Income From House Property

**** Charging Section → Section 22 ****

The Annual Value Of Property Consisting Any Buildings Or Land Appurtenant Thereto Of Which Assessee Is The Owner, Shall Be Chargeable Under The Head Income From House Property After Giving Deduction U/S 24. **AND THE HOUSE PROPERTY SHALL NOT BE USED FOR BUSINESS & PROFESSION**.

House property + Income [Rent] + Assessee [owner] = Income from house property

Following Condition To Be Fulfilled.

a) Property must consist of any building or land apartment Thereto.

Building includes
Residential Building, Factory Building, offices, shops etc. Building constructed on Leasehold / Rented land is also cover here.

Rent Of Vacant Land

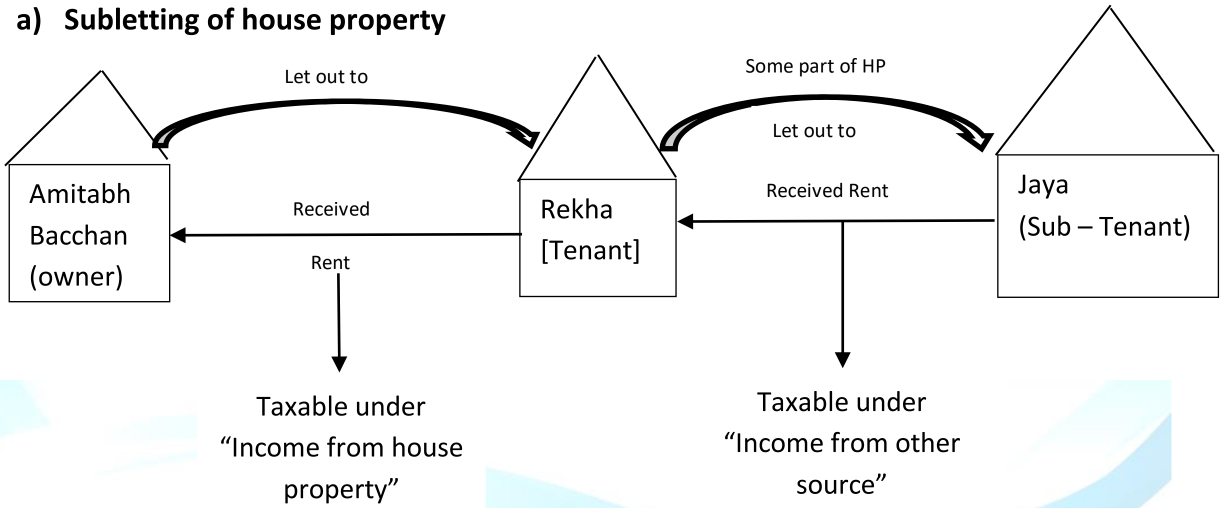
Taxable under “**Income from other source**”

b) Assessee must be owner of such property :- **Owner Includes Legeal Owner as well as Deemed Owner(Sec 27) also**

Note:- If property used for business & profession then such house property will not be covered under house property head.

Exceptions i.e **Below income will not considered as House property income**

a) Subletting of house property



b) Principal of Mutuality

c) Letting Is Incidental To Main Business :- Then Such Letting Is Taxable Under "Profit & Gain From Business & Profession"

E.G.

An Assessee Let Out His House Property To His Employees/ Director For Efficient Conduct Of Business :- Such Rent Shall Be Taxable Under "PGBP"

COMPUTATION OF INCOME OF HOUSE PROPERTY

Particulars	**Let out / Deemed let out / Self occupied for a part of year & let out another part**	**Self occupied property**
Gross Annual Value (Sec – 23)	Xxxx	Nil
Less :- Municipal Taxes Paid By Owner During P.Y **(Note-1)**	(xxx)	Nil
Net Annual Value (NAV)	xxxx	Nil
Less :- Deduction U/S 24		
i. 30% Of NAV 24(a)**(Note-2)**	xxx	nil
ii. Interest On Borrowed Capital 24 (b)	xxx [Actual interest payable without any limit]	xxx [Actual interest upto maximum of ₹ 30000 or ₹ 200000
Income from House Property	**xxxx**	**xxxx**

