



Great News! Commerce Students

Download our Free APP
"Agarwal Classes guwahati"
from Google Store

First in
North East

1. Study Notes of XI/ XII/ B.COM (downloading free)
2. Diagrams of XI/XII/B.COM (downloading free)
3. Concept Videos XI/ XII/ B.COM (Downloading free)
4. Motivational batch in the App (free) **(BATCH CODE - cgam1405)**
5. Revision videos of Face to Face Classes of CA/CMA/CS

INCOME UNDER THE HEAD "HOUSE PROPERTY"**Chargeability [Section 22]**

- I. The basis of chargeability under the head income from house property is **Annual Value**.
- II. The property must consist of **Building or Lands** Appurtenant thereto.
- III. The assessee must be the **owner** of such property.
- IV. The property may be used for any purpose **other than** the **assessee's business** or profession.

Important Notes

- a. Income from **vacant plot** is taxable as income from **other sources**, it is not house property.
- b. For becoming owner, **Registration** of sale deed is **not necessary**.
- c. **Even if** the property is held by the assessee as a **stock in trade**.
- d. If the **assessee** is engaged in the **business** of **letting** out of property on rent the income falls under the head "**PGBP**".
- e. Income from **subletting** is taxable under "**Other sources**".

Exemption

- i. **Farm House:-** Income from any building owned or occupied by an **agriculturist** or receiver of rent /revenue of such land provided that the building is on or immediate vicinity of agricultural land and the building is used as a dwelling house or as store house.
- ii. **Property held for charitable purpose:-** As per Section 11, where the property is held for charitable or religious purpose the income from such property is exempt from tax.
- iii. **House property used for own business/profession**
- iv. **Self occupied house property:** Annual value of one self occupied property shall be taken to be **NIL**.
- v. **House property of local authority**
- vi. **Palace of ex-ruler :-** The annual value of one palace in the occupation of ex-ruler shall be **exempted**.

Composite Rent and its Tax treatment**Meaning**

The owner of a property may sometimes receive rent in respect of building as well as –

- (1) Other assets like say, **furniture, plant and machinery**.
- (2) for **different services** provided in the building, for eg. –
 - (a) Lifts;
 - (b) Security;
 - (c) Power backup;

The amount so received is known as "composite rent".

Tax treatment

- (1) Where composite rent includes rent of **building** and charges for different **services** (lifts, security etc.), the composite rent has to be **split up** in the following manner -
 - (a) the **sum** attributable to **use** of **property** is to be assessed under section 22 as income from **house property**;
 - (b) the sum attributable to use of **services** is to be charged to tax under the head "**Profits and gains of**

business or profession" or under the head "Income from other sources".

(2) Where composite rent is received from letting out of building and other assets (like furniture) and the two lettings are **not separable** –

(a) If the letting out of building and other assets are not separable i.e. the other party does not accept letting out of buildings without other assets, then the rent is taxable either as **business income or income from other sources**;

(b) This is applicable even if sum receivable for the two lettings is fixed **separately**.

(3) Where composite rent is received from letting out of buildings and other assets and the two lettings are **separable** –

(a) If building is let out along with other assets, but the two lettings are separable i.e. letting out of one is acceptable to the other party without letting out of the other, then income from letting out of **building** is taxable under "Income from **house property**";

(b) Income from letting out of **other assets** is taxable as business income or income from **other sources**;

(c) This is applicable even if a composite rent is received by the assessee from his tenant for the two lettings.

Computation of Gross Annual Value

Step1	Municipal Value	xx
Step 2	Fair Rental Value or Notional Rental Value	xx
Step 3	. Higher of (1) and (2)	xx
Step 4	Standard Rent (if applicable)	xx
Step 5	Expected Rent = Lower of Step (3) and (4)	xx
Step 6	Annual Rent (total rent assuming the property to be let out throughout the previous year)	
Step 7.	Actual Rent = Annual Rent- Unrealised Rent	xx
Step 8	Higher of Expected Rent (Step 5) & Actual Rent (Step 7)	xx
Step 9	Deduct loss due to vacancy	(xx)
Step 10	GROSS ANNUAL VALUE	xx

Note:- If actual rent is less than expected rent owing to vacancy then actual rent will be GAV.

