

Notes on Computation of Total Income and Tax for Firms & Companies

To compute a company's or firm's total income and tax liability, income is first calculated under the five heads of income. After applying permissible deductions, Gross Total Income (GTI) and Total Income (TI) are derived. Tax is then calculated by applying the relevant corporate or firm tax rates, surcharge, and Health & Education Cess.

Step 1: Calculate Income Under Five Heads

- 1. Salaries: Income from employment after allowing exemptions.
- 2. Income from House Property: Rental income minus municipal taxes and interest on home loans.
- 3. Profits and Gains of Business or Profession: Revenue minus business expenses, depreciation, etc.
- 4. Capital Gains: Profit from sale of capital assets such as property, shares, etc.
- 5. Income from Other Sources: Interest, dividends, lottery winnings, and similar incomes.

Step 2: Determine Gross Total Income (GTI)

GTI is the aggregate of income computed under all five heads.

Step 3: Apply Deductions (Chapter VI-A)

- Eligible deductions under sections such as 80C, 80D, etc. are subtracted from GTI.
- Specific deductions apply to firms and companies as per the Income Tax Act.

Step 4: Calculate Total Income (TI)

Total Income (TI) = Gross Total Income (GTI) – Chapter VI-A Deductions.

Tax Computation for Firms & Companies

For Firms:

- Partnership Firms are taxed at a flat rate of 30% on total income.
- Surcharge (e.g., 12% above ₹1 Crore) and 4% Health & Education Cess are applicable.
- Share of profit distributed to partners is exempt in partners' hands.

For Companies:

- Companies are taxed at prescribed corporate rates (e.g., 22%, 30%).

- Surcharge and 4% Health & Education Cess are added.
- Minimum Alternate Tax (MAT) may apply if tax on book profits is lower.

Final Tax Liability Calculation

- Apply relevant tax rates to Total Income.
- Add surcharge, if applicable.
- Add 4% Health & Education Cess.
- Subtract advance tax, TDS, or tax rebates.