Note-1 :- Treatment of Municipal Taxes

1) Municipal Taxes Always Allowed on **Payment basis** (i.e. Date OF Deduction = Date of Payment)
2) Municipal Taxes **Paid** By **OWNER** Will Be **Allowed** As Deduction(i.e. If Municipal Taxes **Paid** By **Tenant Will Not be Allowed** As Deduction
3) If any tax paid to state govt. in form of state property tax or land revenue will not be allowed as deduction from GAV.
4) Penalty on Municipal Taxes Paid:- **Not Allowed as Deduction**

Note-2:- Standard Deduction @ 30%

Any expenses related to house property will not be allowed as deduction because as per Sec 24(a) 30% Standard Deduction will be allowed irrespective of expenses incurred towards house property.

Note-3:- Composite Rent

Composite Rent Means That Rent Which Includes Rent of House Property & Any Other Facility i.e Value of Furniture, Value of Plant & Machinery

<u>If Composite Rent is Separable:-</u>

Rent received For House Property:- Income From House Property
Any Other Rent:- Taxable in Business & Profeesion or Income From other source

<u>If Composite Rent is Not Separable</u>:- :- Taxable in Business & Profeesion or Income From other source

Section 23:- Computation of Gross Annual Value (GAV)

↳ **Section 23(1) :- GAV for let out Property**

Fair Rent	xxxx
Municipal Rent	xxxx
Step 1	xxxx
Standard Rent	xxxx
Expected Rent (ER) / Reasonable lettable value (RLV)	xxxx
[Actual Rent − Unrealised Rent (Note-1)] AR	xxxx
GAV	xxxx

If There is "Vacancy"

"No" → GAV: ER or AR (higher)

"Yes" →

- $AR \geq ER$ → $GAV = AR$
- $(AR + VR) \geq ER$ → $GAV = AR$
- $(AR + VR) < ER$ → $ER = GAV$

Note:-1 :- Unrealised Rent

Unrealised Rent will be Reduced from Actual Rent if following Condition has been satisfied :-

a) Tenancy is bonafide

b) Defaulting Tenant has Vacated The Property or Steps For The Same has been Taken.

c) Tenant has not occupied any other Property of Assessee.

d) Assessee has Taken steps for The Recovery of Unpaid Rent.

Section 23 (2) :- Annual Value of Self Occupied Property (SOP)

House or Part of house

Used for His own Residence

Cannot occupied by assessee by any other reason

GAV = Nil

Note :- If Assessee let out his house property to his employer & employer has allotted the same to Assessee as Rent Free Quarter, then such house property cannot considered self occupied property.

Special Notes

Let Out For Certain Period & Self Occupied For The Remaining Period [Sec 23(3)]

Considered As A Let Out Property

Let Out For Certain Portion & Self Occupied For Remaining Portion

For Let Out Portion→ GAV As Per 23(1)
For SOP Portion→ Nil(As per Sec 23(2)

*** Section 23(4) :- When more than 1 house is self occupied by assessee

1 House Will Be Considered As “Self Occupied Property” At The Option Of Assessee (I.E. Which Is More Beneficial To Assessee]
Valuation done as per Section 23(2) i.e NIL

Remaining house will be considered as “Deemed let out property” & valuation done as per **Section 23(1): LOP**

Section 24 :- Deduction form Annual Value

- **Section 24 (a) :- 30% of Annual Value.**
- **Section 24 (b) :- Interest on borrowed capital**

Pre construction interest

Period.

a) Start from **DATE OF BORROWING**

&

b) End on

  i. **31st March Preceding The Year Of Completion Of Construction Or Acquisition.**

  or

  ii. On the **DATE OF ACTUAL PAYMENT OF LOAN**

  WHICHEVER IS EARLIER

Time :- Pre Construction Interest Shall Be Allowed In 5 Equal Instalments Starting With Previous Year In Which House Is Completed/ Constructed.

Post construction Interest.

Interest which is payable after construction or acquisition of house property

Maximum limit of interest allowed as deduction

Self occupied property (SOP)

Maximum ₹ 200000

Loan Taken **AFTER** 1/4/1999 For **Acquisition Or Construction Of House Property**

+

Such Construction Or Acquisition Is Completed Within 5 Years From The End Of The Financial Year In Which Capital Was Borrowed.

