3 HEADS OF INCOME [S. 14]

THEORY

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1. INCOME CLASSIFIED UNDER DIFFERENT HEADS [S.14]

After determining the scope of income i.e. what is to be included and excluded, the next step is to classify the income under different heads. This is necessary because the rules for computing income under each head are different.

1.1 PROVISION

Section 14 of the Income-tax Act states that ".. *all income shall, for the purposes of charge of income-tax and computation of total income, be classified under the following heads of income* -

(1) Salaries,

(2) Income from House Properties,

(3) Profits and Gains of Business or Profession,

(4) Capital Gains,

(5) Income from Other Sources."

1.2 IMPORTANCE OF DIFFERENT HEADS

It is said that *"Section 4 provides the basis of charge on total income; Section 5 defines its scope. Section 14 classifies the total income under different heads and Sections 15 to 59 quantify the amount of total income."* Thus section 4 states who is taxable in respect of what income and when; section 5 states what is included and excluded in taxable income; section 14 states the heads under which income is classified; and sections 15 to 59 state the specific rules of computation under each head so as to determine the amount of income under each head.

1.3 HEADS ARE MUTUALLY EXCLUSIVE

It should be noted that the heads of income are mutually exclusive. Where an item of income falls under one head, it has to be charged under that head and no other. If the income is taxable as income from house property, it has to be taxed under that head only, and cannot be taxed as, say, Profits of Business.

1.4 HEADS ARE DIFFERENT, BUT TAX IS ONE

The different heads of income do not make different kinds of taxes. The tax is always one. But the income may arise from different sources to which different rules of computation are applied. Section 14 classifies the income under different heads only for providing appropriate rules of computation.

1.5 TOTAL INCOME FROM ALL SOURCES COMPUTED UNDER DIFFERENT HEADS

The classification of income under different heads is with reference to the "*source*" of income. Income generally arises from several "sources" such as employment, house property, investments, business and so on.

For the same head of income, there can be more than one source of income. Thus a person may have a number of shops. Each shop is a distinct source of income. Income from each shop will be computed as per the rules of computation provided in respect of Profits of Business (under sections 28 to 44D of the Act). Income from all shops will be added together and shown as income under the head of - Profits from Business. Similarly income from remaining sources will be computed under relevant heads such as salaries, income from house properties, capital gains etc. Income from each source is computed as per the rules of computation provided for the relevant head. Thus salary from each job will be computed as per the rules provided under sections 15 to 17. Rent from each house property will be computed as per the rules of computation provided under sections 22 to 27 and so on. Finally, income under all the heads will be added together. Such income is called the Gross Total Income of the assessee during that previous year. *Gross Total Income is thus the sum total of income of the assessee, during the previous year, from all sources, classified and computed under different heads.*

The amount of such disallowable expenses is determined on the basis of the method to be prescribed by the Central Board of Direct Taxes.

EXERCISES

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2. THEORY QUESTIONS [15 MARKS]

2.1 DESCRIPTIVE QUESTIONS [7 OR 8 MARKS]

1. Enumerate the different heads of income under which income is classified under the Income-tax Act.
2. Explain the statement - "Section 4 provides the basis of charge on total income; Section 5 defines its scope; Section 14 classifies the total income under different heads and Sections 15 to 59 quantify the amount of total income."
3. Explain the statement - "The different heads of income are mutually exclusive".
4. Explain - "The heads of income are different, but the income-tax is one tax."
5. Distinguish between a head of income and a source of income.
6. Describe in brief how total income from all sources is computed under different heads. What is the importance of heads of income in computation of total income of assessee?

2.2 SHORT NOTES [5 MARKS]

Write a short note on :

1. Heads of Income — ***[Ans.: Para 1.1]***
2. Importance of heads of income — ***[Ans.: Para 1.2]***
3. Total Income and Different Heads — ***[Ans.: Para 1.5]***

3. OBJECTIVE QUESTIONS

3.1 FILL IN THE BLANKS

1. As per S. 14 of the Income-tax Act, there are _____ heads of Income.
2. Income computed under each head, when added together is called _____ (Gross / Net) total income.
3. Rent received from tenant of a house property is classified as _____ .
4. Lottery prize won is charged to tax under the head _____ (Income from Other Sources / Capital Gains).

3.2 STATE WHETHER TRUE OR FALSE

1. Perquisites received by employees are taxed as Income from other sources.
2. Profit made on sale of old house is taxed either as business income or capital gains.
3. All heads of income as defined under S.14 are mutually exclusive.
4. Rules for computation of income under all heads are the same.
5. Gross Total Income is the sum total of income of the assessee, during the previous year, from all sources, classified and computed under different heads.

3.3 CHECK YOUR ANSWERS

3.1 (1) 5 (2) Gross (3) Income from House Property (4) Income from Other Sources

3.2 **True :** 3, 5; **False :** 1, 2, 4