HUF Property:
 - ancestral property
 - property allotted on partition
 - property acquired with the aid of joint family property
 - separate property of a co-parcener blended with or thrown into a common family pool

- Female member cannot merge her separate property with joint family property, but she can make a gift of it to the HUF
- HUF can consist of several branches or sub-branches
 - irrelevant whether the smaller HUFs hold any property
 - Nucleus property can be acquired
 - partition of bigger HUF
 - gifts from any member of the family or a stranger
 - Will with intention of the donor or the testator that the said gift or bequest will form the HUF property of the donee

- HUF can safely receive gifts of up to Rs 3 lakh per year without incurring any tax liability
 - benefit of deduction of ₹ 1.2 lakh
 - basic exemption of ₹ 1.8 lakh

THANK YOU FOR YOUR TIME