What is the taxability for inherited assets?

Neeraj Agarwala

I inherited ₹20 lakh in cash and two house properties. Subsequently, I gifted ₹10 lakh in cash and one house to my maternal aunt residing in South Africa. Do I need to pay income tax on the entire inheritance, or only on the remaining amount after allocating my aunt's share? Additionally, should I declare this transfer in my income tax return (ITR)?

—*Name withheld on request*

ISTOCKPHOTO

ASK MINT
TAXATION

In accordance with section 47 of the Income Tax Act , the transfer of capital assets through inheritance is not deemed as a taxable transfer. Therefore, the receipt of ₹20 lakh and two house properties through inheritance does not incur any tax liability at present. Any tax obligation would arise only upon the eventual sale of the house property in the future. It's important to note that there is currently no scope in the income tax return for declaring inherited property, and as such, no additional disclosure is required for these inherited assets.

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:

(a) Spouse of the individual;

(b) Brother or sister of the individual;

(c) Brother or sister of the spouse of the individual;

(d) Brother or sister of either of the parents of the individual;

(e) Any lineal ascendant or descendant of the individual;

(f) Any lineal ascendant or descendant of the spouse of the individual;

(g) Spouse of the persons referred to in (b) to (f).

Accordingly, transfer of cash and house property to your maternal aunt should also be non-taxable. However, repatriation limits for the gift will be subject to Foreign Exchange Management Act (FEMA) laws, allowing her to receive funds within the prescribed limits.

I am a working professional and the gross receipts from my profession amount to ₹12 lakh. Additionally, I have short-term capital gains from debt funds redemption. If I intend to avail benefits under Section 44ADA, which income tax return (ITR) form should I utilize for filing my taxes?

—*Name withheld on request*

Generally, when reporting income under presumptive tax, income tax return (ITR) form 4 is often recommended. It's tailored to simplify the declaration process for income from business and profession, though it's limited to declaring only income from house property and other sources. However, if you have capital gains income, you'll need to use ITR 3 instead. This form is specifically for taxpayers earning income from business and profession, and it requires disclosure of capital gains along with other income.

Neeraj Agarwala is partner, Nangia Andersen India.

Do you have a personal finance query? Send in your queries at **mintmoney@livemint.com** and get them answered by industry experts.