HINDU UNDIVIDED FAMILY pdf

1: Hindu Undivided Family: easy to make, but difficult to break - Livemint

Family structure. Historically, for generations India had a prevailing tradition of the Joint Hindu Family or undivided family. The system is an extended family arrangement prevalent throughout the Indian subcontinent, particularly in India, consisting of many generations living in the same home, all bound by the common relationship.

Written by Aneesha Mathur Updated: February 5, 8: Who is a karta, who does this verdict apply to? Aneesha Mathur explains Who is a karta? A karta under the Hindu Succession Act is the eldest among the coparceners â€" that is, the persons entitled to inherit a share in the property of a Hindu Undivided Family by virtue of having been born into the family. The karta has the right to manage the property and business of the HUF. The karta can take decisions about the expenditure and alienation of property even without the consent of the rest of the family, and can enter into contracts, compromises and take loans on behalf of the family. What is the Hindu Undivided Family? The concept of HUF exists purely for purposes of revenue assessment, as it concerns the ancestral property held by the coparceners. Members of Scheduled Tribes are exempted from the law. What does the law say about inheritance? The original Act passed in had included only the male members as coparceners and had said that when a male member of a family dies, the share in the family property would go to the surviving male members of the family while his daughters and wife would get part of his personal share. After , daughters have the right to demand a partition of the ancestral family property and get equal share of the property as the son. What led to this judgment on karta? The ruling came on a suit filed by Sujata Sharma, the eldest daughter of a Delhi business family who took on Manu Gupta, her younger male cousin who had declared himself the karta. Sujata challenged him, saying that as the eldest of their generation, she would be the karta. The male members of the family had said that she was not entitled to the position since the amendment specified only a share in the property and did not automatically give any right to the management of the property. They also argued that customary practice did not allow women to become karta. What did the Delhi High Court say? The bench also said that married daughters cannot be prevented from becoming the karta of the family as they have coparcenary rights to the HUF property. How does this affect the joint family property? HUF, on the other hand, does not differentiate between a married and unmarried coparcener, as their shares in the family property continue to remain the same. It gives equal rights of inheritance to Hindu males and females. Advocate Anupam Shrivastava, who practices family law in Delhi, says he expects more disputes to come up. Advocate Mala Goel, who represented Sujata Sharma before the Delhi High Court, says that while the law is very clear on the rights of women, society usually denies property rights to daughters, specially to married daughters.

2: What is HUF? | How to create HUF? | How to form HUF?

Some choose to create a Hindu Undivided Family (HUF). In a country like India, where familial bonds are usually strong, this seems like a good idea. But is an HUF really helpful, and does it serve.

View Larger Image Introduction HUF is an asset such as a gift, a will, or ancestral property, or property acquired from the sale of joint family property or property contributed to the common pool by members of HUF. Components All the male members are a part of it either by virtue of birth or by adoption. All the unmarried daughters are a part either by birth or adoption. All the women who have been abandoned by their husband. Eligibility A family forms a Hindu Undivided Family, not an individual. It consists of a common ancestor and all of his lineal descendants, including their wives and unmarried daughters. Tax saving It has its own PAN and then a separate tax return is filed. A separate joint Hindu family business is created as it has an entity which is separate from its members. Deductions that are under section 80 and other exemptions can be claimed by it. An insurance policy can be taken on the life of its members through it. It can also pay salary to its members if they are contributing to its functioning and the work of the joint Hindu family business. This salary is an expense and can be deducted from the income of it. It is taxed at the same rates as the individual. Example, After the death of his father, Mr. Ramesh Garg decides to start an HUF with his wife, son, and daughter as members. Garg has no siblings; property held by his father was transferred in the name of Mr. The property held by late Mr. Garg earns an annual rent of Rs 8. Ramesh Garg has an income from salary of Rs 25 lakh. Due to this tax arrangement, Mr. Garg saved tax of Rs 1,63, Both HUF and Mr. Garg and other members of the HUF can claim deduction under section 80C. Also, income from it can further be invested. The common property cannot be sold without the concurrence of all the members. Too large to manage Any additions to the family, by way of birth or marriage, become a member of the HUF and get equal rights. Partition At time of partitioning, HUF can only be dissolved and all members have to agree to dissolve it. Under a partition, assets are distributed to members which can create disputes. Conclusion It seems that forming an HUF is usually perfect way to save taxes, but it also comes with its own drawbacks. By Pulkit Jain T

