

Income and Heads of Income

Income refers to the money or value that an individual or entity earns or receives, which can come from various sources. In the context of taxation, income is categorized into different heads for the purpose of calculating and assessing taxes. Each head of income has its own set of rules for computation and taxation.

1. Salaries

- **What it Includes:** This head covers income earned from employment, including wages, bonuses, commissions, pensions, and gratuities.
- **Taxability:** The entire amount received as salary is taxable, subject to certain exemptions (like House Rent Allowance, Leave Travel Allowance) and deductions (like standard deduction).
- **Example:** Mr. A works as a software engineer in a company and earns an annual salary of ₹10,00,000. He also receives House Rent Allowance (HRA) of ₹2,00,000 and a performance bonus of ₹50,000. His income under the head "Salaries" would include his basic salary, HRA (subject to exemption rules), and bonus.

2. Income from House Property

- **What it Includes:** This head includes income earned from renting out a property or properties. Even if the property is not rented and is considered "self-occupied," there are specific tax implications.
- **Taxability:** The tax is calculated based on the Annual Value of the property, minus deductions like standard deduction, municipal taxes, etc.
- **Example:** Mrs. B owns a house that she rents out for ₹20,000 per month. The total rental income for the year is ₹2,40,000. After deducting municipal taxes paid and a standard deduction of 30% of the annual value, the remaining amount is taxed under "Income from House Property."

3. Profits and Gains from Business or Profession

- **What it Includes:** Income earned from any business or professional activity. This includes profits from trading, manufacturing, services, and professions like doctors, lawyers, etc.
- **Taxability:** Net profit is calculated after deducting all allowable expenses, and the taxable income is computed accordingly.
- **Example:** Mr. C runs a retail store and earns a total revenue of ₹25,00,000 in a financial year. After deducting business expenses like rent, salaries to employees, cost of goods sold, and other operational expenses totaling ₹15,00,000, his net profit of ₹10,00,000 is taxable under "Profits and Gains from Business or Profession."

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4. Capital Gains

- **What it Includes:** This head covers income from the sale or transfer of capital assets such as property, stocks, bonds, and gold. Capital gains are divided into short-term (assets held for less than 36 months) and long-term (assets held for more than 36 months).
- **Taxability:** The gains are taxed based on the holding period, with different tax rates for short-term and long-term capital gains. There are also exemptions and deductions available under certain conditions.
- **Example:** Ms. D bought shares in a company for ₹1,00,000 and sold them after 2 years for ₹1,50,000. The gain of ₹50,000 is considered a long-term capital gain (since the holding period is more than 12 months for shares) and is taxable under "Capital Gains," with applicable exemptions and tax rates.

5. Income from Other Sources

- **What it Includes:** This is a residual head and includes all other types of income not covered under the other heads, such as interest on savings accounts, dividends, winnings from lotteries, gifts, and rental income from machinery, plant, or furniture.
- **Taxability:** This income is taxed according to the specific nature of the income, with certain exemptions and deductions applicable to some types of income (like dividends).
- **Example:** Mr. E has a fixed deposit in a bank, and he earns interest of ₹30,000 in a year. He also won ₹10,000 in a lottery. Both the interest income and lottery winnings are taxable under "Income from Other Sources." The interest income might be eligible for a deduction under Section 80TTA, while the lottery winnings are taxed at a flat rate without any deductions.

Difference Between Income, Revenue and Salary

1. Income

- **Definition:** Income refers to the total money or value received by an individual or business from various sources. It can include earnings from work, investments, property, business activities, and other sources.
- **Example:** If you receive ₹50,000 as salary, ₹10,000 as interest from a savings account, and ₹5,000 as rental income from a property, your total income would be ₹65,000.

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2. Revenue

- **Definition:** Revenue is the total amount of money generated by a business from its operations before any expenses are deducted. It's often referred to as "sales" or "gross income" in a business context.

- **Example:** A company sells products worth ₹1,00,00,000 in a year. This amount is considered the company's revenue. It does not account for any costs like production, wages, or taxes.

3. Salary

- **Definition:** Salary is a fixed, regular payment made by an employer to an employee for their work or services, typically expressed as an annual amount but paid monthly.

- **Example:** If you work as an engineer and your employer pays you ₹60,000 per month, that is your salary.



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