Terms Used

- ✓ **Municipal Value** : It is the value that the municipal authorities deem as the value of the property for the purpose of assessment of property taxes. Net Municipal Value is also known as Net Rateable Value.
- ✓ **Fair Rent**: It is the rent of the property fetched by a similar property in the same or similar locality with the same facilities.
- ✓ **Standard Rent**: It is the maximum rent which a person can recover from the tenant under the Rent Control Act.

Computation of Income from 'House Property'

Gross Annual Value	Xx
Less: Municipal Taxes paid during the year	Xx
Net Annual Value	Xx
Less: Standard Deduction @ 30% of NAV u/s 24(a)	Xx

Less: Interest on Loan u/s 24(b)	Xx
Income from House Property (before considering Arrears of Rent)	Xx
Add: Arrears of Rent Received	Xx
Less: Deduction u/s 25A: 30% of Arrears Received	Xx
Unrealised rent received - 30%	
Net Income from House Property	Xx

Municipal Taxes**Meaning**

Municipal Tax includes services tax like Water Tax and Sewerage Tax levied by any local authority. It can be claimed as a deduction from the Gross Annual Value of the Property.

Conditions for deductibility:

- Born by Owner** The tax shall be borne by the owner and the same was paid by him/on his behalf during the **previous year**.
- Property let out:** Municipal Tax can be claimed as a deduction only in respect of **let out** or deemed to be let out properties (i.e. more than one property self occupied).
- Year of payment:** Municipal Tax relating to **earlier previous years**, but paid during the current previous year can be **claimed** as deduction only in the year of payment.
- Advance Taxes:** Advance Municipal Tax paid shall **not be allowed** as deduction in the year of payment, but can be claimed in the year in which it falls due.
- Borne by Tenant:** Municipal taxes met **by tenant are not allowed** as deduction.
- Municipal Taxes on Foreign Property:** For a property situated outside India, Municipal Tax levied by foreign Local Authority **can be claimed** as a deduction. (in case of resident in india)

Deductions from Net Annual Value (Sec 24)

Two deductions available from Gross Net annual value

- Standard Deduction
- Interest on loan

Standard Deduction Sec 24(a)

Standard deduction of 30% of NAV (Net Annual Value) shall be allowed to the assessee.

Interest on Loan Sec 24(b)

- Purpose of loan:** The loan shall be borrowed for the purpose of **acquisition, construction, repairs, renewal or reconstruction** of the house property.
- Accrual basis:** The interest will be allowed as a deduction on accrual basis, even though it is not paid during the financial year.
- Interest on interest:** Interest on unpaid interest shall **not be allowed** as a deduction.
- Brokerage:** Any brokerage or commission paid for acquiring the loan will **not be allowed** as a deduction.
- Prior period interest:** Prior Period Interest shall be allowed in **five** equal installments commencing from the financial year in which the property was acquired or construction was completed.
- Interest on fresh loan to repay existing loan:** Interest on any fresh loan taken to repay the existing loan shall be **allowed** as a deduction. [Circular 28 / 20.9.1969]
- Inadmissible interest:** Interest payable outside India without deduction of tax at source and in

respect of which no person in India is treated as an agent u/s 163 shall NOT be an allowable expenditure. [Section 25]

- viii. **Certificate:** The assessee should furnish a certificate from the person from whom the amount is borrowed. (only in case of 2,00,000 deduction for self occupied property).

Prior Period Interest

Meaning

Prior period interest means the interest from the date of borrowal of the loan upto the end of the financial year immediately preceding the financial year in which acquisition was made or construction was completed and loan repayment date, whichever is earlier.

Calculation

Step 1: Identify the **Date of Borrowal** of Loan

Step 2: Identify the **Date of Completion** / Acquisition

Step 3: Identify **Last Date** of the Financial Year immediately **preceding the date of Completion** / Acquisition.