3: HUF-HINDU UNDIVIDED FAMILY - SUPREME COURT OF INDIA ON LAW- ADITYA DUBEY & Associ

Assessment in the status of a Hindu undivided family can be made only when there are two or more members of the Hindu undivided family". An unmarried person though receiving ancestral property on partition would continue to be assessed as an Individual.

Total tax paid by Mr. Chopra saved tax of Rs 1,54, Both HUF and Mr. Chopra as well as other members of the HUF can claim deduction under section 80C. Need help with estimating your taxes as an HUF? Our CAs can help you 3. How to form an HUF? An HUF is formed by a family. An HUF is automatically created at the time of marriage. HUF consists of a common ancestor and all of his lineal descendants, including their wives and unmarried daughters. HUF usually has assets which come as a gift, a will, or ancestral property, or property acquired from the sale of joint family property or property contributed to the common pool by members of HUF. Once an HUF is formed it must be formally registered in its name. An HUF should have a legal deed. Equal rights of members: The greatest disadvantage of opening an HUF is that its members have equal rights on the property. The common property cannot be sold without the concurrence of all the members. Any additions to the family, by way of birth or marriage, become a member of the HUF and get equal rights. An HUF can get too large to manage. Perhaps the worst nightmare of opening an HUF is closing it down. The only way an HUF can be dissolved is by a partition. All members have to agree to dissolve the HUF. Under a partition, assets are distributed to members which can lead to a lot of disputes and can be a lot of legal hassle. Joint family system losing relevance: HUF was recognised as a separate taxable entity by the income tax department. Several cases have come to fore where couples or families are fighting it out on common household expenses, forget to pool in of assets. Divorce rates are rising and therefore, HUF as a tax vehicle is losing importance. HUF continues to be assessed as such till partition: Once an HUF is formed, you must continue to file its tax returns, unless a partition takes place. Any claim for partition is made to the assessing officer. The assessing officer, on receiving such claim, must make an enquiry after giving due notice to the members. Income from the property which was partitioned is taxed as individual income of the member. The head of the HUF is called the Karta, he is the senior-most male member of the family. However, the same has not been incorporated in the Income Tax Act as yet. Who are HUF Coparceners? The male members are called coparceners, while the females are referred to as just members. The difference between the two is that any of the coparceners can demand partition of the HUF. The female members do not have this right in most parts of the country, except for some states like Maharashtra and Tamil Nadu that have allowed unmarried daughters to function as coparceners. The Hindu Succession Amendment Act, which came into force from September 9th september, removed this gender discrimination by giving equal rights to daughters as sons. Both the daughter and the father has to be alive on the date of the amendment for the daughter to get the benefit, irrespective of whether she has been married or not on that date. Are there any incomes which are not taxed as income of HUF? The following incomes are not taxed as income of HUF c. If a member transfers his self-acquired property to the HUF without receiving proper sale consideration, income from such property is not taxable in hands of the HUF. It will continue to be taxed in the hands of the member. Personal income of the members cannot be treated as income of HUF. Income from an individual property of daughter is not taxable in hands of HUF even if such property is vested into HUF by the daughter. Are there any minimum number of coparceners required for an entity to be taxed as HUF? An HUF can be formed with just two members one of whom is a coparcener. But for an entity to be taxed as an HUF, it should have at least two coparceners. For instance, if HUF consists of only husband and wife, then there is only one coparcener. So it will not be taxed in the hands of HUF except in the case where the funds are received on the partition of larger HUF. It will be taxed in the hands of a sole coparcener. Karta of the HUF sits outside India. HUF is managed by the other members residing in India. Will HUF be a non-resident? The residential status of a HUF is determined not on the basis of where the Karta resides but on the basis of where the HUF is managed from. The HUF being a separate taxable assessee, can claim deduction under section 80C. However, the member and the HUF cannot claim deduction in respect of the same investment made or expense incurred.

