INCOME FROM HOUSE PROPERTY.

BASIS OF CHARGE

1. Income chargeable to tax under the head income from House Property is computed on the basis of Annual Value of property consisting of building and land attached thereto.

2. Only legal owner of the property is charged to tax under the head income from House Property. Income from subletting of house property is taxed, under the head 'Income from Other Sources'. Legal owner includes deemed owners as well.

3. If person is the owner of property which is used by him for his business or profession (& not for residence) and income of such business or profession is not taxable under this head; but under the head 'Profits & Gains from Business'.

4. Property may be either let out property or self-occupied property.

However, method of calculating taxable income is different in case of self-occupied & let out properties.

For the purpose of section 22, the annual value of any property shall be -

(a) the sum for which the property might reasonably be expected to let from year to year; or

(b) where the property or any part of the property is let and the actual rent received or receivable by the owner in respect thereof is more than the sum referred to in clause (a), the amount so received or receivable; or

(c) where the property or any part of 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 by the owner in respect thereof is less than the sum referred to in clause (a), the amount so received or receivable.

TAXABILITY OF LET OUT PROPERTY

Whether property is let out for residential or business purpose there is no difference in finding the taxable income under this head.

Under this head taxable income is always calculated on Gross Annual Value (GAV).

Reasonable Expected Rent should be calculated as follows:

1) Higher of Fair Rent & Gross Municipal Valuation. 2) Find out Standard Rent.

Reasonable Expected Rent will be lower of (1) & (2).

Gross Annual Valueis higher of 1) Reasonable Expected Rent (RER) 2) Actual Rent.

1. Fair Rent: - It is the rent prevailing in that particular locality. It depends upon area of property, location, etc.

2. Municipal Valuation: - This is the valuation carried out by municipal authorities every year regarding all properties in their jurisdiction to calculate correct amount of property tax, sewage tax, water tax etc.

3. Standard Rent: - Standard Rent is the rent fixed by government as per rent control act. How to Calculate GAV when property is subject to vacancy?

Step1: Calculate RER as usual

Step 2: 1) Even after excluding Rent for vacancy period if actual rent is more thanRER, then actual rent will be Gross Annual Value.

2) If actual rent excluding rent for vacancy period is less than RER only because of vacancy, then Actual Rent will be GAV; else RER will be GAV.

How To Calculate Gross Annual Value if there is any unrealised rent?

Step 1: Calculate RER as usual

Step 2: Calculate Actual Rent –Unrealised Rent.

GAV will be higher of the amount in step 1 & step 2.

How to Calculate Gross Annual Value if there is vacancy as well as Unrealised rent?

Step 1: Calculate RER as usual.

Step 2: Calculate Actual Rent – Unrealised Rent. (for 12 months without vacancy)

Step 3: Take higher of the amount calculated in Step 1 & Step 2 and from that deduct Actual Rent for Vacancy Period.

PROBLEMS

Calculate Gross Annual Value in case of the following: -

	I	II	III	IV
1. Fair Rent	85,000	20,000	25,000	20,000
Gross Municipal Valuation	95,000	18,000	28,000	20,000
Actual Rent	90,000	18,000	30,000	24,000

	A	B	C	D
2. Fair Rent	1,00,000	90,000	45,000	80,000
Gross Municipal Valuation	90,000	1,00,000	1,20,000	80,000
Actual Rent per month	5,000	9,000	12,000	6,000
Unrealised Rent	10,000	5,000	15,000	2,000

3. (` in thousands) Particulars	X	Y
Municipal Value	60	60
Fair rent	68	68
Actual rent (p.a.)	66	66
Unrealised rent of the P.Y. 2014-15	2	6

4. (` in thousands) Particulars	X	Y	Z	A
Municipal value (per annum)	60	61	60	80
Fair rent (per annum)	65	66	64.5	78
Actual rent (per annum)	72	57	72	72
Property vacant for months	1	11/2	5	3

5. (` in '000) Particulars	X	Y	A	B
Municipal Value	140	140	140	140
Fair rent	145	145	145	145
Actual rent receivable	168	168	168	180
Property vacant for months	1	1	3	4

Deductions under Section 23 and 24 in case of Let Out Property

Deduction under Sec.23 : Municipal taxes or local taxes. Amount paid by the owner during the year is allowed as deduction.

PROBLEMS

1. Municipal taxes for the year 20,000 of which half the amount is paid by tenant. Owner has paid only 8,000. Calculate Municipal taxes allowable as deduction.

2. Gross annual value 2,00,000. Municipal taxes 40,000.Owner's share 75% out of which 1/3 is still unpaid. Calculate Municipal taxes allowable as deduction.

3. Find out Net Annual Value for the following let out property for A.Y. 2014-2015. (a) Property consists of 2 residential units. (b) Actual rent 2,000 per month per unit. (c) Fair rent 1,500 per month per unit. (d) Municipal Rateable Value 40,000 total. (e) Local taxes charged at 4%.