Step 4: Prior Period = Calculated Period from Step 1 to Step 3

Step 5: Prior Period Interest = Prior Period as per Step 4 × Rate of interest × Amount of Loan

Step 6: Allowable Prior Period Interest = Prior Period Interest as per Step 5 / 5

Interest on loan taken for self occupied Property

- If the following conditions are met, maximum interest allowability of deduction for interest on loan for self occupied property is Rs. 2,00,000 (Current year + 1/5th of prior-period interest)
 - i. Loan taken for **acquisition or construction** of house property
 - ii. **on or after 01.04.99** and
 - iii. the same was completed **within 3 years (Now 5 years)** from the end of the financial year in which capital was borrowed,
- Loan taken prior to 1.4.99 for acquisition or construction or loan taken for repair, renovation or reconstruction at any point of time, interest paid or payable subject to a maximum of ` 30,000 (Current year + 1/5th of prior-period interest)
- Loan taken on or after 1.4.99 for acquisition or construction of house property, and the same was not completed within 5 years from the end of the financial year in which capital was borrowed, interest paid or payable, subject to a maximum of ` 30,000 (Current year + 1/5th of prior-period interest)

Computations of Income from House Property in different situations (Sec 23)

Let out Property	
(A) House property let out <u>throughout the previous year</u>	Step 1:- Determine gross annual value Step 2:- Deduct Municipal taxes and get Net annual value Step 3:- Deduction allowed under sec 24(a) and 24(b)
(B) House property let and vacant during the <u>whole or part of the previous year</u>	I. If actual rent is lower than Expected rent due to vacancy, then actual rent is the GAV II. If actual rent is lower than Expected rent due to other reason, then expected rent is the GAV III. If actual rent is higher than Expected rent in spite of vacancy, then actual rent is the GAV.
(C)	In this case, the period of occupation of property for own

House property <u>let out</u> for <u>part</u> of the year and <u>occupied</u> for <u>part</u> of the year for own residence	residence shall be irrelevant and the annual value of such house property shall be determined as if it is let for other part of the year. Hence , the expected rent shall be taken for full year but the actual rent received or receivable shall be taken only for the period let out and gross annual value shall be higher of these two.
Self Occupied House property	
(A) If such property is used by the <u>owner</u> for the purpose of carrying on his <u>business</u> or <u>profession</u>	Income is not taxable under 'House Property' and will be considered in income under 'PGBP'
(B) If such property is used throughout the <u>previous</u> year for own <u>residential</u> purposes, it is not let out or put to any other use.	Nothing is taxable . Only interest on borrowed capital allowed upto 30,000/2,00,000.
(C) If such property <u>could not</u> be <u>occupied</u> throughout the previous year because <u>employment</u> , <u>business</u> or profession of the owner is situated at some other place.	Same as above (see conditions below)
(D) When a part of the property (being <u>independent</u> residential unit) is self occupied and the other part is let out	Income from the independent unit, which is self occupied , will not be taxable . Interest on borrowed capital is deductible upto Rs. 30,000/2,00,000. Income from the unit which is let out is to be computed as if the unit is let out.

Conditions

- The Taxpayer owns a house property , which cannot actually be occupied by him by reason of the fact that owing to his employment , business or profession , carried on at any other place.
- He has to reside at that other place in a building not owned by him.
- The property mentioned above or part thereof is not actually let out during whole (or any part of the previous year)
- No other benefit is derived from the above property by the owner.

Recovery of Unrealized Rent [SEC 25A]

- Chargeability:** Recovery of Unrealized Rent is chargeable to tax as "Income from House Property".
- Year of Taxability:** Unrealized Rent recovered is taxable in the financial year in which it is recovered.
- Non-Subsistence of Ownership:** It will be taxable in the hands of Individual even if he does not own the property to which such rent pertains.
- Deduction :** 30% deduction.

Receipt of Arrear of Rent [Sec 25A]

- Meaning:** Arrears of Rent means the incremental rent relating to earlier financial years which

has not been offered to tax in those financial years itself, but received during the current financial year,

- ii. **Chargeability:** Receipt of Arrears of Rent will be chargeable to tax under the head Income from **House Property** only.
- iii. **Year of receipt:** It is taxable as income of the **financial** year **in which** he **receives** the arrears of rent.
- iv. **Non-subsistence of ownership:** It is **taxable** in the hands of the Individual **even if** he **does not own** the property" at the time of receipt of arrears of rent.
- v. **Deduction:** A standard deduction of 30% of the amount of arrears received will be allowed as deduction.