4: Hindu Undivided Family- Free definitions by Babylon

Hindu Undivided Family (HUF) or a Joint Hindu Family Consists of all males lineally descended from common ancestor their wives and daughter. Any married Hindu, Sikh, Jain or Buddhist man can form HUF.

Bhanwarlal and others, AIR Raj. The Manager of a joint Hindu Family has the power to alienate transfer for value the joint family property so as bind the interests of both adult and minor coparceners in the property, provided that the alienation is made for legal necessity Apatkale or for the benefit of the estate Kutumbharte or for Indispensable duties dharmarthe which are religious, pious, or charitable such as sradha, upananyana, and performance of other necessary sanskars. Payment of debts incurred for family business or other necessary purpose constitute a legal necessity. That the burden of proving legal necessity to support alienation is upon the alinee. That the alinee can succeed not only on proof of legal necessity but also on proof that the alinee made reasonable inquires and was satisfied as to the existence of the legal necessity. It is sufficient it to say here that the Karta or the manager can create a charge against the joint family property, only if the loan for which the charge is created, is taken for a purpose necessary or beneficial to the family. The burden of proving legal necessity lies on the banker and the banker has not only to prove the legal necessity but also to prove that it made reasonable inquiries and was satisfied as to the existence of the legal necessity. Kartha is the senior most male member of the family Jandhyala Sreerama Surma v. Only the Kartha has the right to manage the property and business of the HUF. If the coparceners so desire, all the coparceners and Kartha may authorise any one or more adult coparceners to manage the business. Powers of Manager The powers of a Manager are more extensive than those of a Karta. The manager of a joint Hindu Family has all the powers required for the purposes of carrying on the family business. He can contract debts for the purpose of the business, and pledge the credit and property of the family for the purpose of its ordinary business, but not for any speculative transactions. His actions must not be tainted with immorality. He can bind the members of the family including minors by means of Negotiable Instruments, executed in the name of the family firm. He can also compromise a dispute but he cannot embark on a new venture. Female Coparceners The Hindu Succession Amendment Act has given equal rights to male and female in the matters of inheritance as a result a daughter also acquires status of coparcener. Liabilities of the members of a Joint Hindu Family It is generally presumed that money required for carrying on family business is a family necessity and that the business is carried on with the consent or acquiescence of all the members of the family. However, their liability is limited to the extent of their interest in the family property and not beyond that. No doubt, the adult coparceners become personally liable when they themselves are actually contracting parties along with the Manager, or if they ratify the contract entered into by the Manager, except in the case of a minor coparcener, who does not become personally liable unless the contract is ratified by him after attaining majority. West Bengal follows the Dayabhaga system. Let us take an example of a HUF governed by the Mitakshara law wherein all the members acquire a right in the ancestral property by birth and the accrual of that right dates from conception of the child who by legal fiction becomes the member of HUF. So that there is always the danger of having transaction impugned by even a person who at the date of the transaction was not born. In order to charge a joint family estate, it is necessary that all the members of the family should join the execution of the deed, or should give their consent, or that the deed should be made by the head of the family in his capacity as karta or manager. The powers of the karta are, however, limited and charge created by him is binding on the family property, only if the loan for which the charge is created, is taken for a purpose necessary or beneficial to the family, or is in discharge of a lawful antecedent debt due from the family. This is also called as vyavaharika debt. In this context, it means good conduct]. In the event of a suit being filed by a banker, who has granted a loan on the security of the joint family estate, the burden of proof that, before he granted the loan, the banker had satisfied himself that the loan was taken for purposes beneficial to the family, lies on the banker. To avoid this and several other difficulties, some banks require a Hindu customer desiring to open an account, to furnish a statement to the effect that the money deposited in a fixed deposit, current or savings bank account is the personal or self-acquired property of himself or himself and not that of a joint Hindu family. The manager of a trading Hindu family may be such a person as the family appoints or who holds out as its accredited representative. Hence, HUF is a group of members of the same family. The "father", or the "senior member" of the family called "Karta", ordinarily manages the property belonging to Joint Family. Hence, the status of HUF cannot be termed as person. The partnership is a relationship between persons who have agreed to share the profits of a business carried on by all or any of them acting for all. Hence, to become a partner in a partnership firm, the partner should be a natural person or recognized as person by the law Company - by virtue of Companies Act Since, HUF is not a "person", but only group of persons belonging to the same family and carrying on the family business, HUF cannot be a partner in a partnership firm. Unlike a company, a HUF has no separate existence from its members. A Company as a separate entity can enforce its rights, whereas, a HUF, has to be necessarily represented by a Kartha or an adult member for enforcing any of its rights. A HUF cannot be treated as a person. Hence on the strength of the above rulings, it may be stated that a HUF cannot be a partner in a partnership firm. However, in CIT Vs. In such cases, it is the individual who is becoming a partner and not the HUF.

