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How can individuals minimise the tax burden associated with intergenerational wealth transfer?

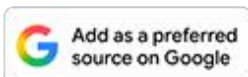
While India does not currently have an estate tax or inheritance tax, there are other taxes that may come into play, such as capital gains tax and stamp duty, depending on the assets being transferred.

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Navneet Dubey

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from specified relatives (such as parents to children) are tax-exempt.

Minimising the tax burden associated with intergenerational wealth transfer in India requires strategic planning and the utilisation of legal mechanisms.

Amit Pathak, Managing Director, Warmond, said, "India does not have gift and estate taxes, at the moment. Estate duty (also known as inheritance tax) is a duty applicable to the estate of a deceased before the assets are inherited by the legatees of the deceased. India had legislation on estate duty, which got abolished in 1985."



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duty, depending on the assets being transferred.

Gifts: Under Section 56(2)(x) of the Income Tax Act, gifts from specified relatives (such as parents to children) are tax-exempt. Therefore, transferring wealth through gifts while ensuring they fall within these exemptions can reduce tax liabilities.

"It is believed by some that estate duty (along with gift tax) may be re-introduced in India. To minimize the impact of the same, many individuals have chosen the path of gifting a part of their assets to the next generation during their lifetime. However, gifting a large part of the assets during one's lifetime has certain drawbacks and is not the most ideal option. Therefore, many wealthy families/individuals have set up irrevocable family trusts (with requisite checks and balances) to minimize the impact of estate duty, if re-introduced," said Pathak.

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transferring wealth. Trusts can hold and

manage assets for beneficiaries, and the income generated by the trust is taxed at a lower rate, subject to specific conditions under Indian tax law.

Hindu Undivided Family (HUF): Forming an HUF can be an effective tax-saving tool. An HUF is considered a separate legal entity and can hold assets and earn income, which is taxed separately from individual family members. This creates an additional tax-saving avenue.

Strategic planning using these methods ensures smooth, tax-efficient transfer of wealth across generations.



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