INCOME UNDER THE HEAD HOUSE PROPERTY

Sec 22 : Annual Value of Building owned is taxable under HP(except used for Business/Profession)

(1) Municipal value	XXXXX
(2) Fair Rental value	XXXXX
(3) Standard Rent ***(1 or 2,Higher, cannot exceed 3)***	XXXXX
(4) Reasonable Value	XXXXX
(5) Actual Rent Received/Receivable ***(Excluding Unrealised rent) Rule 4***	XXXXX
(4 or 5) Higher : GAV	XXXXX
Less : Municipal taxes ***(Paid by Owner during P/Y)***	(XXXXX)
NAV	XXXXX
Less : Deductions	
24 (a) : 30% of **Positive** NAV *Actual expenses have no relevance*	(XXXXX)
24 (b) : Interest **Due** on borrowed Capital Interest due during p/y + Interest for Preconstruction/prepurchase period	(XXXXX)
Amount after deduction	XXXXX
Add : Recovery u/s **25A, 25AA , 25B**	XXXXX
Amount Taxable under HP	**XXXXX**

Example: Mr. X owns five houses at Delhi. Compute the gross annual value of each house for the A.Y. 2016-17 from the information given below:

	House-I	House-II	House-III	House-IV	House –V
Municipal value	1,20,000	2,40,000	1,10,000	90,000	75,000
Fair rent	1,50,000	2,40,000	1,14,000	84,000	80,000
Standard rent	1,08,000	N.A.	1,44,000	N.A.	78,000
Actual rent received/ receivable	1,80,000	2,10,000	1,20,000	1,08,000	72,000

Ans: Computation of Gross Annual Value for AY 2016-17

	House I	House II	House III	House IV	House V
(a) Fair Rent	1,50,000	2,40,000	1,14,000	84,000	80,000
(b) Municipal Valuation	1,20,000	2,40,000	1,10,000	90,000	75,000
(c) Higher of (a) or (b)	**1,50,000**	**2,40,000**	**1,14,000**	**90,000**	**80,000**
(d)Standard Rent	1,08,000	N.A	1,44,000	N.A	78,000
(e) Expected Rent {Lower of (c) or (d)}	**1,08,000**	**2,40,000**	**1,14,000**	**90,000**	**78,000**
(f)Rent Received/Receivable	1,80,000	2,10,000	1,20,000	1,08,000	72,000
(g) GAV Higher of (e) or (f)	**1,80,000**	**2,40,000**	**1,20,000**	**1,08,000**	**78,000**

Deduction u/s 24(b)

Type of Property	Deduction u/s 24(b) on Due basis	Purpose of loan
Let out property	**100%**	Construction, Purchase, Repair, Renovation, Reconstruction
Residential property Self occupied	**Max 30,000**	Construction, Purchase, Repair, Renovation, Reconstruction
Residential property Self occupied	**Max 2,00,000**	loan is taken on or after 1st April,1999 for **purchase or construction** purchase or construction is completed Within 3 years from end of financial year in which loan is taken

Example

Loan Taken on 01-05-2006 of Rs. 5,00,000/- @12%p.a. Construction End on 07-09-2012.
Pre Construction/Acquisition Period = 01-05-2006 to 31-03-2012

Pre Construction/Acquisition Interest = Rs 3,55,000 (Rs 5,00,000*71 Months*1%)

Pre Construction/Acquisition Interest Deduction for Financial Year 2012-13 to 2016-17
Assuming let out property or deemed to be let out = Rs 71,000 per year (3,55,000/5)

Pre Construction/Acquisition Interest Deduction for Financial Year 2012-13 to 2016-17
Assuming self occupied property = Rs 71,000 per year (355000/5) (as the construction is completed within 5 years from the end of the financial year in which capital was borrowed)

Interest from 01-04-2012 to 31-03-2013 shall be allowed as deduction in 2012-13 as current year's interest. Interest from 01-04-2012 to 07-09-2012 shall not be considered as Pre Acquisition/Construction Period.

Note: – If a property is partly self occupied property and partly let out then also the limit of Rs 2,00,000/30,000 shall be available for SOP portion and there is no limit of deduction for let out portion even if the construction is completed after 3 years.

