



IT PAYS TO EXPLORE

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What is HUF

1. The term 'Hindu Undivided Family' has not been defined under the Income Tax Act?
2. It is defined under the Hindu Law as a family that consists of all persons lineally descended from a common ancestor, including wives and unmarried daughters.
3. This means your membership into a HUF does not come from a contract but from your status.
4. A HUF cannot be formed by a group of people who do not constitute a family; lineal descendants with a common ancestor is a must.
5. In Maharashtra, unlike other states, even married daughters are recognised as HUF members.
6. Even though Jain and Sikh families are not governed by the Hindu law, they can still be treated as a HUF.
7. It is rather obvious that a non-Hindu family cannot get this status. So, if you are a Parsi, Muslim or Christian.

Members of HUF

1. A HUF consists of:
 - Karta
The Karta has to be the oldest male in the family. If he passes away, his wife cannot become the Karta. His eldest son will take his place. If he chooses not to, he can give up his right and the next son in line can take his place.
 - Coparceners
This is what all the male members are referred to as.
 - Members
The female members are simply called members.

2. A Hindu coparcenary includes the sons, grandsons and great-grandsons of the holder of the joint family property. By virtue of their birth, they acquire an interest in the property.

Why is it Important?

1. Under the Income Tax Act, a HUF is treated as a separate entity for the purpose of assessment. From this stems its importance.
2. However, the income of a joint Hindu family can be assessed as the income of a HUF, only if the following two conditions are satisfied:
 - There should be a coparcenary.
 - There should be joint family ancestral property.
3. Other investments too can take place under the broad head of HUF.
4. For instance, a HUF can open a bank account in its name. The Karta must open a HUF bank account in any bank by giving an undertaking on a stamp paper of Rs 100.
5. A demat account to buy shares can also be opened.
6. Even post office deposits and a Public Provident Fund account can be opened in its name.

Sources of Income:

1. There are five heads of income as per the provisions of Income tax Act:
 - Salary
 - Profits from business or profession
 - Income from house property
 - Capital gains
 - Income from other sources
2. Since the HUF is a separate entity, it **can earn income from all the above except income from salary.**

3. All income that arises on the investment of the HUF's funds and utilization of its assets is regarded as income and is separately assessed and taxed.

TAX BENEFIT:

1. Though the HUF is taxed as separate entity, the tax slab which is applicable to an individual is applicable here too, except rebate u/s 87A, or any other rebate specifically excluded.
2. It also enjoys the deduction under Section 80C.
3. All the income tax slabs and deductions and exemptions available to individuals are also available to the HUF.
4. Let's take the case of Mr. A.
5. He is a salaried individual but his family runs a business and owns a lot of property. Hence, they formed a HUF.
6. Mr. A will be individually taxed on his salary and all the tax breaks and deductions and exemptions will be applicable to him.
7. The HUF earns money from the business as well as rent from renting out the properties. The HUF will be taxed according to the various tax slabs and all the exemptions and deductions will also be available to it.
8. Let's say after paying the taxes, the HUF has a lot of profit. This profit can be divided to all the members and it will be totally tax-free in their hands since the tax has already been paid by the HUF.

Can HUF be Partitioned?

- Yes, the HUF can be partitioned.
- This is actually a division of property where the share of each member is determined.
- Only a male member -- a coparcener -- can enforce a partition. Female members cannot enforce a partition but are entitled to a share of the division (as per the Hindu law).

- The shares are then divided between:
 - ~ All coparceners
 - ~ A son in the womb of his mother at the time of partition
 - ~ Mother (gets an equal share if there is a partition between the sons and her husband has passed away)
 - ~ Wife (gets a share equal to that of a son at the time of partition between father and sons)

If the Karta passes away, the assessing income tax officer should be intimated of his death and the appointment of the new Karta.

Please Contact If Any Query
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Note: We believe in very fast, accurate and timely services as per your convenience.