Unrealized Rent (Rule 4)

Unrealized Rent means the rent not paid by the tenant to the owner and the same shall be deducted from the Actual Rent Receivable from the property before computing income from that property, provided the following conditions are satisfied :

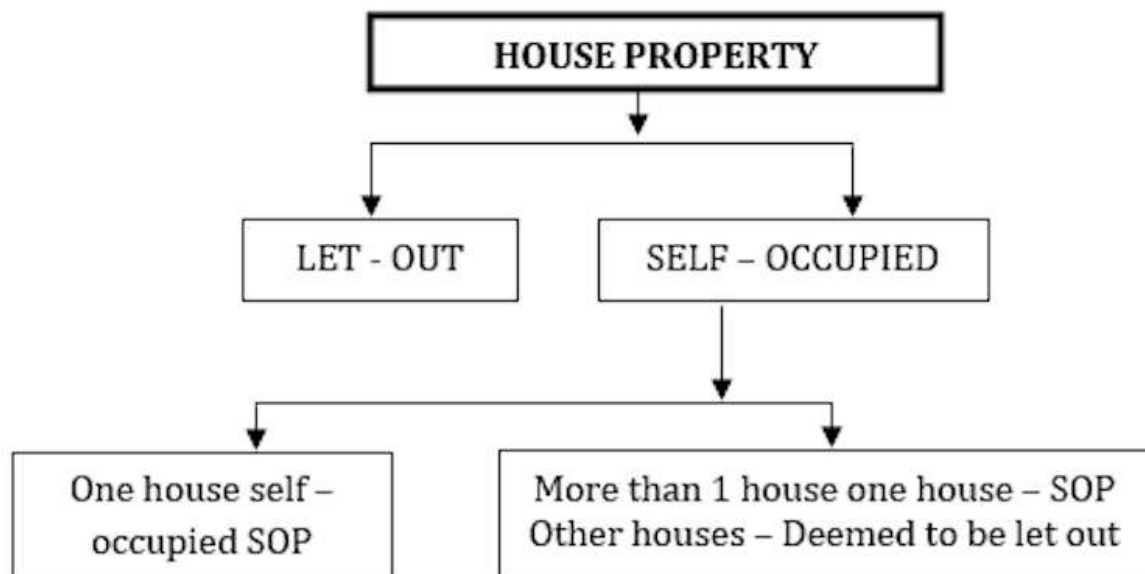
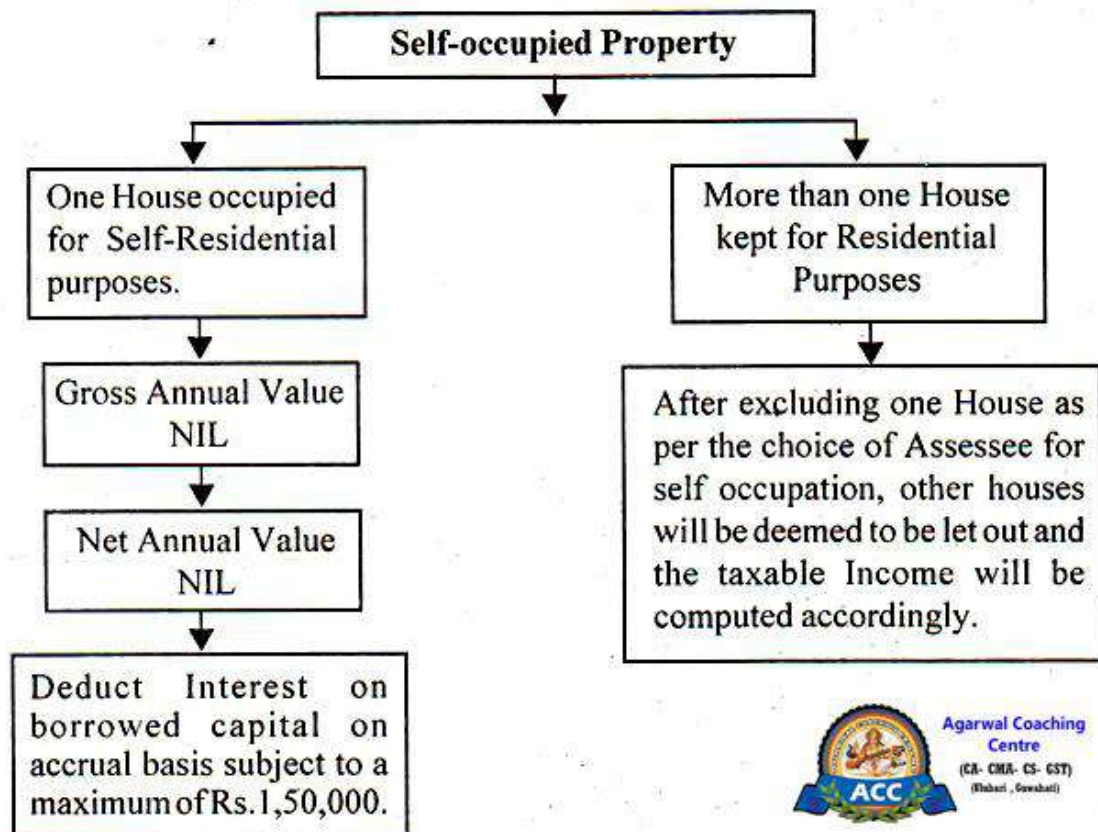
- i. The tenancy is **bonafide**
- ii. The defaulting tenant should have **vacated** the property or
- iii. The assessee has taken **steps** to **compel** the defaulting tenant to vacate the property
- iv. The defaulting tenant is **not** in **occupation** of any **other property** owned by the assessee
- v. The assessee has taken **all reasonable steps** for recovery of unrealised rent or satisfies the Assessing Officer that such steps would be useless.

