

TAXATION

3rd SEMESTER

TOPIC:

HEADS OF INCOME

DR. J. VIJAY KUMAR

LECTURER IN COMMERCE



Introduction

As per the Section 14 Income Tax Act, 1961, there are five main income tax heads for an individual. The computation of income tax is an important part and has to be calculated according to the income of a person. For a hassle-free calculation,

the income has to be classified properly so that there is no confusion regarding the same. The government has classified the sources of income under separate heads and then the income tax is computed accordingly. The provisions and rules are according to the details mentioned in the Income Tax Act.

LEGALRAASTA

— Simplifying Legal Journey —



Five main Income tax heads

- Income from Salary
- Income from House Property
- Income from Profits and Gains of Profession or Business
- Income from Capital Gains
- Income from Other Sources

Income from Salary

The first head of Income Tax heads is income from salary which. This clause essentially assimilates any remuneration, which is received by an individual in terms of services provided by him based on a contract of employment.

This amount qualifies to be considered for income tax only if there is an employer-employee relationship between the payer and the payee respectively. Salary also should include the basic wages or salary, advance salary, pension, commission, gratuity, perquisites as well as the annual bonus.

Allowances: An allowance is a fixed monetary amount paid by the employer to the employee for expenses related to office work. Allowances are generally included in the salary and taxed unless there are exemptions available. Specific tax exemptions are allowances allowed by employers as part of the salary. Some of them are.

Conveyance Allowance: Up to Rs 800/- a month is exempt from tax.

House Rent Allowance (HRA): Salaried individuals can claim House Rent Allowance or HRA to lower taxes who live in a rented house. This can be partially or completely exempt from taxes.

The deduction available is the minimum of the following amounts:

1. Actual HRA received
 2. 50% of [Basic salary + DA] for those living in metro cities (40% for non-metros)
 3. Actual rent paid less 10% of salary
- **Leave Travel Allowance (LTA):** LTA accounts for expenses for travel when you and your family go on leave. While this is paid to you, it is tax-free twice in a block of **4 years**.

- **Medical Allowance:** Medical expenses to the extent of **Rs 15,000/-** per annum is tax-free. The bills can be incurred by you or your family.
- **Perquisites: Section 17** of Income Tax Act deals with perquisites which are basically benefits in addition to normal salary to which an employee has a right by way of his employment.

Examples of these are rent free accommodation or car loan. There are some perquisites that are taxable in the hands of all categories of employees, some which are taxable when the employee belongs to a specific group and some that are tax-free



Income from House Property

The second head of Income Tax heads is Income from house property, According to the Income Tax Act 1961, Sections 22 to 27 is dedicated to the provisions for the computation of the total standard income of a person from the house property or land that he or she owns.

An interesting aspect is that the charge is derived out of the property or land and not on the amount of rent received. However, if the property is utilized for letting out the normal course of business, then the income from the rent will be considered. In simple terms, this head includes rental income received from the properties.

For tax computation purposes, the property in which you are staying and not earning any rental income can give you benefit. This benefit is in the form of deductions of interest paid on home loan.

However, if the property is utilized for letting out the normal course of business, then the income from the rent will be considered.



Income from Profits of Business

The third head of Income Tax heads is Income from Profits of Business in which the computation of the total income will be attributed from the income earned from the profits of business or profession. The difference between the expenses and revenue earned will be chargeable. Here is a list of the income chargeable under the head:

- Profits earned by the assessee during the **assessment year**
- Profits on income by an organization
- Profits on sale of a certain license
- Cash received by an individual on export under a government scheme
- Profit, salary or bonus received as a result of a partnership in a firm
- Benefits received in a business



Income from Capital Gains

Capital Gains are the profits or gains earned by an assessee by selling or transferring a capital asset, which was held as an investment.

Capital asset can be real estate, stocks, Mutual funds, Bonds, Gold etc. So whenever you sell a capital asset and earn gains.

This is considered as your income which will be taxable under the head Capital Gain.

Just to clarify, please note that rental income from property is taxed under “Income from house Property” but if you sell the property and experience gain, it will be taxed under “capital gain”.



Income from other sources

This is the last head of income. Any other form of income, which is not categorized in the above mentioned 4 heads, can be sorted in this category.

Some of the examples can be interest income from bank deposits, lottery awards, card games, gambling or other sports awards are included in this category.

These incomes are attributed in the Section 56(2) of the Income Tax Act and are chargeable for income tax.

Now that you are aware of the five heads of income, take out a piece of paper, write down all the sources of income that you have and classify it into these 5 heads. This will help you to plan your taxes well. This is the first step to identify your incomes in respective heads.

If you need expert help in doing so, get in touch with our financial tax experts at Minty who will guide you in the best possible way to plan your taxes.





THANK YOU