



आईएफटीएम विश्वविद्यालय, मुरादाबाद, उत्तर प्रदेश  
**IFTM University, Moradabad, Uttar Pradesh**  
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## E-Content

**IFTM University, Moradabad**

# **INCOME TAX LAW & PRACTICE**

## **BASIC CONCEPTS OF INCOME FROM SALARY HEAD**



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## INCOME FROM SALARY

According to Section 14 of the Income Tax Act, 1961, the income of a particular person from various sources can be classified into only five heads of income. These are:

- 1). Income from Salary
- 2). Income from House Property
- 3). Income from Business or Professions
- 4). Capital Gains
- 5). Income from Other Sources

Taxable income of every assessee should fall in any of the above 5 heads. First four heads of income are specific heads whereas the fifth head is general i.e. any income earned or accruing to an assessee not comes under any of the first four heads of income, must fall in the fifth head.

For calculating the taxable income of an assessee, first we calculate the income of each head is separately. Aggregate of income of all the five heads of income is known as ***gross total income***.

<b>GROSS TOTAL INCOME</b> = Income from Salary + Income from House Property + Income from Business or Profession + Capital Gains + Income from Other Sources
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<b>TOTAL INCOME</b> = Gross Total Income – Deductions u/s 80(c) to 80 (u)
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## SALARIES

Any compensation or remuneration paid by an employer to his employee in consideration of his services is known as salary. It includes all the taxable monetary and non-monetary compensation paid by employer to their employees.

## **BASIC COMPONENTS OF SALARY**

- The relationship between the payer and payee as employer and employee or master or servant.
- The payment must have been made by the payer in the capacity of employer.



## **IMPORTANT RULES WITH REGARD TO “INCOME FROM SALARY HEAD”**

1. Relationship of Employer and Employee
2. Salary and Wages
3. More than one source of Salary
4. Tax free Salary
5. Voluntary Payments
6. Loan from Employer
7. Salary to Partner
8. Receipts from a person other than employer
9. Pension
10. Payment made to an employee or to the widow or any legal heirs
11. Salary of a Member of Parliament
12. Basic Salary or Determination of salary as per salary-grades

Now, discuss one by one.

## **1. Relationship of Employer and Employee**

It must be an essential for payment to come under the head 'salaries' that the relationship between the payer and payee must be as employer and employee or master and servant.

If an employee does any work for his employer which is not connected with his service, then the remuneration for such work will not be treated as salary.

## **2. Salary and Wages**

According to Income Tax Act, 1961, there is no difference between the salary and wages, both are same. Any wages receivable by a labourer and the salary receivable by the chief minister of India are taxable under this head. Generally, any amount paid to any manual labour is known as wages and salary is termed as payment for mental or non-manual type of work. But for income tax point of view both are taxable under the head 'Salary'.

## **3. More than one Source of Salary**

An assessee may receive salary from more than one employer during the same previous year. It may be either due to change in employment or due to employment with more than one employer at one time.

## **4. Tax Free Salary**

When a salary is paid tax-free, the employee has to include in his total income the gross salary i.e. the aggregate of net salary received plus the amount of tax paid on his behalf by the employer.

## **5. Voluntary Payments**

Any payment in cash or in kind, made by an employer to his employee in consideration of his services, under a contract of services or voluntarily is taxed under the head 'salaries'.

## **6. Loan from Employer**

The amount of loan taken from the employer will not be regarded as advance salary and will not be included in total income of recipient employee.

## **7. Salary to Partner**

Partner is not an employee of his firm. Any salary received by a partner from his own firm will not be chargeable under the head 'salaries'. It will be taxed under the head 'Business or Profession'.

## **8. Receipts from a person other than employer**

Any compensation in cash or in kinds received from a person other than employer would be taxable under the head 'Income from Other Sources' even if they accrue to the employee by reason of his employment.

## **9. Pension**

Pension is the amount received by the employee after his retirement from his employer. This pension is taxable under this head.

## **10. Payment made to an employee or to the widow or any legal heirs**

Any lump sum payment by way of compensation or otherwise to the widow or other legal heirs of a deceased employee, who dies while still in service, will not be taxable as income.

## **11. Salary of a Member of Parliament**

This is not chargeable under the head 'Salaries', as a MP is not an employee of the government.

## **12. Basic Salary or Determination of salary as per salary-grades**

Salary grade means that at what starting salary any employee is to be appointed and during the entire service period (if there is no revision of grade or promotion), what will be his annual increment and what will be his maximum basic salary after which there will be no increment.

For example, if a person is appointed in the grade of ₹5,000-1000-9000-1500-15000.

Here it means, the basic salary at the time of his appointment was ₹5000. He will get annual increment of ₹1000 till his basic salary reaches ₹9000 p.m. then after his annual increment is ₹1500 till his basic salary reaches ₹15000.

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