Can Annual value be negative

Cannot be negative.

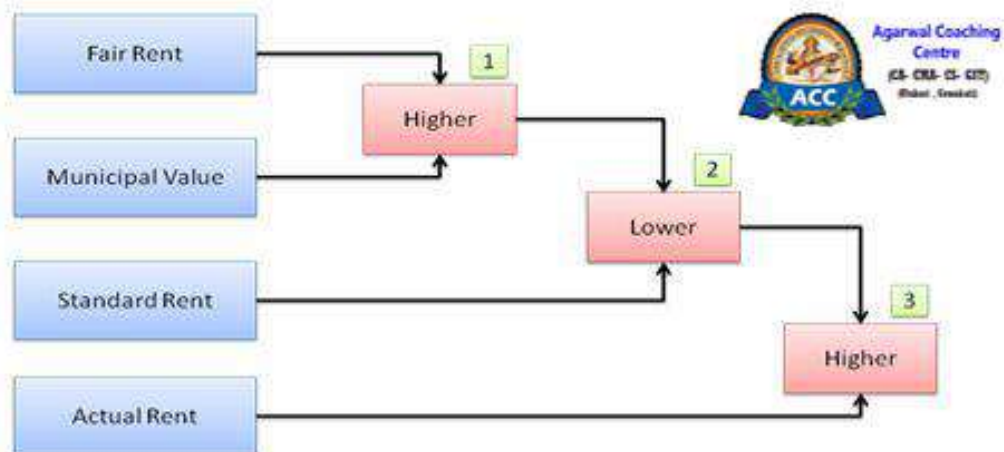
Can there be loss under the head house property

In case of self occupied house property , the annual value is taken as nil. No deductions are allowed except for interest on borrowed funds upto a maximum of 30,000/2,00,000 . Naturally , therefore , there may be a **loss** in respect of such property **upto** a maximum of 30,000/200,000. In case of **let out** property....if Interest is morethen **negative income** will **arise**.



