

INCOME FROM HOUSE PROPERTY [SEC 22 – 27]

How to compute the income chargeable under the head income from house property?

1. Gross Annual Value (GAV)	-----
2. Less: Taxes borne by the owner and paid to the local authority	-----
3. Net Annual Value (1-2) (NAV)	_____
4. Less: Deductions u/s 24	
a. Statutory Deductions @ 30% Of NAV	-----
b. Interest on borrowed capital	-----
Income under the head House property (3-4)	_____

Charging Section – Section 22

The **annual value** of the property consisting of **any buildings or lands appurtenant thereto** of which the **assessee is the owner** shall be chargeable to income tax under the head 'Income from House Property'.

However, there shall be not any income under this head if such property is used by the assessee for the purposes of any business or profession, carried on by him, the profits of which are chargeable to tax.

- Even if the assessee has the business of letting out of house property, still rental income of building is taxable under the head House Property.
- Assessee shall be the owner, otherwise income will be charged u/h other sources (eg. Subletting)
- If any person has let out any house property for a purpose which is supplementary to the business/profession of the assessee, then such rental income will form part of PGBP. e.g. a school letting out a part of its building to the bank, residential quarters let out to employees.

Annual Value – Section 23

The annual value of any property shall be deemed to be higher of:

- a. The sum for which the property might reasonably be expected to let from year to year i.e. expected rent. [Expected Rent is higher of Fair rental value and Municipal Value, but it cannot exceed Standard Rent]
- b. Actual rent received or receivable
- c. Where the property is **let and was vacant** during the whole or any part of the previous year and **owing to such vacancy**, the actual rent received or receivable is **less** than expected rent, then the annual value shall be actual rent received or receivable.

Deductions under section 24**Sec 24(a) - Statutory Deduction**

- Deduction shall be allowed @ 30% of NAV, while computing income from house property

Sec 24(b) – Interest on borrowed capital

- Interest on loan taken for purchase, construction, renovation, repairs, addition, and alteration etc of house property is allowed as deduction without any limit and it is allowed from the financial year in which acquisition, construction etc is completed.
- Interest for pre-construction period is allowed in five equal annual installments starting from the year in which such construction is completed.
- Interest on loan taken to repay the original loan is also allowed if the original loan was taken for the purpose specified above.

In order to compute income from house property, house property shall be divided into following categories:

1. Houses which are let out throughout the year
2. Houses which are partly let out and partly vacant or vacant throughout the year.
3. House which is self occupied
4. Houses which are partly let out and partly self-occupied and may or may not be vacant
5. More than one house which are self occupied
6. House property divided into different portions

1. Houses which are let out throughout the year

- Annual value shall be taken as higher of Expected Rent and Actual rent received/receivable.
- Statutory deductions @ 30% u/s 24(a) and deduction of interest on borrowed capital shall be allowed.

2. Houses which are partly let out and partly vacant or vacant throughout the year

- Annual value shall be taken as higher of expected rent and actual rent received/receivable
- Statutory deductions @ 30% u/s 24(a) and deduction of interest on borrowed capital shall be allowed.

However, where the property is **let and was vacant** during the whole or any part of the previous year and **owing to such vacancy**, the actual rent received or receivable is **less** than expected rent, then the annual value shall be actual rent received or receivable.

3. House which is self occupied

- NAV shall be Nil
- No statutory deduction u/s 24(a)
- Interest Deduction u/s 24(b) allowed up to a limit of Rs. 30000.
- However, interest deduction can be allowed up to Rs. 150000 if following conditions are satisfied:
 - Loan taken after 01-04-1999
 - Loan taken only for purchase or construction (not for repairs etc)
 - Purchase/ construction completed within 3 years from the end of the year in which loan was taken.
 - Assessee has submitted a certificate confirming the amount of interest.

4. Houses which are partly let out and partly self-occupied and may or may not be vacant

- Gross Annual value shall be computed as the house is let out throughout the year.

5. More than one house which is self occupied.

- Net Annual value of any one house shall be computed as the house is self occupied and interest is allowed up to Rs. 30000/150000.
- And Gross Annual Value of other house shall be computed as it is let out throughout the year and GAV shall be expected rent of whole year. Statutory Deductions @ 30% and interest deduction (without any limit) is allowed.

6. House property divided into different portions

- If any house is divided into different portions, in such cases, every portion is considered to be a separate house and income shall be computed accordingly.

Interest on loan taken from outside India – Section 25

Interest on loan, payable outside India shall be allowed as deduction only if

- Tax has been deducted at source and such tax has been paid or
- The person receiving the interest income has an agent in India as per Sec 163

Unrealized Rent

Unrealized rent is that part of the rent which the owner cannot realize and it shall not form part of rent receivable subject to fulfillment of following conditions (Rule 4):

- a. Assessee has taken all reasonable steps to institute legal proceedings for the recovery of the unpaid rent or satisfies the assessing officer that legal proceedings would be useless.
- b. Assessee should get the house vacated from defaulting tenant including any other house occupied by same tenant
- c. The tenancy should be a bonafide tenancy.

Recovery of Unrealized Rent (Section 25AA)

Unrealized rent subsequently recovered by the assessee shall be deemed to be income from house property, whether or not the assessee is the owner of the property in the year of recovery.

No deduction shall be allowed from this amount.

Special provisions for arrears of rent received – Section 25B

Arrears of rent received in previous shall be chargeable to tax whether or not the assessee is the owner of that property during the previous year, however statutory deduction @30% shall be allowed from this amount.

Property owned by co-owners– Section 26

If property is co-owned by two or more persons, then the share of each such person shall be included in his income.

If the property is self-occupied by co-owner, each of the co-owner shall be entitled to the deduction of Rs. 30000/150000.

Deemed Ownership – Section 27

As per Section 22, Income under the head House Property is taxable in the hands of its owner however under certain situations, income is taxable in the hands of some other person referred to as deemed owner.

1. In the case of gift to spouse or minor child (except minor married daughter), transferor shall be deemed as owner.
 - Exception: If the house property has been transferred to the spouse under an agreement to live apart.
2. Holder of impartible estate is deemed as owner of all the properties comprised in that estate.
3. If any House Property is owned by any Company or Co-operative Society etc and such income has been allotted to any member of the company/society, in such cases, such member shall be the deemed owner.
4. A person who is allowed to take or retain the possession of any building or part thereof in part performance of the contract of the nature referred to in section 53A of the Transfer of Property Act shall be deemed owner.
5. The lessee of a building in case building is leased out for not less than 12 years, is deemed as owner.

Composite Rent – [Rent for House property + other facilities/ services + letting of P&M, Furnitures]

- Charges for other facilities shall be split up, then Rental Income of House Property shall be computed under the head House Property and rental charges for facilities is to be computed under PGBP or other sources.
- If the letting of property is separable from the letting of other assets then rental income of house property shall be computed under the head income from house property and rental income of other assets shall be computed under the head PGBP or other sources. However, if the composite rent is inseparable, it shall be taxed under the head PGBP or Other Sources.

Income from House Property is not charged to Income Tax in following cases

- Income from farm building
- Property held for charitable purposes
- Property used for own business/ profession
- Self occupied house
- One Palace of an ex-ruler
- House property owned by local authority/ registered trade union.