Example : Mr. X commenced construction of a residential house intended exclusively for his residence, on 01.11.2014. He raised a loan from PNB of Rs.5,00,000 at 16 per cent interest for the purpose of construction on 01.11.2014. Finding that there was an over-run in the cost of construction he raised a further loan of `8,00,000 at the same rate of interest on 01.10.2015. The assessee has submitted a certificate confirming the amount of interest. What is the interest allowable under section 24, assuming that the construction was completed by 31.03.2016.

Answer : Since the house was for self-occupation only, the annual value of the property would be 'nil' under section 23(2).The interest allowable for the current year has to be considered with respect to both the loans. Interest on loan borrowed after 01.04.1999 is eligible for deduction subject to a maximum of Rs.2,00,000 in the case of self occupied property.

Prior period interest (upto 31.03.2015)	
(5,00,000 x 16% x 5 / 12)	33,333
This is to be allowed over 5 years beginning with A/Y 16-17. Amount allowable for each year	6,667
Interest eligible for deduction for the assessment year 2016-17	
Prior period interest : One-fifth of 33,333	6,667
Interest on first loan : Current year interest : 5,00,000 @ 16%	80,000
Interest on second loan : 8,00,000 @ 16% x 6/12	64,000
Total Deduction	1,50,667

Special Points

- Interest on **unpaid interest** is not deductible.
- Interest on a **fresh loan** raised merely to **repay the original loan** taken for the above purpose is allowable as a deduction under this section.
- **Brokerage or commission** paid for arranging the loan is not deductible.
- If **arrears of interest** is paid during the previous year, no deduction is available in respect of arrears as it has already been claimed on due basis in earlier years.
- Similarly **interest paid in advance** is not fully deductible in one year, as deduction is on accrual basis.

- If interest is **payable outside India** then it must be paid after TDS as per the requirement of Section 25 of Income Tax Act, otherwise the deduction shall not be allowed.
- If interest is paid on **unpaid purchase price** to the seller then also deduction can be claimed u/s 24(b).

TAX TREATMENT OF VARIOUS PROPERTIES

Type of House Property	**(1) Fully let out**	**(2) HP partly let out & partly vacant**			**(3) Fully vacant**	**(4)**
	Sec23(1)(a) or Sec 23(1)(b) Higher	Case 1 **AR >RV**	Case 2 **AR < RV** (Rent less)	Case 3 **AR < RV** (Due to vacancy) 23(1)(c)	**Intention to let out** 23(1)(c)	**No Intention to let out**
(1) RV	**Entire P/Y**	**Entire P/Y**	**Entire P/Y**	**Entire P/Y**	**Entire P/Y**	**Entire P/Y**
(2) AR	**Let out period**	**Let out period**	**Let out period**	**Let out period**	**Nil**	**Nil**
GAV	**1 or 2, Higher**	**AR**	**RV**	**AR**	**NIL**	**RV**
Less : M. Tax	**Paid by Owner**	**Paid by Owner**	**Paid by Owner**	**Paid by Owner**	**Paid by Owner**	**Paid by Owner**
NAV						
Less: 24(a): SD	**30% of NAV**	**30% of NAV**	**30% of NAV**	**30% of NAV**	**NIL**	**30% of NAV**
Less: 24 (b) : **Interest DUE during P/Y+ Pre contruction/ purchase period**	**Fully allowed**	**Fully allowed**	**Fully allowed**	**Fully allowed**	**Fully allowed**	**Fully allowed**
Amount after Deduction						
Add : 25A/25AA/ 25B						
Income taxable under HP						

	(5) Self Residence	(6) Not occupied due to B/P/E	(7) More than one residence property Sec 23(4)		(8) Partly let out & Partly self residence Sec 23(1)(a) or Sec 23(1((b),high
	Sec 23(2) +Sec23(3)	*Sec 23(2)+ Sec 23(3)*	*Residence*	*Deemed to let out*	
(1) RV	NA	NA	NA	**Entire P/y**	**Entire P/Y**
(2) AR	NA	NA	NA	Nil	**Let out period**
GAV	**NA**	NA	**NA**	**RV**	1 or 2,Higher
Less : M. Tax	NA	NA	NA	**Paid by Owner**	**Paid by Owner**
NAV	**NIL**	**NIL**	**Nil**		
Less: 24(a): SD	NA	NA	NA	30% of NAV	30% of NAV
Less: 24 (b) : Interest DUE during P/Y+ Precontruction/ purchase period	**Max 30,000/ Max 2,00,000**	**Max 30,000/ Max 2,00,000**	**Max 30,000/ Max 2,00,000**	**Fully allowed**	**Fully allowed**
Amount after Deduction					
Add : 25A/25AA/ 25B					
Taxable					

