Unit 2 — Heads of Income & Computation

Tax Planning & Management | BMB FM 02 / KMB FM 02

Unit 2: Heads of Income and Computation of Taxable Income

Syllabus: Heads of income — Salaries, Income from House Property, Profits and Gains of Business or Profession, Capital Gains, Income from Other Sources; clubbing of incomes; calculation of taxable income; tax calculation including surcharge and marginal relief; deduction, rebate, relief; set off and carry forward of losses — principles, inter-source and inter-head set off.

> YAHAN 90% STUDENTS GALTI KARTE HAIN
>
> Rates, slabs aur limits har Finance Act se badalte hain. Ye notes **formats, provisions aur computation ke steps** par focus karte hain — jahan se zyadatar marks aate hain. Current rates apne AY ke hisaab se confirm kar lena.

Exam Blueprint (2025-26 paper)

> YE QUESTION BAAR-BAAR AAYA HAI
>
> **Is unit se akele SAAT questions aaye** — poore paper ka lagbhag aadha hissa. Ye Tax Planning ka sabse zyada marks dene wala unit hai.

Topic	2025-26 paper	Marks
GAV calculation — House Property	Section A	2
Short-term capital gain formula	Section A	2
Capital gain numerical	Section B	7
Carry forward and set off of losses	Section B	7
Inter-head and inter-source set off	Section C	7
Format of income from business/profession	Section C	7
Income from other sources	Section C	7

1. The Five Heads of Income — Section 14

```
1. SALARIES                          (Sec. 15 - 17)
2. INCOME FROM HOUSE PROPERTY        (Sec. 22 - 27)
3. PROFITS AND GAINS OF BUSINESS     (Sec. 28 - 44DB)
   OR PROFESSION  (PGBP)
4. CAPITAL GAINS                     (Sec. 45 - 55A)
5. INCOME FROM OTHER SOURCES         (Sec. 56 - 59)
                 |
                 v
       GROSS TOTAL INCOME (GTI)
                 |
```

```
      - Deductions Chapter VI-A (80C-80U)
                  v
           TOTAL INCOME
```

YAAD RAKHNE KA JUGAAD

Paanch heads yaad rakhne ke liye — **"Sir, He Purchased Costly Ornaments"** — **S**alaries, **H**ouse property, **P**GBP, **C**apital gains, **O**ther sources. Aur ye **isi order** me likhna, kyunki computation isi order me hoti hai.

Key rule: Every income must be classified under **one and only one** head. **Income from Other Sources is the RESIDUARY head** — anything that does not fit the first four falls here.

2. Income from Salaries — Sections 15 to 17

DEFINITION - RATTA MAARO

Salary is taxable under this head only if there exists an **employer-employee relationship** (a contract *of* service). Payment to an independent professional is a contract *for* service and is taxed under **PGBP**, not salary.

Salary is taxable on **due or receipt basis, whichever is EARLIER** — so advance salary is taxable when received, and outstanding salary when it becomes due.

2.1 Format — Computation of Income from Salary

```
Basic Salary                                          xxx
+ Dearness Allowance (DA)                             xxx
+ Bonus, Commission, Fees                             xxx
+ Advance salary / Arrears of salary                  xxx
+ ALLOWANCES (taxable portion)                        xxx
+ PERQUISITES (taxable value)                         xxx
+ Profits in lieu of salary                           xxx
+ Employer's contribution to RPF above 12% of salary  xxx
──────────────────────────────────────────────────────────
= GROSS SALARY                                        xxx
- Deductions under Section 16:
    (ia) Standard deduction                          (xxx)
    (ii) Entertainment allowance (govt employees)    (xxx)
    (iii) Professional tax / tax on employment       (xxx)
──────────────────────────────────────────────────────────
= INCOME FROM SALARY                                  xxx
```

2.2 Allowances — three categories

Category	Treatment	Examples
Fully taxable	Entire amount added	Dearness allowance, city compensatory allowance, overtime, servant, warden, non-practising allowance
Partly taxable	Exempt up to a limit; balance taxable	**HRA (Sec. 10(13A))**, children education and hostel allowance, transport allowance for the disabled
Fully exempt	Not taxable at all	Allowances to government employees posted abroad, allowances of High Court/Supreme Court judges, UNO employees' allowances

HRA exemption — Section 10(13A): exempt is the **LEAST of the three**: