Income under the head House Property

Income
⇓
House property

- Sale/Purchase ⇓ u/h Capital Gain
- Business of Sale/Purchase ⇓ u/h Business/Profession
- Letting out ⇓ u/h House Property

House property includes :-

House property includes vast open area within its boundaries, residential house, shops, godowns, hotel building etc.

Income
⇓
House property

- Land which is not essential part of building ⇓ u/h other sources.
- Subletting of house Property ⇓ u/h other sources (Sec-56)
- Incomplete house ⇓ No income
- Business of Letting H.P ⇓ House property as stock for letting out ⇓ u/h house Property.
- H.P used own Business ⇓ No income under H.P & No Rent Dr. to P&L A/C

☞ Computation of Income u/h house property ÷

Gross Annual Value (GAV) (fair Rent or m.v whichever is higher but it cannot exceed S.R and the rent so computed is called Expected Rent) (Expected Rent shall be compared with rent recd. or receivable and higher of the two shall be GAV)	....
Less: municipal taxes Paid by OWNER	....
	....
Net Annual value (NAV)	
Less: statutory deduction @ 30% of NAV [Sec-24(a)]	....
Less: Int on borrowed Capital [Sec-24(b)]	....
Income u/h house Property	xxx

* GAV = means rental of a house (reasonable)
* FR = Rent of similar types of bulding in the same locality
* m.v = rental value determined by the municipality for the purpose of charging municipal tax.
* S.R = highest possible Rent as per Rent Control Act

Deductibility of Municipal Taxes :-

* If the municipal tax is due but not paid, in that case deduction is not allowed.
* If the municipal tax has been paid by the tenant, it will not be allowed to be deducted.
* If tax paid for earlier year or subsequent year in the current year, it will be allowed to be deducted.
* municipal tax includes-
  House tax/water tax/fire tax/General tax/sewerage tax etc.

Statutory Deduction [U/S-24(a)] :-

* Deduction allowed = 30% of NAV
* Actual Exp. incurred by the assessee shall not be taken consideration.

Deduction for Int. on the capital borrowed [U/S-24(b)]

* Only Simple Int. is allowed (not compounded).
* Int. is allowed on due basis (whether paid or not)

Interest

- Self-occupied
  - max 150000
    - → loan only for acq. or constructed.
    - → Const. or Acq.
  - max 30000
    - ↓ → other than.
- other than self occupied
  - ↓ No limit

⇒ Categories of house property :-

- Let out throughout the year
  ⇓
  GAV
  = M.T —
  AV —
- Partly let out / Partly vacant or vacant throughout the year
  ⇓
  If R/R < Exp. Rent due to vacancy. ⇒ R/R → GAV
  ⇓
  but if R/R < Exp. Rent even if no vacancy Exp. Rent → GAV.
- Self occupied
  ⇓
  only <u>Sec-24(b.)</u> Int. allowed
- Partly Let out / Partly self occupied
  ⇓
  Similar to let out, vacancy due to self-occupancy
- more than one house self occupied
  ⇓
  only one house has been self occupied & other than Deemed to be Rented
  (option better to choose)
- H.P divided into different portions.
  ⇓
  Every Portion shall be Considered to be a separate house
  ↓
  income shall be computed Accordingly

⇒ <u>Set off & c/f of losses u/h House Prop.</u> :-

Losses u/h H.P

- <u>Sec-70</u>
  One source against another source
  ⇓
  under same head
- <u>Sec-71</u>
  One head income from another head
  ⇓
  <u>Exception</u>
  not allowed with casual income.
- <u>Sec-71 B</u>
  <u>C/f of losses</u>
  8 yrs.
  but only adjusted with income from house property

* Int on Pre-construction Period :

(06-07) ← (07-08) ← (08-09) ← (09-10)   (2010-11)

Pre-construction Period

$\left[\dfrac{\text{Total Int.}}{5}\right]$

(Int of 10-11 100% allowed) + $\left(\dfrac{\text{Total Int.}}{5}\right)$

* No deduction is allowed for any brokerage or commission for arranging loan.
* Int on fresh loan taken to repay the original loan is allowed as deduction.
* Int on borrowed capital, payable outside India – tax on the same has been paid and deducted at source.

☞ <u>Repayment of a housing loan</u> –

* Deduction is allowed for Repayment of Loan (Principal) U/S-80C & loan is taken for construction or purchase (not for repairs) from a notified institution.

☞ Advance Rent -

* No tax treatment suggested under I.T Act.
* Advance Rent will not taxed in the year - received it will be taxed in the year the rent relates.

☞ Composite Rent -

House property → income taxed u/h H.P.

\+

furniture + A.C + generator + security staff etc → Income taxed u/h other sources or PGBP (after deducting exp.)

income → Composite Rent

☞ Arrears of Rent -

Sometimes Rent increased with some back date in case when an assessee receive arrear of Rent it will be taxable u/h H.P (after deducting 30%).

☞ Subletting of H.P -

(Income - expenses) ⇒ taxed u/h other sources.

☞ Deemed Owner -

- T/f of H.P to spouse / minor child → Property t/f - without adequate cons. or to live apart → assessee deemed owner. Except → married (minor)
- holder of Impartible Estate → Karta of HUF
- Cooperative Society
- under Lease 12 yrs or more → Lessee shall be deemed owner
- Part Perf. of Contract → if any person given possession & taken full payment but document in the name of still seller

☞ Unrealised Rent - (* No deduction is allowed)

while Computing GAV, - Rent Recd. / or Rec.
(−) Unrealised Rent.
only if Rule 4 conditions fulfilled

* Rule-4 Conditions

(i) tenancy is bonafide
(ii) defaulting tenant was vacat.
(iii) defaulting tenant is not occupied of any other property of ass.
(iv) Assessee has taken reasonable step for recovery.

☞ Income u/h H.P without having any H.P -

(i) Unrealised Rent

taxable in the year in which it received u/h OT.P. (No exp. allowed)

(ii) Arrears of Rent

after deducting 30% → it is taxable.

(iii) Deemed ownership

w/o adequate consideration } minor child not being a married daughter
agreement to live apart } or spouse.

☞ Co-ownership -

Property owned two or more persons.
then share of each → included in his income.
if share of each member is given - income computed separately.

☞ house property outside India -

Taxable only in case of resident assessee, same manner as in case of HP in india.