

SCOPE OF TOTAL INCOME

- ❖ Section 5 of the income Tax Act, 1961 provides the “Scope of Total Income”
- ❖ It refers to the types of Income which are taxable in case of a person.
- ❖ This concept helps us to classify the incomes which are to be taxed for –
 1. Resident and Ordinarily Resident (ROR)
 2. Resident and Not Ordinarily Resident (RNOR)
 3. Non Resident (NR)

KEY FACTORS FOR CLASSIFICATION

❖ There are 3 key factors which determine the scope of Total Income –

1. The place of Accrual of the income
2. The place of Receipt of the income
3. The Residential Status of the person

CATEGORIZATION OF INCOMES

NO.	PARTICULARS	R.O.R.	R.N.O.R.	N.R.
1.	Income received in India	Taxable	Taxable	Taxable
2.	Income accrued or arisen in India	Taxable	Taxable	Taxable
3.	Income deemed to be received, accrue or arise in India	Taxable	Taxable	Taxable
4.	Income received, accrue or arise out of India (Foreign Income)	Taxable	Non - Taxable	Non - Taxable
5.	Income earned from a business / profession set up in or controlled from India	Taxable	Taxable	Non - Taxable
6.	Exempted Incomes	Non - Taxable	Non - Taxable	Non - Taxable

INCOME DEEMED TO ACCRUE OR ARISE IN INDIA

❖ Following are few examples of Incomes deemed to accrue or arise in India –

1. Capital gains on transfer of property situated in India
2. Salary received by an Indian national from The Government of India
3. Dividend paid by an Indian company
4. Interest / Royalty received from The Government of India
5. Income from any asset or property situated in India
6. Income from salary in respect of services rendered in India

INCOMES EXEMPTED (SEC. 10)

❖ Following are few examples of Incomes exempted u/s 10 of the I-Tax Act, 1961 –

1. Income from Agricultural land situated in India
2. Amount received under a Life Insurance policy
3. Compensation received in case of any disaster from the central government
4. Dividend received from an Indian Company
5. Long term Capital Gains from sale of shares and other securities
6. Amount withdrawn from provident funds by salaried employees

Let's take up a small example to understand the concept of Scope of Total Income.....

Sr. No.	Particulars	Amount
1	Salary received in Canada for service rendered in Bangalore	50,000
2	Dividend from a foreign Company received in Canada	8,000
3	Profits from a business in Indore entirely controlled from Canada	1,25,000
4	Income earned from a business in London managed from Mumbai	4,00,000
5	Dividend from Dabur India Limited (An Indian Company)	20,000
6	Agricultural income from a land in Nepal, received in Nepal	42,000

SOLUTION

Sr. No.	Particulars	Basis	R.O.R	R.N.O.R	N.R.
1	Salary received in Canada for service rendered in Bangalore	Accrued in India	50,000	50,000	50,000
2	Dividend from a foreign Company received in Canada	Foreign Income	8,000	NIL	NIL
3	Profits from a business in Indore entirely controlled from Canada	Received in India	1,25,000	1,25,000	1,25,000
4	Income earned from a business in London managed from Mumbai	Business managed from India	4,00,000	4,00,000	NIL
5	Dividend from Dabur India Limited (An Indian Company)	Exempt Income	NIL	NIL	NIL
6	Agricultural income from a land in Nepal, received in Nepal	Foreign Income	42,000	NIL	NIL

HEADS OF INCOME (SEC. 14)

❖ Following are the 5 heads of Income in which the total Income is classified –

1. Income from Salaries
2. Income from House property
3. Profits and Gains from Business or Profession
4. Capital gains
5. Income from Other sources