5: Property Rights Under Hindu Undivided Family Laws

The Hindu Law defines a Hindu Undivided Family (HUF) as a family which consists of male lineage decedents from a common ancestor and also includes their wives and unmarried daughters. HUF is also a separate legal entity under the Income and Wealth Tax Act and is liable to pay tax.

Wed, Sep 12 In other words, the recommendation is to abolish the system of HUF altogether all over India. The reasons for such recommendations are that there are various lacunae, anomalies and inconsistencies in the Hindu Succession Act, as amended to grant equal rights to daughters of coparceners as to sons, and that the institution of HUF was being used for tax avoidance. How far is this justified? Only one report is the th Report of the Law Commission in , on the proposed reforms in Kerala relating to property rights of women. After each of these reports, there have been various amendments to the Hindu Succession Act. After this report, the tax laws were amended to derecognise partial partitions of HUFs, which was the primary means of tax avoidance. The impact of these amendments on the conclusions arrived at by those committee reports does not seem to have been considered by the Law Commission. Today, as any tax practitioner will testify, HUFs are hardly ever used for tax avoidance. As against this, one has to factor in the time and effort of maintenance of separate records, accounts and of compliance. In most cases, it is just not worth the effort. Also, the complexity of Hindu law after the amendments has ensured that most families prefer to steer clear of HUFs. They, in fact, prefer to partition existing HUFs, particularly as the younger generation does not want the complexity and uncertainty which goes with an HUF, more so if some of the family members are non-residents. Therefore, the concern about the tax revenues does not seem justified, as abolition of HUFs will hardly result in any increase in tax collection. As regards the complexities in laws, the question that springs to mind isâ€”could not the laws have been drafted with a little better thought and after considering possible anamolies and lacunae? The law after all has been drafted by the government. One wonders whether an abolition law, drafted by the same government, which may be equally replete with anamolies and lacunae, will really help remedy the problem of complexity in law, or whether it will give rise to much more litigation and uncertainty. In principle, there can be no argument with doing away with the concept of HUF as a separate unit of taxation. The state of Kerala has already abolished coparcenery since â€”so the idea is not new. The question really is: Why choose only one part of the law for amendment? For instance, under tax laws, there is the concept of community of property for those governed by the Portuguese Civil Code, whereby half the income is taxed in the hands of each spouse. Should this also not be considered for abolition on the same grounds? Many countries have the concept of taxing a family income, rather than individual members of a family. There are deductions for maintenance of dependants available to the family, and a separate tax slab for the family. Is it time to consider moving to such a concept under our tax laws, instead of taxing each individual? This will eliminate some of the complexities in our tax laws, such as clubbing provisions applicable to income of spouse, minor children, etc. It will also result in a more equitable tax structure. But, does the government believe in equity in taxation? It is often said by courts that there is no equity in taxes, and tax and equity are strangers. But that statement applies for interpretation of tax laws, whose intention is clear. For public finance, any tax system has to be fair, just and equitable. The government, therefore, needs to ensure that the overall tax structure meets these criteria, before taking a decision to abolish HUFs. It is a decision which has to be taken, not in isolation, but after consideration of all aspects and impacts. Gautam Nayak is a chartered accountant First Published:

6: Joint Hindu Family Business: Meaning, Characteristics and Advantages

HUF means Hindu Undivided Family. You can save taxes by creating a family unit and pooling in assets to form an HUF. You can save taxes by creating a family unit and pooling in assets to form an HUF. HUF is taxed separately from its members.