+

Assessee Furnished Proper Certificate (Showing Bifurcation of Interest & Principal)

Maximum ₹ 30000

a) Loan Taken **BEFORE** 1/4/1999 For **Acquisition, Construction, Repair, Renewal Of Hose Property**
b) Loan Taken On Or After 1/4/1999 For Repair, Renewal Or Reconstruction Of House.
c) If Any Condition For Availing Deduction Of ₹ 200000 Not Satisfied.

Let out property (LOP)

Actual Amount of Interest on loan Due.

Special Notes

1) Deduction Is Admissible Even If Interest Pertains To A New Loan Taken By Assessee For Repayment Of Whole Or Any Part Of Capital Borrowed Earlier.

2) Interest Includes Service Fees Or Other Charges In Respect Of Money Borrowed i.e. Brokerage, Commission.

3) Interest On Unpaid Interest → **Not Deducted**

4) Interest On Unpaid Price → **Deductible { If Buyer Opts To Pay In Instalments }**

SECTION 25 :- INTEREST PAYABLE OUTSIDE INDIA IS NOT DEDUCTIBLE

Notwithstanding anything contained in Section 24, any interest chargeable under This act-

a) Which is payable outside India
b) On which tax has not been paid or deducted &
c) In respect of which there is no person in India who may be treated as an Agent under Section 163.

Shall not be allowed as deduction in "Income from house property"

Section 25A :- Arrear Of Rent & Unrealised Rent

1) Taxable in the year in which Arrear of rent & unrealised Rent is received.

2) **Deduction**

Amount received as arrears of rent Or unrealised Rent	xxxx
Less :- Standard deduction @ 30% of such amount	(xxx)
Income from house property	xxxx

Section 26 :- Co-Ownership Of House Property

- House Property Income Shall Be Taxable Under Each Of The Co-Owner On The Basis Of Their Sharing Ratio.
- Each Co-Owner Shall Be Entitled To Deduct Interest On Borrowed Capital From Their Income Of House Property.
- If The Sharing Ratio Between Member Is Not Definite Or Unascertainable Then Income From Such House Property Will Be Calculated As Usually & Will Be Taxed As If In The Hands Of AOP/BOI.

Section 27 :- Deemed Ownership

a) Transfer to Spouse or Minor child for inadequate consideration → Transferor will be deemed owner.

b) Property allotted under house building scheme.
   - ⇨ Member will be deemed owner.

c) Possession on part performance of contract
d) Holder of substantial lease or other rights for more than 12 years:- lessee will be deemed owner. [if lease renew in every renew in every year then lessor shall be owner of house property]

** Following incomes from house property are exempt from tax **

a) Farm House.
b) Local Authority.
c) Trade Union.
d) Property held for charitable purpose.
e) An approved scientific research association.
f) Any one palace of Ex-Ruler.
g) Hospital, University or other Educational institution.
h) In case of person resident in Ladakh.
i) Property of political party.
j) Property used for own business & profession.

AMENDMENT AS PER FINANCE ACT 2017

ii) Property Held as stock in Trade

Value to be charged in House Property if Property held as stock in Trad :- Annual Value (Sec 23)

Exception

Annual Value will be "Nil"

↓

if Property = Stock in Trade
+
Propert Not let out Then

↓

Date on which Completion Certificate Received or obtained From Authority → end of year in which Completion Certificate Recvd → 1 year

↓

For such one year H.P Value will be Nil

Example Jem Developers Constructed 20 Flats in P.Y 2017-18 at Cost of ₹ 55 Lakhs Per Flat out of 20 Flats 15 Flats has been sold. Remaining Flats remained Not Sold. Co. received CC on 1/8/17. Unsold Flats remain unsold till 2022-23.

Ans: House Property = held as stock in Trade.

1/8/17 CC Received — Year end 31/3/18 — 1 year — 31/3/19

↓

~~Value~~ Income From HP = Nil

From 01/4/19 - All unsold Flats will be Taxable as Per Section 23 (i.e Annual Value)

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