Steps:

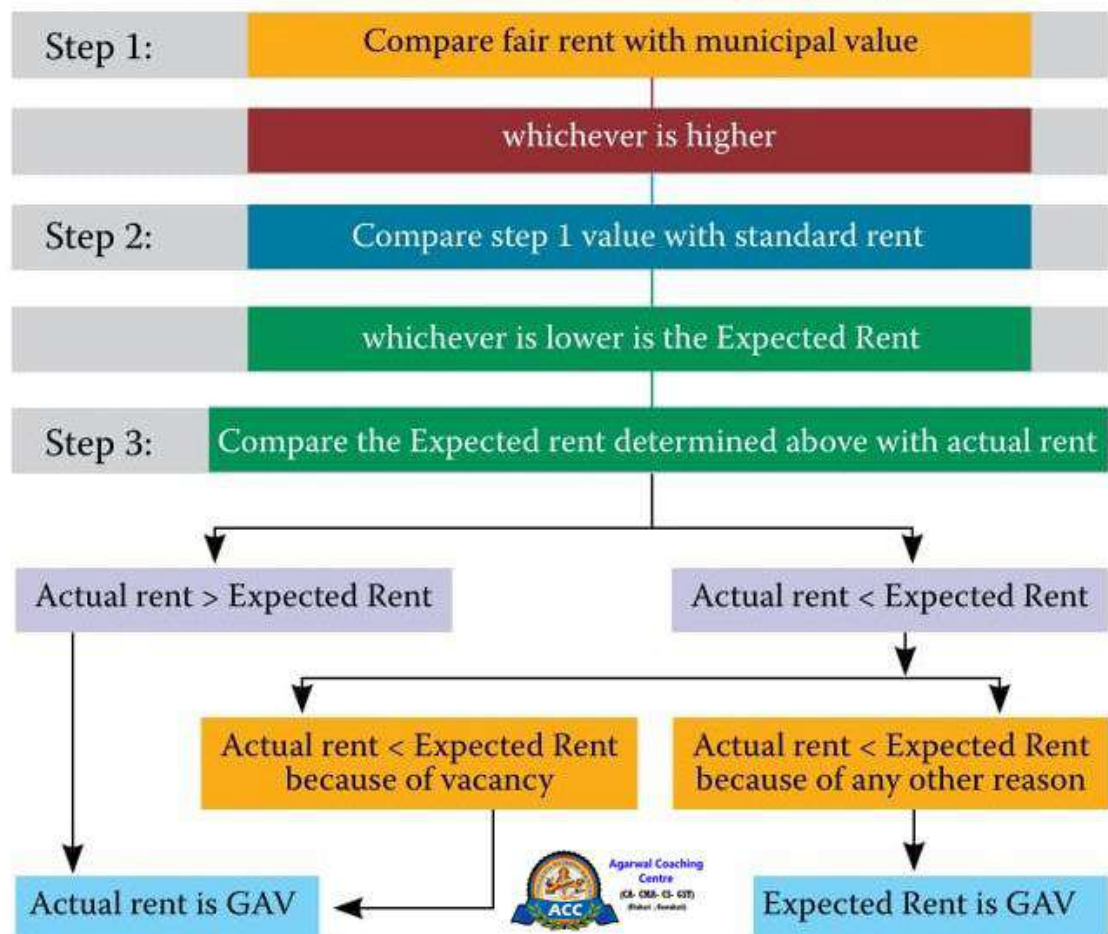
GAV



Tax Planning for CFP^{CM} – Prashant V Shah

INCOME FROM HOUSE PROPERTY

Determination of GAV of let out property:



Note – Actual rent received/receivable should not include unrealized rent (i.e. any amount of rent not capable of being realized)