4. Mr. X is the owner of house property construction of which started on 17th June 2002 and completed on 31st March 2004. This property consists of 5 residential units and 2 commercial units. All of them were let out at a rent of 2,000 per

month per residential unit & 4,000 per month per commercial unit. Its municipal value was 2,70,000 Net, Fair Value was 2,90,000. Details of municipal taxes: Total tax 10%. 50% of which borne by tenants and 20% of Owner's share is still outstanding. Find out Net annual value for A.Y. 2014-2015.

5. Mr. X is the owner of house property consisting of 10 residential units. All the flats were let out from 1st June 2009 at a monthly rent of 100 per flat. Its municipal value was 20,000 fair rent was 21,000. Municipal tax was fully paid by owner which was 10%. Find out net annual value for A.Y. 2014-2015.

6. Residential property consisting of 2 flats. Both were let out at monthly rent of 2,000 each from 1st April 2013. Fair rent 30,000.Municipal value 25,000.Municipal tax 10%, paid by the owner to the extent of 25%. Find out NAV for A.Y. 2014-2015.

Deductions under section 24

1. Repairs: This deduction is allowed at the rate of 30% on Net annual Value. Actual amount incurred by owner towards repairs and maintenance and collection of rent are not taken into account. This deduction is fixed and will be allowed even if actual expenditure on repairs is Nil.

2. Interest on Loan: Interest on loan taken only from approved financial institutions is eligible. Loan must have been taken for purchase, repairs or construction of House. Deduction is allowed on accrual basis.

Interest paid on borrowed funds during construction period or before acquisition of the property is allowed as deduction in 5 equal instalments commencing from the previous year in which property was constructed or acquired.

Pre-construction period starts from the date of obtaining of loan & it ends on 31st March of the previous year preceding the year in which property is acquired or date of repayment of loan whichever is earlier.

Loan obtained from outside India If interest on loan is paid out of India and if he fails to deduct tax then deduction for Interest is not allowed as per the provisions of section 25.

TAXABILITY OF SELF-OCCUPIED PROPERTY

1. When assessee is the owner of only one self occupied property: - In such a case annual value of such property is taken as nil and no deduction is allowed on it except interest on borrowed funds u/s 24(b) for the purpose of purchase,

construction, repairs, renovation of such a property. However, this deduction is subject to a ceiling of maximum of 30,000.

However, if property is acquired or constructed with capital borrowed on or after 1st April 1999 and such acquisition or construction is completed within 3 years from the end of the financial year in which capital was borrowed, then deduction on this account will be allowed upto maximum of 1,50,000.

If, assessee is the owner of only one house property which was not let-out, but could not be self-occupied also, because of his employment outside & at the place of employment he is staying in a rented house, property of which he is the owner will be treated as if it is self- occupied; its annual value will be taken to be Nil.

2. When assessee is owner of more than one self-occupied houses: - In this case, only onehouse according to the choice of the assessee will be treated as self-occupied i.e. its annual value will be taken as Nil and remaining house shall be treated as deemed to be let out and accordingly income will be computed for that. It is in the interest of the assessee to treat that house as self-occupied of which Net annual value is more. Wherever house is treated as deemed to be let-out, all applicable deductions will be allowed which are available to let out property.

3. When the property is let out for some period & Self occupied for some period: - In this case, computation should be made as if property is let out. However, while calculating GAV, Actual Rent should not be considered for 12 months but only for the period for which property was let out. No other benefit of vacancy however is allowed.

PROBLEMS

1. Find out the GAV in case of the following: - a] Fair Rent 36,000 p.a. b] Municipal value 24,000 p.a. c] Actual Rent 2,500 p.m. d] Property let out upto 31st Jan. 2014 & then self occupied. 2. Find out GAV based on information in problem 1 a] If Actual Rent was 4,000 p.m.

TAXATION OF RENT ARREARS

Any arrears of rent, which were not taxed u/s 23, received in a subsequent year, shall be taxable as income from house property in the year of receipt, after allowing a deduction of 30% of such amount towards repairs and collection charges. The amount shall be taxable irrespective of whether the property is owned by the assessee in the year of receipt or not.

(Sec. 25B). TAXATION OF UNREALISED RENT ALLOWED AS DEDUCTION UPTO A.Y. 2001-02 & RECOVERED LATER Where deduction was allowed in respect of unrealised rent from the annual value and subsequently during any accounting year the assessee has realised any amount in respect of such rent, the amount so realised will be deemed as income under the head "Income from House Property" and will be charged to tax without making any deduction u/s 23 & 24, irrespective of whether the assessee is the owner of that property in that year or not. (Sec.25 AA) However, if assessee was disallowed any part of unrealised rent in earlier year income chargeable in the current year should be calculated after deducting the amount of unrealised rent not allowed as deduction.

