INCOME FROM HOUSE PROPERTY

by

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Topics to be covered

- Section 22 – Charging section
- Section 23 – Annual value
- Section 24 – Deductions
- Section 25 – Non allowable deduction
- Section 26 – Chargeability in case of Co-owner
- Section 27 –Deemed Owner

Section 22 – Charging Section

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- The annual value of the property, consisting of any buildings or lands appurtenant thereto, of which the assessee is the owner is chargeable to tax under the head ‘Income from House property’.

- However, if a house property or any portion thereof is occupied by the assessee for the purpose of any business or profession carried on by him, the profits of which are chargeable to income-tax, the value of such property is not chargeable to tax under this head.

Implications of Charging section

- Annual value of a property (Section 23)
  - Tax under this head is not levied on the rent of the property but it is on the capacity of a property to earn income. The basis of measurement of the capacity of property to earn income is "Annual Value" (i.e., Gross Annual Value).
  - Generally only real income is taxable under Income tax act but law provides for adopting notional figure as the basis of computation.
  - The following are the cases where notional income is taxable:
    - If fair rent exceeds actual rent in case of let out property.
    - Where an assessee owns more than one self occupied property.

Building or Land appurtenant thereto:

- Appurtenant land in respect of residential building
  - Courtyard, playground, kitchen garden, motor garage, cattle-shed etc.
- Appurtenant land in respect of Non-residential building
  - Car parking spaces, roads connecting one department with another department, playgrounds for benefit of employees etc.
- Vacant land is not a house property.
- An incomplete or ruined or demolished house cannot be termed as house property.

Owner

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- Owner includes beneficial owner, deemed owner, legal owner.
- Deemed owner (Section -27)
  - Transfer to child or spouse [sec 27(i)].
  - Holder of impartible asset[sec 27(ii)].
  - Property held by member of company, cooperative society or any other AOP[sec 27(iii)].
  - Possession of property under section 53A of transfer of properties act, 1882[sec 27(iiia)].
  - Lessee of a building under section 269UA(f) [sec 27(iiib)].

Basis of Computation

- Income from a house property is determined as under:

Particulars	Amount in Rs
Gross Annual value	xxxxxx
Less: Municipal Taxes	(xxxxxx)
Net Annual Value	xxxxxx
Less: Deduction under section-24	
Standard deduction U/s 24(a)	xxxxxx
Interest on borrowings u/s 24(b)	xxxxxx
Income from house property	xxxxxx

Section 24(b)

- Current interest
  - Interest in the current year payable or paid.
  - If the interest payable outside India to any person then it is allowed as deduction if Tax was deducted at source on such interest. (u/s 25)
- Pre-construction interest
  - This interest is deductible in 5 equal installments starting from the previous year in which property is constructed or acquired.
  - This is the interest payable or paid from the date of loan obtained to 31st march of the year in which property is constructed or acquired.
- Interest on loan taken for repaying the previous interest is not allowed as deduction u/s 24(b).

Types of Properties

- **Self occupied**
  - Self occupied throughout the year
  - Partly vacant and partly self occupied
  - Unoccupied throughout the year
- **Let out**
  - Let out throughout the year
  - Part of the year let out and partly vacant
  - Part of the year self occupied and partly let out
  - Part of the year self occupied, partly let out and partly vacant.
- **Deemed to be let out**
  - Second self occupied property.

Self Occupied property

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- A property should be self occupied or unoccupied to claim it under self occupied property.
- For self occupied property Net annual value shall be taken as NIL.
- Maximum amount of Interest allowed as deduction under section 24(b) is 30,000 and it may extend to 2,000,00 if following conditions satisfies:
  - Acquisition or construction of house property should be completed within 5 years from the end of financial year in which home loan is taken.
  - Loan availed for construction/ purchase of self occupied house.
  - Loan should be taken on or after 1.04.1999.
- This limit(30,000/2,00,000) is for each person in case of joint ownership.
- If a person has more than one house property, then he can claim only one property as self occupied and the other one is taken as property deemed to be let out.

Gross Annual value

- If a property is let out for some period and was vacant for remaining period then if Actual rent received is less than expected rent owing to such vacancy then Actual rent received shall be taken as GAV.

Step 1- Reasonable expected rent

Particulars	Amount in Rs	Amount In Rs
(a) Fair rent of the house	10000	
(b) Municipal rent of the house	8000	
(c) Higher of (a) and (b)		10000
(d) Standard rent		7000
Reasonable expected rent [lower of (c) and (d)]		7000

Step 2- Actual rent received/receivable

Particulars	Amount in Rs	Amount in Rs
Actual rent received/received for number of months for which property is available for let out	9000	
less: Unrealized rent	1000	
Actual rent received/receivable		8000

- Step 3- Net Annual value

Particulars	Amount in Rs	Amount in Rs
(a) Reasonable expected rent [as per step 1]	7000	
(b) Actual rent received/receivable [as per step 2]	8000	
(c) Whichever is more (a) and (b)		8000
(d) less: Loss due to vacancy(if (b) is higher)		3000
Gross annual value		5000
Less : Municipal taxes paid in the current year		200
Net Annual Value		4800

- Step 4-Deductions under section 24

Particulars	Amount in Rs	Amount in Rs
Net annual value		4800
Less : Deductions u/s 24 (a) Standard deduction (30% of NAV) (b) Interest on capital borrowed(if any)	 1440 360	 (1800)
Taxable income under house property		3000

Let out property

- If a property is self occupied for some period and let out for remaining period during the year then the property cannot be claimed as self occupied property, it shall be treated as let out property.
- If a property is let out for a portion and self occupied for the remaining portion, then each portion is treated as separate unit and calculated accordingly.
- In case of joint ownership of let out property it is calculated in same way but final net income is bifurcated among the owners.
- In case of deemed to let out property Reasonable expected rent is taken as gross annual value.

Additional points

- Unrealized rent if received shall be taken as income after deducting standard deduction of 30% of received amount.
- Maximum net loss that can be setoff against any other head is 2,00,000/- from the assessment year 2018-19 as per the latest Finance bill and further loss if any can be carry forward to maximum of 8 assessment years.
- Composite rent
  - If rent charged contains not only rent on house property but also charges for other services or rent on other asset, then the rent is known as composite rent.
  - In case rent on other asset is included, then there is of two types separable and inseparable.
  - In case letting of house property including provision of services then rent is bifurcated between services and house property.

Example on Computation

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Computation of Income from House Property (Example) ReLakhs.com				
Particulars	Amount (in Rs)	Total	Existing Rule: Loss from House Property that can be set-off	Budget 2017 Proposal : Loss from House Property that can be set-off
Rental Income	2,40,000			
Less : Municipal Taxes	10,000			
Net Annual Value (Rs 2.4 Lakh - Rs 10k)		2,30,000		
Less : 30% Stanard deduction on NAV	69,000	1,61,000 (Rs 2,30,000 - 69,000)		
Less : Interest on Home Loan u/s 24	500000	Loss - Rs 3,39,000 (1,61,000 - 5,00,000)	Rs 3,39,000	Rs 2,00,000 (Balance Rs 1,39,000 can be carried forward)

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Thank you!!!

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