Sec 25A Recovery of Unrealised Rent	**Sec 25AA Recovery of Unrealised Rent**	**Sec 25B Recovery of Arrears of rent**
Deduction claimed for Unrealised Rent **upto A/Y 2001-2002**	Unrealised rent **reduced** from actual rent **on or after A/Y 2002-2003**	HP let out a to a tenant for any previous year
Recovery of Such amount in a P/Y	**Recovery** of such amount in a P/Y	Recovery of arrears of rent **not charged to tax for any P/Y**
Recovered amount **taxable under HP** in **P/Y** of **receipt**	Recovered amount taxable under **HP** in **previous year** of receipt	Recovered amount taxable under **house property** in **previous year** of **receipt**
Whether or not assessee is **owner of such property** in **p/y of receipt**	**Whether or not** assessee is **owner of such property** in **p/y of receipt**	**Whether or not** assessee is **owner of such property** in **p/y of receipt**
No deductions allowed from such unrealised rent. **Interest on unrealised** rent is taxable under other source.	**No deductions** allowed from such unrealised rent. **Interest on unrealised** rent is taxable under other source.	**Deduction of 30%** shall be allowed from such unrealised rent.

Sec 25 : <u>Deduction of Interest payable outside India</u>

- Shall be allowed only if
- Tax deposited on such Interest income or Deducted at
- source from such interest income or some person is treated
- as agent in India of recipient

Sec 26 : <u>House Property Owned by Co-owners</u>

- If the share of each co-owner
- Is **definite & ascertainable**
- **Each co-owner** shall be taxable for **his portion** in HP
- **Otherwise** HP income taxable **in hands of AOP**

Sec 27 : <u>Deemed Owners</u>

- **Individual** transfers House Property to **Spouse** for **inadequate consideration** <u>except</u> ,HP transferred under an **agreement to live apart**
- HP transferred to **minor** <u>except</u> **minor married daughter** .
- **Holder** of **impartible** estate.
- **Member** of Co-op society, Company to whom flat is allotted under house building scheme
- **Person** allowed to take **Possession** as per transaction **u/s 53A of Transfer of Property Act.**
- A person acquiring House property on lease for **12 years or more**

<u>Special point</u> :

1.If assessee is dealing in Property dealing business or business of letting out ,even then rental income will be chargeable under House property

2.If letting is subservient & incidental to running of main business than rental income chargeable under P/G/B/P.

3. Treatment of Composite Rent is done as under

*Where rent of property and rent of services / assets **can be separated***		Where rent of property and rent of services / assets **cannot be separated**
Rent of letting of property	*Rent of service ,assets*	Taxable under Other sources or Business
Taxable under House property	Taxable under Other sources or business	

Example : Mr. Raman is a co-owner of a house property along with his brother.

Municipal value of the Property	1,60,000
Fair Rent	1,50,000
Standard Rent under the Rent Control Act	1,70,000
Rent received	15,000 p.m.

The loan for the construction of this property is jointly taken and the interest charged by the bank is `25,000 out of which `21,000 have been paid. Interest on the unpaid interest is `450. To repay this loan, Raman and his brother have taken a fresh loan and interest charged on this loan is `5,000.

The Municipal taxes of `5,100 have been paid by tenant. Mr. Raman has 50% share in the house property.

Compute income from this property chargeable in hands of Mr. Raman for A.Y. 2016-17.

