Tax implications, benefits of gifting shares to children

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TAXATION

I have shares worth ₹9.3 lakh that I bought in 2013 for around ₹3 lakh. I want to gift these shares to my 22-year-old daughter. I want to know whether selling the shares and gifting her the sale proceeds would be more beneficial in terms of taxation (for both of us) or gifting shares will be better?

—Name withheld on request

As per Section 56 of the Income Tax Act, any monetary gift, immovable property or moveable property received by an individual becomes taxable if the aggregate sum of money received during the year exceeds ₹50,000. However, there are specific exceptions to this rule, including gifts received from relatives.

For the purpose of the Income Tax Act, 'relative' includes: spouse of the individual; brother or sister of the individual; brother or sister of the spouse of the individual; brother or sister of either of the parents of the individual; any lineal ascendant or descendant of the individual; any lineal ascendant or descendant of the spouse of the individual; spouse of the persons referred to in the above cases, except the first one.

Accordingly, the transfer of shares or money to your daughter will be non-taxable in the hands of your daughter. In case you sell the shares and gift the money to your daughter, the capital gains will be taxable in your hands at 10%. In case you gift the shares to your daughter, it will be taxable in her hands as and when she decides to sell the shares.

Both options have distinct tax implications. Gifting the shares directly to your daughter seems more tax-efficient, as it involves no tax liability for her at the time of the gift. However, the capital gains, when realized in the future, would be taxable in her hands.

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