

CHAPTER 5

"INCOME FROM HOUSE PROPERTY"

Essential conditions for taxing income under the head "Income from House Property" :-

1. The property must consist of buildings and lands attached to it.
2. The assessee must be the owner of such house property. Ownership includes free-hold and lease-hold right and also includes deemed ownership.
3. The property may be used for any purpose other than business or profession.

DEEMED OWNERSHIP (Section 27)

1. Property transferred to a spouse without any adequate consideration. [Section 27(i)]
2. Property transferred to a minor child without any adequate consideration. [Section 27(i)]
3. Holder of an impartible estate. [Section 27(ii)]
4. Member of a co-operative society or association. [Section 27(iii)]
5. Person in possession of a property. [Section 27(iii a)]
6. Person having right in a property for a period not less than 12 years. [Section 27(iii b)]

COMPOSITE RENT

(charges of rent + Additional facilities)

CASES OF COMPOSITE RENT

CASE I : Composite rent on account of rent for the property and for various facilities provided along with the house.

1. Rent attributable to the letting of the premises.

↳ Taxable under the head Income from house property.

2. Other portion of the composite rent received for rendering facilities.

↳ Taxable under the head Income from other sources.

CASE II : Composite rent on account of rent for the property and the hire charges of plant & machinery or furniture belonging to the owner.

1. Letting of the property is separable from the letting of other assets.

(a) Portion of the rent attributable to the letting of premises.

↳ Taxable under the head Income from house property.

(b) Other portion of the composite rent for letting other assets.

↳ Taxable under the head PGBP or other sources.

2. Letting of the property is inseparable from the letting of other assets.

→ Entire income would be taxable as income from PGBP or other sources.

When income from house property is not charged to tax.

* Farmhouse

* Property held for charitable purpose

* House property for own business or profession

* Self occupied house

* House property of registered trade union / Local authority

* Palace of ex-ruler.

NET ANNUAL VALUE (NAV) : Expected rental value of a property in a year.

Factors considered for calculating NAV :

1. Actual Rent Received :

(i) When owner agrees to bear certain obligation of the tenant (e.g. water, electricity bills of tenant).

Actual Rent = Rent received (-) Amount spend by the owner

(ii) When obligation of the owner is met by the tenant.

Actual Rent = Rent received (+) Amount spend by the tenant

2. Municipal value : value determined by municipal authorities for levying municipal taxes.

3. Fair Rent : Rent of similar property in same or similar locality.

4. Standard Rent : Rent fixed under Rent Control Act.

HOW TO CALCULATE EXPECTED RENT

1. Municipal Value
 2. Fair Rent
-] whichever is higher but does not exceed standard rent.

NOTE: Where standard rent and municipal value is given but fair rent is not given, then;

$$\text{Fair Rent} = \text{Actual Rent of 12 months} / \text{Annual Rent}$$

NOTE: Where municipal value or fair rent (or Annual rent), any one, is given but standard rent is not given, then;

$$\text{Expected Rent} = \left. \begin{array}{c} \text{Municipal value} \\ \text{OR} \\ \text{Fair Rent} \end{array} \right\} \text{As per the case.}$$

HOW TO CALCULATE GROSS ANNUAL VALUE

When house property is let throughout the previous year.
OR

When house property is let and was vacant for part of the year and actual rent is more than expected rent.

OR

House property which is part of the year let and part of year occupied for own residence.

1. Expected Rent
 2. Actual Rent
-] whichever is higher.

* Where the property is let and was vacant for whole or part of the year and actual rent is less than the expected rent.

$$\text{Gross Annual Value} = \text{Actual Rent}$$

CALCULATION OF GAV IN CASE OF UNREALISED RENT AND LOSS DUE TO VACANCY

$$\text{Actual Rent} = \text{Annual Rent} (-) \text{Loss due to vacancy} \\ (-) \text{unrealised rent}$$

CASE I : Actual Rent $<$ Expected Rent
(loss due to vacancy)

$$\text{GAV} = \text{Actual Rent}$$

CASE II : Actual Rent $<$ Expected Rent
(loss due to vacancy and other factors i.e. unrealised rent)

$$\text{GAV} = \text{Expected Rent} (-) \text{loss due to vacancy}$$

NOTE : For identification of cases, find out difference between expected rent and actual rent. If such difference is higher than loss due to vacancy, then case II shall be applicable whereas if difference is equal to or less than loss due to vacancy then case I shall be applicable.