Joint Hindu Family Business: Meaning, Characteristics and Advantages Article shared by: After reading this article you will learn about: Meaning of Joint Hindu Family Business 2. Characteristics of a Joint Hindu Family Business 3. Meaning of Joint Hindu Family Business: Joint Hindu Family Firm is created by the operation of law. It does not have any separate and distinct legal entity from that of its members. The membership in this form of business organisation can be acquired only by birth or by marriage to a male person who is already a member of Joint Hindu Family. There are two schools of Hindu Law-one is Dayabhaga which is prevalent in Bengal and Assam and the other is Mitakshara prevalent in the rest of the-country. It means, when a son is born in family, he acquires an interest in the property jointly held by the family. The Karta or manager works in consultation with other members of the family but ultimately he has a final say. The liability of Karta is unlimited while the liability of other members is limited to their shares in the business. Characteristics of a Joint Hindu Family Business: The main characteristics of Joint Hindu Family Business are given below: Governed by Hindu Law: The business of the Joint Hindu Family is controlled and managed under the Hindu law. There are two schools of Hindu law: The Karta is the senior most male member of the family. He works in consultation with other members of the family but ultimately he has a final say. The members of the family have full faith and confidence in Karta. Only Karta is entitled to deal with outsiders. But other members can deal with outsiders only with the permission of Karta. The membership of the family can be acquired only by birth. As soon as a male child is born in family, he becomes a member. Membership requires no consent or agreement. Except the Karta, the liability of all other members is limited to their shares in the business. The Karta is not only liable to the extent of his share in the business but his separate property is equally attachable and amount of debt can be recovered from his separate property. The death, lunacy or insolvency of any member of the family does not affect the existence of the business of Joint Hindu Family. The family goes on doing its business. Implied Authority of Karta: In a joint family firm, only Karta has the implied authority to contract debts and pledge the credit and property of the firm for the ordinary purpose of the businesses of the firm. Minor also a Partner: In a partnership, minor cannot become co-partner though he may be admitted to the benefit of partnership. In a Joint Hindu Family firm minor is a partner. The Joint Hindu Family Business can be dissolved only at the will of all the members of the family. Any single member has no right to get the business dissolved. Advantages of Joint Hindu Family Business: The chief advantages of Joint Hindu Family Business are given below: It is very easy to start the Joint Hindu Family Business. No legal formalities are required to be faced, such as registration. It requires no agreement. In this business, Karta takes all decisions and gets them implemented with the help of other member. No other member interferes in his management. He is in a position to keep all the affairs to himself and maintains perfect secrecy in all matters. The Karta is the only person who exercises control and direction over the business. He may not consult anyone in taking decisions. This ensures prompt or quick decisions. Being the sole master, he takes prompt decisions and makes advantage of the opportunity. For the success of any business, economy is a must. It is well- balanced and maintained in Joint Hindu Family Business. The Karta of family spends money with great caution and economy. In Joint Hindu Family Business the credit facilities are more. Karta is having personal relations with others, which are also helpful in raising credit. Natural Love between Members: In Joint Hindu Family Business, it is the natural love and affection which the members are having for each other. It helps to run the business more efficiently and smoothly. Freedom regarding Selection of Business: The Karta is at freedom to select any business of his choice. He has not to depend on others. Disadvantages of Joint Hindu Family Business: The disadvantages of Joint Hindu Family Business are given below: The membership of the business is limited to the members of family only. No outsider can become the member of Joint Hindu Family Business. Limited Sources of Capital: The capital is limited only upto the resources of one family. This is not sufficient to meet the business requirements for expansion. Thus the size of the business remains small. The Karta cannot take the advantage of economies of large size due to limited finance. All the managerial functions which are essential for the successful operation of a business are performed by the Karta of the family. The Karta may not be able to perform all managerial functions because of limitation of time, energy and skills. Because of limited scale of operations and financial resources, it may not be feasible to secure the services of experts in different fields like purchasing, production and marketing. The liability of the Karta is unlimited. This factor puts a ceiling on the growth and expansion of the business. No other member can interfere in his management. This may lead to the misuse of power and the Karta may use the power for his personal interest.

