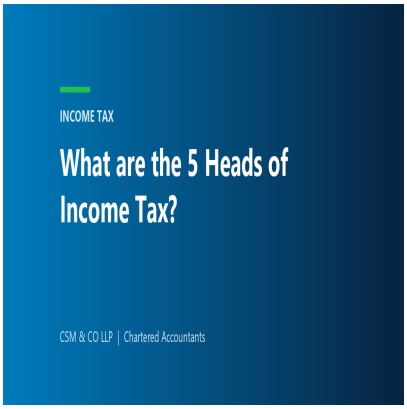

What are the 5 Heads of Income Tax?

Description

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Quick summary

- All income is sorted into five heads: salary, house property, profits and gains of business or profession, capital gains, and income from other sources.
- Each head has its own rules for what is taxable and which expenses and deductions are allowed.
- Capital gains are taxed by holding period and asset type, for example 12.5% on long-term gains from most assets sold on or after 23 July 2024.
- Correct classification decides how tax is computed and which ITR form you file.

Under the Income Tax Act, all income is sorted into five heads of income: salary, house property, profits and gains of business or profession, capital gains, and income from other sources. Each head has its own rules for what is taxable and which expenses and deductions are allowed. Putting each income under the correct head is the first step in computing tax and in choosing the right ITR form. The five heads continue under the Income-tax Act, 2025 (from 1 April 2026), although section numbers have changed. Section numbers quoted below are those of the 1961 Act.

The Five Heads of Income

1. Income from Salary
2. Income from House Property
3. Profits and Gains of Business or Profession
4. Capital Gains
5. Income from Other Sources

1. Income from Salary

Salary is income received under a contract of employment. It includes basic pay, allowances, advance salary, bonus, commission, perquisites, gratuity, leave encashment and pension.

- Section 15 describes what is taxable as salary.

- Section 16 gives the deductions from salary, mainly the standard deduction.
- Section 17 defines salary, perquisites and profits in lieu of salary.

Some allowances are exempt in the old regime, for example House Rent Allowance (HRA) for those living in rented houses. A transport allowance of up to ?3,200 per month for certain specially-abled employees (Rule 2BB) is exempt in both regimes. The new regime allows very few other exemptions but gives a standard deduction of ?75,000 (?50,000 in the old regime).

2. Income from House Property

Rent from a building or land attached to it is taxed under this head. The tax is computed on the annual value of the property, less municipal taxes and the standard deduction of 30%, less interest on a home loan.

There are three kinds of property:

1. Self-occupied property
2. Let-out property
3. Deemed let-out property

Up to two self-occupied houses are treated as self-occupied with nil annual value. Any other house is treated as deemed let-out. Interest on a loan for a self-occupied house is allowed up to ?2 lakh in the old regime. Income from a house property is reported in Schedule HP of the ITR.

3. Profits and Gains of Business or Profession

Profits from any business or profession are taxed under this head after deducting the expenses allowed. It covers:

- Profits of a trade, manufacture or service business, and professional income.
- Income taxed under the presumptive schemes of sections 44AD, 44ADA and 44AE.
- Profit or loss from futures and options trading and intraday trading in shares (speculative income is treated separately).
- Salary, bonus, commission and interest received by a partner from the firm, to the extent allowed.
- Certain incentives, licences and export benefits connected to the business.

Individuals and HUFs with business or professional income file ITR-3, or ITR-4 under the presumptive scheme.

4. Capital Gains

Profit from selling a capital asset such as property, shares, mutual funds, gold or bonds is taxed under capital gains. The gain is short-term or long-term, depending on how long the asset was held.

Asset	Held for long-term if more than	Short-term gain tax	Long-term gain tax (sale on or after 23 July 2024)
Land and building	24 months	Slab rates	12.5% without indexation
Unlisted shares	24 months	Slab rates	12.5% without indexation
Listed shares and equity mutual funds	12 months	20%	12.5% on gains above ?1.25 lakh a year

Asset	Held for long-term if more than	Short-term gain tax	Long-term gain tax (sale on or after 23 July 2024)
Other assets such as gold	24 months	Slab rates	12.5% without indexation
Debt mutual funds bought after 1 April 2023	Not applicable	Slab rates	Slab rates

For land and buildings bought before 23 July 2024, resident individuals and HUFs can choose to pay 20% with indexation instead of 12.5% without it. Capital gains are reported in Schedule CG, and individuals with capital gains generally file ITR-2 or ITR-3.

5. Income from Other Sources

Anything that is taxable but does not fall under the four heads above comes here. Common examples are interest on savings accounts and fixed deposits, dividends, winnings from lotteries and games, gifts above the limit, and rent from plant, machinery or furniture when it is not business income.

Heads of Income vs Sources of Income

A source of income is where the money comes from, for example a salary, a fixed deposit, a rented flat or a business. A head of income is the tax category the Act puts that source into. Many sources can fall under one head, and each head has its own computation rules.

Conclusion

Knowing the five heads helps you report each income in the right place, claim the deductions that belong to it and file the correct ITR form. Consult a qualified professional if an income is difficult to classify.

Frequently asked questions

What are the 5 heads of income?

Income from salary, income from house property, profits and gains of business or profession, capital gains, and income from other sources.

Which head does interest income come under?

Interest on savings accounts and fixed deposits is taxed under Income from Other Sources, unless it is a business receipt.

What is the difference between a head and a source of income?

A source is where the money comes from, such as a job or a rented flat. A head is the tax category the Act puts that source into.

Do the five heads continue under the Income-tax Act, 2025?

Yes. The five heads continue from 1 April 2026, with new section numbers.

Official sources

- Income Tax Department: e-Filing portal
- e-Gazette: Income-tax Act, 2025 (Act 30 of 2025)

Related reading

- What is Income Tax? Meaning, Rules, Tax Slabs, Types and Tax Guide for Tax Year 2026-27

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