Answer : Computation of income from house property of Mr. Raman for A.Y. 2016-17

Gross Annual Value
1,80,000

Working Note:

(a) Municipal value of property	1,60,000
(b) Fair rent	1,50,000
(c) Higher of (a) and (b)	1,60,000
(d) Standard rent	1,70,000
(e) Annual Letting Value / Expected Rent [lower of (c) and (d)]	1,60,000
(f) Actual rent [15,000 x 12]	1,80,000
(g) Gross Annual Value [higher of (e) and (f)]	1,80,000

Less: Municipal taxes – paid by the tenant, hence not deductible
Nil

Net Annual Value (NAV)
1,80,000

Less: Deductions under section 24

(i) 30% of NAV u/s 24(a) 54,000

(ii) Interest on housing loan u/s 24(b)

Interest on loan taken from bank 25,000

Interest on fresh loan to repay old loan for this property 5,000

84,000

Income from house property
96,000

50% share taxable in the hands of Mr. Raman
48,000

WN : Interest on housing loan is allowable as a deduction under section 24 on accrual basis. Further, interest on fresh loan taken to repay old loan is also allowable as deduction. However, interest on unpaid interest is not allowable as deduction under section 24.

Example : Mr. X owns one residential house in Mumbai. The house is having two units. First unit of the house is self occupied by Mr. X and another unit is rented for `8,000 p.m. The rented unit was vacant for 2 months during the year. The particulars of the house for the previous year 2015-16 are as under:

Standard rent	1,62,000 p.a.
Municipal valuation	1,90,000 p.a.
Fair rent	1,85,000 p.a
Municipal tax	15% of municipal valuation
Light and water charges paid by the tenant	500 p.m.
Interest on borrowed capital	1,500 p.m.
Insurance charges paid by Mr. X	3,000 p.a.
Repairs	12,000 p.a.

Compute income from house property of Mr. X for the A.Y. 2015-17.

Answer :

Computation of Income from house property for A.Y. 2016-17

(A) Rented unit (50% of total area)

(a) Fair rent (`1,85,000 x ½)	92,500
(b) Municipal valuation (`1,90,000 x ½)	95,000
(c) Higher of (a) or (b)	95,000
(d) Standard rent (`1,62,000 x ½)	81,000
(e) Expected rent (lower of (c) or (d)	81,000
(f) Rent received or receivable (`8,000 x 10)	80,000
GAV	80,000

(owing to vacancy the actual rent received is lower than
Expected rent the actual rent received is the Gross Annual value
Less: Municipal taxes (15% of `95,000) 14,250

Net Annual value	65,750	
(i) 30% of net annual value u/s 24(a)	19,725	
(ii) Interest on borrowed capital (`750 x 12) u/s 24(b)	9,000	
Taxable income from let out portion	**37,025**	
(B) Self occupied unit (50% of total area)		
Net Annual value	Nil	
Less: Deduction under section 24		
Interest on borrowed capital (`750 x 12) u/s 24(b)	9,000	
	(9,000)	
Income from House property		**28,025**

WN : (i) It is assumed that both the units are of identical size. Therefore, the rented unit would represent 50% of total area and the self-occupied unit would represent 50% of total area.
(ii) No deduction will be allowed separately for light and water charges, insurance charges and repairs.

Example: Mr. Ramesh owns a house property which is let out. During the previous year ending 31.03.2016 he receives

(i) Arrears of rent of Rs.10,000 and
(ii) Unrealised rent of Rs.30,000.

You are requested to

(a) state, how they should be dealt with as per the provisions of the Act, and
(b) compute the income chargeable under the head "Income from house property".

Answer:

(a) As per provisions of section 25B, arrears of rent will be charged to tax as income from house property in the previous year in which such rent is received, after deducting a sum equal to 30% of such amount. The taxability shall be there whether Mr. Ramesh remains as the owner of the property in the concerned year or not. In this case, it shall be taxed as income from house property in the year of receipt of such arrear rent.

(b) As per the provisions of section 25AA, the unrealised rent when received, it shall be deemed to be the income chargeable under the head "Income from house property" and shall be charged to tax in the year of receipt. In this case also, the taxability shall be there, irrespective of the fact whether Mr. Ramesh is the owner of property or not in the year of receipt. The section does not provide for any deduction thereunder.

Computation of income from house property

	Rs.
Arrears of rent	10,000
Less : Deduction @ 30% of Rs.10,000/- u/s 25B	3,000
	7,000
Add : Unrealised rent received	30,000
Income from house property	37,000