TAXATION OF UNREALISED RENT OF A.Y. 2002-03 (OR SUBSEQUENT YEAR) & RECOVERED LATER

In this case, such recovery to the extent it was not included in annual value earlier shall be deemed to be income chargeable under the head ' Income from house property' whether or not assessee is the owner of that property in the year of recovery.

PROPERTY OWNED BY CO-OWNERS Under Section 26, income of the property where there is a co-ownership shall be computed first as if property is owned by one person & then it will be distributed among co-owners as per their agreed proportion. i.e. Each co-owner shall include his share in his total income.

SET OFF & CARRY FORWARD OF LOSS If income under the head 'Income from House Property' results into loss such loss shall be adjusted against income from any other head in the same year. If any part of loss remains unadjusted even after this, it can be carried forward and set off in subsequent years against income from house property subject to a limit of 8 assessment years (Section 71B).

PROBLEMS 1. Mr. Ramesh has let out the house property for 75,000/- Municipal Valuation of the house is 60,000 whereas fair rent of the property is 60,000/- Mr. Ramesh had borrowed of 50,000/- @ 15% on 1st April 2013 for the purpose of his daughter's marriage. Following are the expenses incurred by him during F.Y. 2013-2014.

Municipal Taxes 20% of Municipal Valuation; Repairs 7,500 Annual Charge 1,700 Land Revenue (outstanding) 500 Insurance 650 Collection charges 150 Annual charge of 1,700/- is payable by Mr. Ramesh to his mother as per will of his father. Compute the taxable income for the Assessment year 2014-2015.

2. ShriKannan owns a house property AT Chennai. Municipal value of the house is Rs.3,00,000/-. Municipal taxes are 2% of Municipal value. During the P.Y.2013-14, he could not occupy this house because of his employment in Bangalore. House remained vacant and no other benefit is derived from this house. He paid interest of Rs.35,000 to HDFC on loan borrowed for the purpose of acquiring this house. He is employed with a private company on a monthly salary of Rs.18,000/-. You are required to compute his taxable income for assessment year 2014-2015. The loan and acquisition of House property was on 1st June, 2013.

3. ShriBala owns two house properties in Mumbai of which he uses second property for his personal use. The following are the particulars given:

	Building No. 1	Building No. 2
Municipal value	3,60,000	1,60,000
Rent Received (for 10 months)	33,000 p.m.	Self-occupied
Local Taxes	7,200	3,200
Actual Repairs	20,000	4,000
Ground Rent	400	-
Fire Insurance Premium	Nil	900
Vacancy	2 months	N.A.
Collection charges	3,000	Nil

His income from sources is Rs.30,000. Compute the total income of ShriBala for the assessment year 2014-2015.

4. Mr. Sushil is the owner of two house properties namely "Shanti Niketan" at Nasik and "Shanti Dham" at Nagpur. He furnishes you the following information for the Previous Year 2013-2014: Shanti Niketan Shanti Dham at Nasik at Nagpur ` ` Municipal Valuation 39,000 31,000 Municipal Taxes paid 7,835 4,440 Fair Rental value 45,000 39,000 Fire Insurance 900 800 Ground Rent 567 440 Interest taken for

construction prior to 35,000 32,000 1.4.2000 Advice Mr. Sushil taking into consideration the provisions of Income Tax Act, and compute the taxable income under the head Income from House Property.

5. Mrs. Gowthamiis the owner of two house properties. The details of which for the previous year 2013-14 is as follows: a) Property I is let out on a monthly rent of Rs.12,500. The fair rent of the property is Rs.12,500 p.m. and municipal valuation is 1,80,000. Municipal Tax paid amounted 2,700 p.a. out of which 50% of the tax is borne by tenant. The house remained vacant for 2 months during the year. Mrs. Gowthamihad taken loan for construction of this property on which interest paid during the year Rs.32,000. b) Property II is occupied by herself for her own residence.The Construction of this property started on 1-4-2007 and was completed on 31st August 2008. Loan of Rs.20,00,000 @ 12% p.a. was taken on 1st March 2007 and is still outstanding. Interest is paid regularly. Compute her Total Income for the relevant A.Y. 2014-15.

6. Mr. Govinda and his five brothers became owner of the house "Pushpak" after the death of their father on 22-5-2012 and these six brothers to share the benefits of this house equally. Following additional information is provided:-
Rent received 1,00,000 p.m. Municipal Valuation8,00,000 Fair Rental value15,00,000 Repairs 1,00,840 Insurance 4,750 Municipal taxes 21,000 Ground Rent 33,000. Out of the loan of Rs. 10 lakhs for this property taken by their father, Rs. 5 lakhs is still outstanding. None of the brothers pay either principal or interest on the loan after the demise of their father. Court case is pending. Compute the taxable income of Mr. Govinda for the assessment year 2014-2015 under the head income from house property.