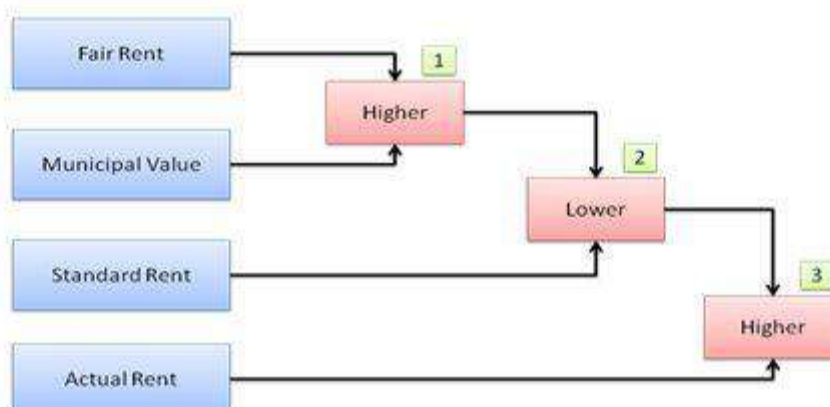
Section 27. Deemed Owner (6 points)			
(i)	An individual (Transferrer) who transfers House Property to spouse without consideration, then individual who transfers the property is treated as deemed owner. Exception : Property is transferred with an agreement to live apart then registered owner (transferee) is treated as owner.	Transferrer	Transferee
		Husband - DO	Wife
		Wife - DO	Husband
(ii)	An individual (Transferrer) who transfers House Property to a minor child, without consideration such individual who transfers the property is treated as deemed owner. Exception : Where the minor child is a married daughter then deemed owner concept is not applicable. Income from HP chargeable in the hands of minor married daughter itself.	Transferrer	Transferee
		Father - DO	Minor Child
		Mother - DO	Minor Child
(iii)	Holder of an impartible estate.	Father / Mother	Minor married daughter - RO
(iv)	A member of a Co-operative society, Company or other association of person who is allotted a building under a house building scheme of such society.	Registered Owner	Deemed Owner
		Co-operative Society	Member
(v)	A person who is allowed to take or retain possession of any building or part thereof in part performance of a contract where every formality of sale is completed except registration of property with Stamp Valuation Authority.	Seller (received the full price)	Buyer (has key of property)
		Registered Owner	Deemed Owner
(vi)	A person who acquires any right in any building by way of lease for a term of atleast 12 years .	Lease Terms	Les sor
		12 years	RO
		11 years	Tenant



Section 24b. Interest on borrowed capital			
1.	The loan should be borrowed for PCR ⁵ . Purchase, Construction, Re - construction, Repairs. Renovation, Renewal, Repayment of existing housing loan. Note : Dedn. not allowed if loan is borrowed for payment of MT, interest on interest or penal interest.	2.	The interest is allowed as deduction on accrual basis. Even if interest is not paid deduction is allowed.
3.	Interest is allowed as deduction from that PY in which construction of building is completed or building is purchased.		
Pre construction period interest		Post construction period interest	
Total Interest before the FY in which building comes into existence ----- = 5		allowed from FY in which building comes into existence.	Allowed from FY in which building comes into existence. This interest keeps on decreasing with the re payment of loan.
Let out / DLOP / Vacant	 APRAC Coaching Centre C3-080-G-121 Bharu, Jaipur	SOP - Residence	
Any amount of interest is allowed as deduction of both Pre and Post (No Limit)	Interest both pre + post limited to		
	₹ 2,00,000 if all the following 3 conditions are satisfied.		otherwise ₹ 30,000.
	1.	The loan is borrowed on or after 1-4-1999	The loan is borrowed before 1-4-1999
	2.	The loan is borrowed for purchase or construction of residential house property.	The loan is borrowed for repairs, renewal .
	3.	The building comes into existence within 5 years from the FY in which loan is borrowed. [FY _{loan} + 5 years]	The building comes into existence after 5 years.



Steps:



Tax Planning for CFP^{CM} – Prashant V Shah

Section 23. Annual Value

LAW : Annual Value is value after deduction of municipal tax.



Municipal Tax. It's deduction is allowed in the financial year in which payment is made by the owner. PAID basis + Owner. Tenant pays dedn not allowed.

GAV	xxx
Less : MT	(xxx)
NAV	xxx

(1)			(2) & (3)	(4)
Let out property			SOP - Residence for whole year	DLOP
(a)	(b)	(c)		
ER	AR	Loss on account of vacancy		(owns more than 1 SOP - R : one property whose GAV is highest treated as SOP - R remaining property as DLOP)
ER = MV or FR whichever is higher or SR whichever is lower.	AR = Rent received or receivable. = Let out period + Vacant Period – unrealised rent of current financial year. (ignore SOP - R)	Property is lying vacant inspite of the best effort of the owner to let the property.		
GAV = ER or AR whichever is higher less loss on account of vacancy.			GAV = ER = Nil	GAV = ER