

## Lesson no. 5 – Heads of Income

### **What are the Heads of Income Under Income Tax Act?**

Under the Income Tax Act, there are five heads which are known as the heads on income. At the end of each year, you or your accountant is expected to classify your yearly earning under these heads of income as per the Income Tax Act to calculate the amount of tax payable by you as a registered citizen of a country abiding the laws of the prevailing government. These heads of income are here to ensure the proper maintenance of monetary power within the social and governing system. Having these rules allows better cash flow in the economy which helps elevate the functioning if the government to provide the citizens and the common people better standers to living and transportation.

### **1. INCOME FROM SALARY**

If you are a salaried employee, your salary falls under this head. Your employer will deduct the [TDS](#) as per your income tax slab and pay the same to the government.

Once the total amount of income is calculated, the gross salary is taxed under this head.

Apart from the basic salary, even the gratuity, pension, annuity, commission, fees, leave encashment, and profits that you receive from your employer will go through TDS deduction.

### **2. INCOME FROM HOUSE PROPERTY**

The next under 5 heads of income tax is the income from house property. Section 22 to Section 27 of the IT Act specify the different provisions for computing income of someone owning property or land.

It is essential to know that the tax here is derived from the land or property and not from how much rent you earn from the same unless the property is let out to a business.

## 3. INCOME FROM BUSINESS OR PROFESSION

Any kind of income that you obtain from trade, manufacture, commerce, or profession is chargeable under the business income head. Your expenses will be deducted from your revenues to calculate your profits, and the income tax will then be applicable under this head.

Any kind of bonus, salary, or profit received from a partnership in a business organisation will also be calculated as per the business income heads of income tax.

Income can be charged under this head if it meets a few rules-

Profession or business must exist for income to be taxed.

The taxpayer should be handling the operations of the profession or business.

The profession must be operational for a greater part of the previous year.

If a taxpayer is operating any other profession or business, then this tax will also be levied on them.

## 4. INCOME FROM CAPITAL GAINS

Any gains or profits that you earn by transferring or selling capital assets which were held as investments are considered as capital gains.

This includes your investments in stocks, mutual funds, property, and many other types of investment.

## 5. INCOME FROM OTHER SOURCES

The last of the income tax five heads is income from other sources. Any kind of income which cannot be categorised under the heads listed above will fall under this income head. For instance, winnings from horse racing or lottery, gifts received, dividend income, and interest from government bonds and securities fall under this head. These are the income tax 5 heads that every taxpayer should know about. Consult a tax professional to know more about these heads and determine the correct head under which you should pay income tax.