7: What is HUF and how can one use HUF account to save tax ? | File ITR

A karta under the Hindu Succession Act is the eldest among the coparceners â€" that is, the persons entitled to inherit a share in the property of a Hindu Undivided Family by virtue of having been born into the family.

Sep 19, , The concept of Hindu Undivided Family HUF may cease to exist if the proposals of a recently released consultation paper on Reform of Family Law by the law commission are accepted. In , the Ministry of Law and Justice made a reference to the Law Commission of India to examine matters in relation to a uniform civil code. The consultation paper, released in August of , prepared by the law commission discusses the grounds for abolishing the HUF. Why the need to abolish HUF HUF, meant to be a tool to manage jointly held assets and properties and ease asset inheritance in joint families, is also used as a tax saving tool or a tax break. According to the Income Tax Department website, in assessment year AY , there were a total of 9,98, tax returns filed by HUFs representing Rs 38, crore of gross total income while the total tax payable was of Rs 3, crore. Where HUF is abolished and such income is added to the income of the Karta or co-parceners it shall generate a significant increase in the total tax collection for the Government. The recognition of HUF as a separate tax entity goes back to , which was subsequently incorporated into the Income Tax Act, As soon as coparcenary is abolished the institution of HUF would inevitably collapse. Besides the amendment in , the consultation paper also highlights the loss in tax revenue to the government on account of the existence of HUF. One of the key areas of concerns shall be regarding the dissolution of HUF assets and how the distribution of assets shall be taxed. Here is a look at how the HUF functions and how it is being used as a tax saving tool. How HUF helps in saving taxes As taxpayers we all look to minimise our tax liability by availing benefits under various sections of the Income Tax Act. Saving taxes through HUF is a valid and lawful thing to do. Personal income of the members is not treated as income of an HUF. Income, expenses of HUF For an HUF, the income sources are almost similar to individual taxpayers such as profits from business or profession, income from house property, capital gains, income from other sources and so on. Since the HUF is a separate entity, it cannot earn income from salary. On the income earned, the HUF is taxed on the same slab rates applicable to an individual. The HUF is even entitled to avail similar exemption level and deductions like those under sections 80C, 80D etc as that of an individual tax payer. HUF can pay salary to its members if they are contributing to its functioning and work of the joint Hindu family business. This salary expense can be deducted from the income of the HUF. With proper planning, an individual can avail various deductions under personal tax filing and another deductions for an equal amount under HUF tax filing. In case of mutual funds, the Karta has to add Hindu Undivided Family within brackets after his name to distinguish it from his personal investments. In the case of insurance under HUF, it is allowed only on the life of the Karta. Proposals on the life of co-parceners or members may be allowed only if the Karta is uninsurable. In all such cases, the Karta will be the proposer. If coparceners apply for individual insurance on the basis of income of HUF, it will be treated as separate insurance. Payment of premium will have to be made through HUF funds.

8: Partition of Property in Hindu Undivided Family - Property Lawyers India

Hindu Undivided Family - Free definition results from over online dictionaries.

An HUF comprises all the people who have lineally descended from a common ancestor and includes wives and unmarried daughters. Under the Indian law, the property belongs to everyone in the family, equally. Only self-acquired property can be claimed by members of the undivided family. Here are some other points to keep in mind about the concept: An HUF comprises a larger number of people within a family and the extended family, including female members. Coparceners are on the other hand limited to four generations â€” father, sons, grandsons and great grandsons. After , women are also coparceners. Note that coparcenary cannot start without a common male ancestor. The concept of HUF is not based on the property at all. A family that owns no property can also be an HUF. Coparceners can ask for property partition rights. The other members can claim only through the coparceners and have no direct claim. An unmarried daughter is part of an HUF. A single male does not constitute an HUF. Previously, the property of a deceased husband was could be moved ahead within the HUF. A member of an HUF can receive gifts from a stranger, too. A gift by mother also can also be an HUF property. However, if the father has a partitioned share in the HUF in his own name, that should rightfully be passed to the wife and daughter. After , women can also blend their individual property into the HUF since she is a coparcener. Previously, women in a joint family were not allowed to blend their individual property with that of the joint family property in an HUF.

