



TAXINFY

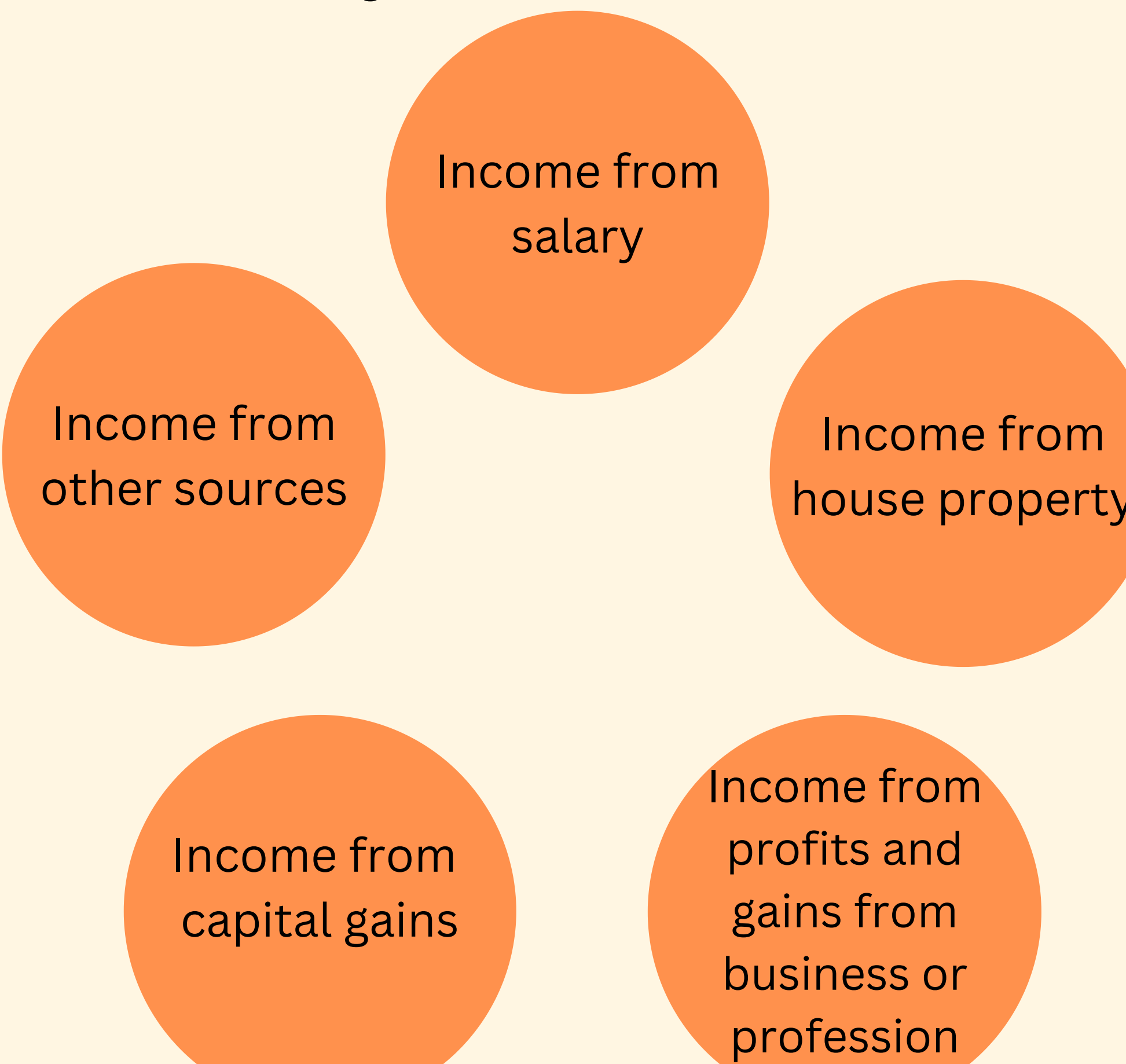
Heads of Income under Income Tax Act



Heads of Income under Income Tax Act

As per Income Tax Act 1961, a person's earnings are divided into 5 heads of income. At the end of each financial year, you must correctly classify your earnings under these heads of income for Tax Calculation.

Let us briefly understand the 5 heads:



Income from
salary

Income from
other sources

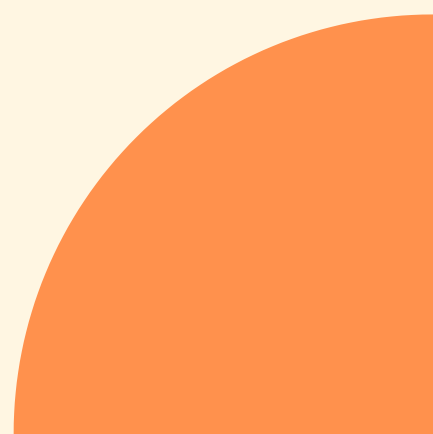
Income from
house property

Income from
capital gains

Income from
profits and
gains from
business or
profession

Income from Salary


Any income that you receive in terms of the service you provide on a contract of employment is applicable for taxation under the head of Salary. This includes Salary, Advance Salary, Arrear of Salary, Perquisites, Gratuity, Commission, Annual Bonus, Pension & any Other Receipts received from Employer.

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Income from House Property


An individual's income from his or her property or land is taxable under the head of income from house property. Under this head you calculate tax on Rental Income that you receive from your properties.

I would like to draw your kind attention to one more thing that In case you own more than one self-occupied house, then only one house is considered to be self occupied and the rest are considered to be rented out. The taxation occurs on income received from both commercial and residential property

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Income from profits and gains from Business or Profession

The profits that you earn from any kind of business or profession are taxable under this head. You can subtract your business expenses from the Total Income (Receipts) in order to determine the amount of Profit on which tax is chargeable. Remuneration, Gains, Bonuses, Interest on Capital or Any receipts from a Partnership firm in which you are working as a partner are also taxable under this head



Income from Capital Gains


When you earn profits by transferring or selling an asset that was held as an investment, that income is taxable under the head of income from Capital Gains. A large number of assets, like gold, bonds, mutual funds, real estate, stocks, etc., fall under capital assets

- Now, you can subdivide capital gains into short-term capital gains and long-term capital gains.
- **Short-term capital**

Short-term capital assets which does not fulfill the below conditions.


● **Long-term capital**

Long-term capital assets are considered an asset which is held by the taxpayers for more than 36 months before the transfer. Capital assets such as land, house property, and building are classified as a long-term capital asset if it is held for a period of more than 24 months (from FY 2017-18). Whereas, if the below assets are held for a period of more than 12 months, they will be categorized under long-term capital assets:

- Equity shares in a company registered on a recognized stock exchange in India.
 - Securities such as bonds, debentures, government securities, etc. registered on a recognized stock exchange in India.
 - UTI units, units of an equity-oriented mutual fund, whether quoted or not & Zero coupon Bond.
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Income from other sources

Among the five heads of income tax, this one includes any other income that does not have any mention in the above 4 heads. They fall under Section 56 subsection (2) of the Income Tax Act and include income from lottery, bank deposits, gambling, card games, sports rewards, etc.

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