Income tax

An **income tax** is a tax imposed on individuals or entities (taxpayers) that varies with respective income or profits (taxable income). Income tax generally is computed as the product of a tax rate times taxable income. Taxation rates may vary by type or characteristics of the taxpayer.

The tax rate may increase as taxable income increases (referred to as graduated or progressive rates). The tax imposed on companies is usually known as corporate tax and is levied at a flat rate. However, individuals are taxed at various rates according to the slab in which they fall. Further, the partnership firms are also taxed at flat rate. Most jurisdictions exempt locally organized charitable organizations from tax. Capital gains may be taxed at different rates than other income. Credits of various sorts may be allowed that reduce tax. Some jurisdictions impose the higher of an income tax or a tax on an alternative base or measure of income.

Taxable income of taxpayers resident in the jurisdiction is generally total income less income producing expenses and other deductions. Generally, only net gain from sale of property, including goods held for sale, is included in income. Income of a corporation's shareholders usually includes distributions of profits from the corporation. Deductions typically include all income producing or business expenses including an allowance for recovery of costs of business assets. Many jurisdictions allow notional deductions for individuals, and may allow deduction of some personal expenses. Most jurisdictions either do not tax income earned outside the jurisdiction or allow a credit for taxes paid to other jurisdictions on such income. Nonresidents are taxed only on certain types of income from sources within the jurisdictions, with few exceptions.

Common principles

While tax rules vary widely, there are certain basic principles common to most income tax systems. Tax systems in Canada, China, Germany, Singapore, the United Kingdom, and the United States, among others, follow most of the principles outlined below. Some tax systems, such as India, may have significant differences from the principles outlined below. Most references below are examples; see specific articles by jurisdiction

Taxpayers and rates

Individuals are often taxed at different rates than corporations. Individuals include only human beings. Tax systems in countries other than the USA treat an entity as a corporation only if it is legally organized as a corporation. Estates and trusts are usually subject to special tax provisions. Other taxable entities are generally treated as partnerships. In the US, many kinds of entities may elect to be treated as a corporation or a partnership.

Partners of partnerships are treated as having income, deductions, and credits equal to their shares of such partnership items.

Separate taxes are assessed against each taxpayer meeting certain minimum criteria. Many systems allow married individuals to request joint assessment. Many systems allow controlled groups of locally organized corporations to be jointly assessed.

Tax rates vary widely. Some systems impose higher rates on higher amounts of income. Example: Elbonia taxes income below E.10,000 at 20% and other income at 30%. Joe has E.15,000 of income. His tax is E.3,500. Tax rates schedules may vary for individuals based on marital status.

Residents and nonresidents

Residents are generally taxed differently from nonresidents. Few jurisdictions tax nonresidents other than on specific types of income earned within the jurisdiction. See, *e.g.*, the discussion of taxation by the United States of foreign persons. Residents, however, are generally subject to income tax on all worldwide income. A very few countries (notably Singapore and Hong Kong) tax residents only on income earned in or remitted to the country.

Residence is often defined for individuals as presence in the country for more than 183 days. Most countries base residence of entities on either place of organization or place of management and control. The United Kingdom has three levels of residence.

Defining income

Most systems define income subject to tax broadly for residents, but tax nonresidents only on specific types of income. What is included in income for individuals may differ from what is included for entities. The timing of recognizing income may differ by type of taxpayer or type of income.

Income generally includes most types of receipts that enrich the taxpayer, including compensation for services, gain from sale of goods or other property, interest, dividends, rents, royalties, annuities, pensions, and all manner of other items.[16] Many systems exclude from income part or all of superannuation or other national retirement plan payments. Most tax systems exclude from income health care benefits provided by employers or under national insurance systems.

Deductions allowed

Nearly all income tax systems permit residents to reduce gross income by business and some other types of deductions. By contrast, nonresidents are generally subject to income tax on the gross amount of income of most types plus the net business income earned within the jurisdiction.

Expenses incurred in a trading, business, rental, or other income producing activity are generally deductible, though there may be limitations on some types of expenses or activities. Business expenses include all manner of costs for the benefit of the activity. An allowance (as a capital allowance or depreciation deduction) is nearly always allowed for recovery of costs of assets used in the activity. Rules on capital allowances vary widely, and often permit recovery of costs more quickly than ratably over the life of the asset.

Most systems allow individuals some sort of notional deductions or an amount subject to zero tax. In addition, many systems allow deduction of some types of personal expenses, such as home mortgage interest or medical expenses.

Business profits

Only net income from business activities, whether conducted by individuals or entities is taxable, with few exceptions. Many countries require business enterprises to prepare financial statements[17] which must be audited. Tax systems in those countries often define taxable income as income per those financial statements with few, if any, adjustments. A few jurisdictions compute net income as a fixed percentage of gross revenues for some types of businesses, particularly branches of nonresidents.

Credits

Nearly all systems permit residents a credit for income taxes paid to other jurisdictions of the same sort. Thus, a credit is allowed at the national level for income taxes paid to other countries. Many income tax systems permit other credits of various sorts, and such credits are often unique to the jurisdiction.

Alternative taxes

Some jurisdictions, particularly the United States and many of its states and Switzerland, impose the higher of regular income tax or an alternative tax. Switzerland and U.S. states generally impose such tax only on corporations and base it on capital or a similar measure.

Defining the 'Previous year'

Previous year or the financial year or your tax year is the 12 month period that begins on 1st April and ends on the 31st March of the next year. No matter when you start your job, your tax year closes on 31st March and a new tax year starts on 1st April. So, it is important to plan your taxes for each financial year.

Assessment Year

It is a term you'll often hear in relation to tax filing. It is the financial year after the previous year in which you will 'assess' and file your return for the previous year. So, assessment year is 2019-20 for the previous year 2018-19. Assessment year is the year in which you will file your return for the previous year. For instance – if you start your job on 1st January 2018, your tax year closes on 31stMarch 2018. 2017-18 is your previous year and your assessment year is 2018-19.

Understanding your Salary

When you start your job – reach out to your payroll or HR department and get your **Salary details/ Pay Slip / Tax Statement.** Here, you will get an idea of the major components of your salary and how much tax will be deducted from your salary based on them.

Income on which you pay Tax

Besides the salary income you receive, you may be earning an income from several other sources. Your Total Income is the sum total of all heads of income below.

Sources of Income

Income from Salary	Salary, Allowances, Leave encashment basically all the money you receive while rendering your job as a result of your employment agreement
Income from House Property	Income from house or building, this may be owned and self-occupied or may be rented
Income from Capital Gain	Income from gain or loss when you sell a capital asset
Income from Business or Profession	Income/loss that arises as a result of carrying on a business or profession
Income from Other Sources	This is the residual head - includes your income from savings bank accounts,fixed deposits,family pension or gifts received

6. Deductions

Deductions reduce your Gross Income. These are the amounts Income Tax Department allows you to reduce your Income, bringing down your tax liability.

Sum of All heads of Income = Gross Income

Gross Income – Deductions = Taxable Income