9: Hindu Undivided Family: The daughter as the inheritor | The Indian Express

Thanks for A2A. The expression "Hindu Undivided family" on dissection consists of three words namely (I) Hindu, (ii) Undivided and (iii) family. Each word has a meaning of its own and it is very important for understanding the concept of the HUF.

Gold hallmarking likely to be made mandatory soon It is often said that tax is a fine for doing well. Cliched it may sound, but most taxpayers go to great lengths to save on taxes. This may be through investments made just to save taxes, irrespective of whether the product helps meet goals or not, or putting money in a scheme just because everyone else is. In a country like India, where familial bonds are usually strong, this seems like a good idea. But is an HUF really helpful, and does it serve the purpose, especially in the long run? An HUF is a separate entity that can be created by members of a family, wherein the members are lineal ascendants or descendants. A single person cannot create an HUF. Usually the senior-most member of the family is considered the karta, the person who manages the affairs of the HUF. Once a person gets married, an HUF is automatically created. But to be recorded by tax authorities, it needs to have an income-generating asset, which can only come as a gift from a relative or through a Will for all members of the HUF. Once it has such an asset, the HUF needs to be registered in a particular name and other formalities such as opening a bank account and acquiring a Permanent Account Number PAN have to be done. So, even if the members have individual incomes, those are not clubbed with the income of the HUF. The way individuals get tax deductions under various sections of the Income-tax Act, , HUFs, too, get tax benefits. So, any investment made or insurance paid by the HUF is deducted from its income for taxation purpose. Srinivasan, a Bengaluru-based financial planner. However, funding an HUF is tricky. Capital can be brought in only through gift or inheritance subject to gift tax laws, which say that any amount above Rs. But there are instances where it works, for example, an ancestral property that yields rental income. Say, person A earns Rs. If A got the property from his father, while calculating his tax liability, both incomes will be clubbed and taxed in his hands. Assuming that A has no investments and not considering education cess and surcharge, he will be subject to a tax of Rs. If the property is transferred to an HUF of which A is, say, the karta, then under the same assumptions, A will pay Rs. So, in all there will be a tax saving of Rs. The rent becomes tax-free in the hands of the karta, which is A here, and for the other members as well. It also comes in handy if a person decides to start a business in the name of an HUF, which has his children as members, then everyone has an equal claim on the business. These are some of the benefits that make HUF attractive. The first problem is that once a property is assigned to an HUF, all coparceners have equal right to it. If an HUF has only a few members, things may run smoothly. Problems mostly appear when the number of coparceners increases. Since all lineal descendants are part of an HUF, every child, whether boy or girl, who gets added to the family, becomes a part of the HUF. Apart from HUFs becoming too large, the goal for which it was created has to be clear. As income and number of members grow, complications, too, increase. If the income tax authorities feel that the HUF has been created to launder money, it may choose to take suitable action against it. At the root of many problems is poor understanding of the laws that govern HUFs. There are ambiguities even at the concept level, said Bhatia. HUFs are an Indian phenomenon; some family members move abroad either to study or work and the computation of income may be difficult as many countries do not recognize HUF. Mint Money take In the past, India has had harsh income tax rates. In , the highest tax rate was It was only in that the tax slabs were brought down to the current levels, but that too gradually. Back when taxes could take away a large chunk of the money over a certain threshold, forming HUFs made sense as doing so helped saving more on taxes. Also, while joint families were more prevalent then, one sees more nuclear families now. Divorce rate, too, has increased. This adds to complications as once someone becomes a coparcener in an HUF, the person cannot be moved out. Though some chartered accountants and financial planners believe that if used properly, HUFs can still be a useful tool, but it seems that the cons outweigh the pros. And if simple tax planning is the goal, you may be better off without an HUF. Thu, May 28

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