

How to Form HUF?

Members: One person cannot form Hindu Undivided Family. An HUF (Hindu Undivided Family) is automatically constituted after marriage. HUF consists of a common ancestor and all of his lineal descendants (child, grandchild, great grandchild...), including their wives and unmarried daughters. It can also be formed by partition of an existing HUF into multiple units. A suitable name needs to be given to the HUF, taking into consideration the existing laws and the business that it intends to undertake. Hindus, Buddhists, Jains and Sikhs can form HUFs.

Corpus: An important requirement for the formation of an HUF is its corpus or capital. This capital is separate from the assets owned by its members. The property received by way of a will in favour of the HUF can become the corpus. 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 assets by members of HUF.

Deed: If HUF is formed by splitting of existing HUF or by way of Gift, it is advisable to execute suitable deed. The existence of HUF deed is not mandatory but the assets must be registered in the name of HUF. It may include details of the Karta, members of the HUF consisting of coparceners, and other family member.

PAN: An HUF has a separate PAN and the Karta must apply for one. The PAN needs to be quoted while making investments and carrying out financial transactions of the HUF.

PARTITION: Under the Hindu Succession Act, partial partition of HUF is permitted and legally valid. However, under the Income Tax Act only full partition of HUF is recognised otherwise income related to distributed assets under partial partition shall be clubbed in HUF Income only.

What are the advantages of the HUF?

- Just like a company, the existence of a HUF is perpetual. The death or retirement of one member or even the Karta will not affect it, and it will continue on.
- Since the co-parceners do not have any effective control over the management of the HUF, and all power lies with the Karta, the liability of the members has also been limited to only their share of the property. This keeps the balance between power and responsibility.
- Also, since all members of the HUF are relatives and members of the same family, there is a sense of loyalty and cooperation. The trust among members is also there and leads to overall cooperation.
- A joint Hindu family business can maintain business secrecy. Because they need not have to publish their account to any outsider.
- Since HUF is considered as a separate entity for Income Tax purpose, benefit of non-taxable income initial slab and lower tax bracket can be availed easily.