HINDU UNDIVIDED FAMILY



HUF IN INDIA

Tax efficient Benefits Iimitations

HINDU UNDIVIDED FAMILY

A very effective and legal way advised by chartered accountants to save tax is HUF i.e. Hindu Undivided Family. In India there are many families which are undivided and the incomes earned by such families are joint income as compared to Individual Incomes.

As these are joint incomes and not Individual Incomes, these incomes cannot be taxed in the hands of any specific individual and are therefore taxed in the hands of the whole family. As these are taxed in the hands of the family, the family has a separate PAN Card as compared to Individual members of the HUF who also have a separate PAN Card.

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LOGIC BEHIND FORMING A HUF TO SAVE TAX

Basically the logic behind forming an HUF to save tax is to avail the benefit of an extra PAN Card legally. As the Income of the Family is not taxed in the hands of any specific Individual, a new PAN Card is allotted to the HUF and Tax would be paid by the Family using this PAN Card.

How creating a Hindu Undivided Family Account would result in tax saving would become clearer with the help of an example. Let's assume there are 4 Members in a Family – Husband, Wife and 2 Children. The Income of the Husband is Rs. 25 Lakhs, Income of the Wife is Rs. 18 Lakhs. They also have a ancestral property from which they are earning rent of Rs. 8 Lakhs p.a.

The rent from such a property would either be taxed in hands of the Husband or the Wife or both

If this Rental Income of Rs. 8 Lakhs is taxed in the hands of HUF, the tax payable by the HUF as computed as per the Slab Rates would be Rs. 70,000 to Rs. 80,000 (depending on the income tax deductions claimed by the HUF)

Taxing this Rental Income in the hands of the HUF would lead to a Tax Saving of Rs. 1,80,000 p.a. (Rs. 2,40,000 – Rs. 60,000) for the entire family.

Hindu Undivided Family



An efficient tax saving mechanism for the family assets

RELEVANT POINTS REGARDING HUF

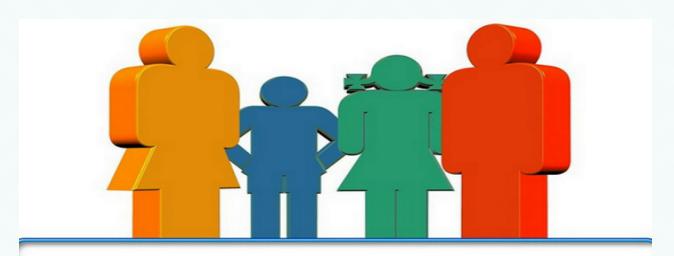
- 1. creating a Hindu Undivided Family Account is that the family gets an extra PAN Card and can split the family income and thereby resulting in tax saving and reducing the tax outgo
- 2. All members of the family have a right in the assets of the Hindu Undivided Family (including an unborn child in the womb of a mother) and a adapted child also.
- 3.HUF is also required to file Income Tax Returnevery year just like an Individual and if the turnover of the business of the HUF is more than Rs. 25 Lakhs/ Rs. 1 Crore, tax audit under Section 44AB would also be required to be conducted by a Chartered Accountant.
- 4. Due Date of filing of Income Tax Return of the HUF would be 31st July of the Assessment Year. However, in case the Tax Audit is required to be conducted, the Due Date of filing of Return would be 30th Sept.

5.The Karta of the HUF has the power to sign all documents on behalf of the HUF. However, he may also permit other adult members to have this power.

6.A adopted child can become a member of the HUF but he cannot become a co-parcener. The difference between a member and a co-parcener is that the member cannot ask for partition of the HUF.

7.HUF's are recognised all over India except Kerala wherein HUF's are not recognised. This derecognistion was done by Kerala Joint Family System (Abolition) Act, 1975 with effect from 01.12.1976.

8. The HUF may be a resident or a non-resident in India depending on where the control of the HUF is residing.



HUF Taxation in India

Seek expert opinion and advice from an expert on the subject matter for forming & filing returns every year