CASE III: Actual Rent $<$ Expected Rent
(Due to other factors i.e. unrealised rent except loss due to vacancy).

$$GAV = \text{Expected Rent}$$

CASE IV: Actual Rent $>$ Expected Rent
 $GAV = \text{Actual Rent}$

DEDUCTIONS FROM INCOME FROM HOUSE PROPERTY (SECTION 24)

1. Standard Deduction = 30% of NAL
2. Interest on borrowed capital
 - a. Interest of previous year
 - b. Interest of pre-construction period starting from the date of borrowing till the end of the previous year prior to the previous year in which the construction of house was completed / date of acquisition / date of repayment of loan (whichever is earlier)

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NOTE: Where a fresh loan has been raised to repay the original loan, the interest paid on the second loan would also be allowed as deduction.

NOTE: If an assessee fails to pay interest on due date then interest generated on interest is not allowed as deduction.

CALCULATION OF INCOME FROM HOUSE PROPERTY

Particulars	Amount	Amount
GROSS ANNUAL VALUE	xxx	
Less: Municipal taxes paid by the owner during the current previous year.	(xxx)	xxx
NET ANNUAL VALUE		
Less: Deductions under section 24		
(1) Standard deduction @ 30% of NAV	xxx	
(2) Interest on borrowed capital		
(a) Previous year	xxx	
(b) Pre-construction period	xxx	(xxx)
Income from house property		xxx
Add: Recovery of unrealised rent / Arrears of rent [Recovery - (deduction claimed - deduction allowed)]	xxx	
Less: Standard deduction @ 30% of arrears of rent	(xxx)	xxx
TAXABLE INCOME FROM HOUSE PROPERTY		xxx

→ Municipal taxes due but not paid shall not be allowed as deduction.

When the Net Annual Value of house shall be nil:

(a) when the house is self occupied.

(b) when the house cannot actually be self occupied by reason of the fact that owing to his employment, business or profession carried on at any other place, he has to reside at that other place in a building not belonging to him.

Where assessee has more than one house for self occupation.

1. He may exercise an option to treat any one of the house to be self occupied, the other houses will be deemed to be let out and the net annual value of such houses will be expected rent.
2. The assessee in this case should exercise his option in such a manner that his taxable income is minimum.
3. If an assessee has a house property which consist of two or more residential units and all such units are self occupied, the net annual value of entire house property shall be taken as nil.
4. Where in a building if one unit is self occupied and the other units are let out then such property shall not be treated as single unit instead income from let out unit shall be computed as per let out provision and self occupied unit shall be computed as self occupied provision.
5. If the assessee lets out his house to his employer, which in turn allots the same to him as rent free accommodation, such house will not be treated as self occupied for the above purpose, because he is not occupying his own house in the capacity of owner.

Deductions in respect of self occupied house, where net annual value is nil.

1. Assessee will not be entitled to the standard deduction of 30%.

2. Assessee will be allowed deduction on account of interest on borrowed capital as under:

Particulars	Deduction
(a) Where the property is acquired or constructed with capital borrowed on or after 1.4.1999 and such acquisition or construction is completed within 5 years of the end of the financial year in which the capital was borrowed	Actual interest payable subject to maximum of Rs. 2,00,000. (only if certificate of interest payable, is obtained).
(b) In any other case i.e. amount borrowed for repairs or renewal or above conditions are not satisfied.	Actual interest payable subject to maximum of Rs. 30,000.

PROPERTY OWNED BY CO-OWNERS

House property is self-occupied by each co-owner

NAV = Nil

Deduction of Interest = Max. 30000 / 200000
(whichever case is applicable)

Entire or part of house property is let out

① Income from house property shall be first computed as if property / part is owned by one owner.

② Income so computed shall be divided among each co-owner according to their share.