Unit 5: 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. Building is an enclosure of the brick or stonework covered by roof. Building is an enclosure which may even consist of mud walls. Land attached to building is the land occupied with the building. e.g. approach road, compound, parking space, playground etc.

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. Eg. If property is transferred to spouse without adequate consideration or to a minor child (not being a married daughter) then transferor will be deemed owner of property.

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 taxable under the head 'Profits & Gains from Business', then Annual Value of such a property is not taxable at all, under the head 'income from house property'.

4. Property may be either let out property or self-occupied property. However, when annual value is to be calculated method of calculating is same in both the cases. However, method of calculating taxable income is different in case of self-occupied & let out properties.

Definition of Annual Value

As per Section 2(2) 'Annual Value', in relation to any property, means its annual value as determined under section 23;

Under section 23 'Annual Value' is defined as:

For the purpose of section 22, the annual value of any property shall deemed to 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 in excess of 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 taxable income under this head.

Under this head taxable income is always calculated on Gross Annual Value (GAV). Gross Annual Value is to be calculated as follows:

Calculate **Reasonable Letting Value (RLV)** first.
Reasonable Letting Value should be calculated as follows:

1) Compare Fair Rent & Gross Municipal Valuation. Higher of the two should be considered.
2) Find out Standard Rent.
   Reasonable Letting Value will be **lower** of (1) & (2).

Gross Annual Value will be

1) Reasonable Letting Value (RLV) or
2) Actual Rent, whichever is **higher**

1. **Fair Rent**: - It is the rent prevailing in that particular locality. It depends upon area of property, location, etc. It will always be given in the question. In actual practice fair rent is assessed by income tax valuers.

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

Gross Municipal Valuation	100
(-) 10% of G.M.V.	10
Net Municipal Valuation (Net ratable value)	90

Municipal taxes are recovered on Net Valuation ONLY in Mumbai, Kolkata, Delhi, Chennai. In all the remaining areas they are recovered on Gross Valuation.

e.g.	Thane
Gross Valuation	2,00,000
Tax Rate	20%
Municipal Tax	40,000
Net Municipal Value	N.A

If the above mentioned property was located in Mumbai, then from Gross Valuation ` 2,00,000, Standard Deduction of ` 20,000 (10% of GAV) would have been deducted to get the Net Municipal Value which would be ` 1,80,000. Municipal Tax at the prescribed rate, say 20% would be calculated on NAV ` 1,80,000 which will be ` 36,000.

This classification of Gross & Net ratable value is only from Municipal taxes point of view.
Income tax rules take into account only Gross Municipal Value.

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 RLV as usual

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

2) If actual rent excluding rent for vacancy period is less than RLV only because of vacancy than Actual Rent will be GAV or else RLV will be GAV.

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

Step 1: Calculate RLV 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 RLV 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

Calculate Gross Annual Value

	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 previous year 2017-18 which could not be realised and conditions of rule 4 are satisfied	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 remains vacant (in number of month)	1	1-1/2	5	3

5. (` in '000)

Particulars	X	Y	A	B
Municipal Value	140	140	140	140
Fair rent	145	145	145	145
Actual rent if property is let out throughout the previous year 2017-18	168	168	168	180
Unrealised rent of the previous year 2017-2018	14	42	70	105
Period when the property remains vacant (in number of 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.

1. Amount paid during the year is allowed as deduction.
2. Amount paid by the owner is allowed as deduction.
3. Amount paid by the tenant is not allowed.
4. If local taxes are outstanding at the end of the year then deduction for outstanding amount is not allowed, but when the same outstanding amount is paid in the next year one can claim deduction in the next year on payment basis.
5. This deduction is allowed on payment basis and not on accrual basis.

PROBLEMS

1. Municipal taxes for the year ` 20,000 out of which half the amount is to be borne by the tenant. Owner has paid only ` 8,000. Interest on loan ` 40,000. 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. 2018-2019.
   (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%.

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4. Mr. X is the owner of house property construction of which started on 17th June 2005 and completed on 31st March 2007. 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 ratable value was ` 2,70,000 Net, whereas 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. 2017-2018.

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5. Mr. X is the owner of house property consisting of 10 residential units. All the flats were let out from 1st June 2012 at a monthly rent of ` 100 per flat. Its municipal ratable value was ` 20,000 whereas fair rent was ` 21,000. Municipal tax was fully paid by owner which was 10%. Find out net annual value for A.Y. 2018-2019.

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6. Residential property consisting of 2 flats. Both were let out at monthly rent of ` 2,000 each from 1st April 2017. Fair rent ` 30,000. Municipal value 25,000. Municipal tax 10%, paid by the owner to the extent of 25%. Find out Net Annual value for A.Y. 2018-2019.

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. If loan is taken for any other purpose then deduction is not allowed. Deduction is allowed on **accrual** basis.
Outstanding interest when paid in the next year is not eligible for deduction in the next year if it was claimed on accrual basis earlier. In short, for a particular amount deduction can be claimed only once. **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 it is the responsibility of payer to deduct tax & deposit it in the government treasury and remit only remaining amount to lender. 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

If house property is occupied by the owner himself, income of such a property is to be computed in the following manner: -

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 <u>such acquisition or construction is completed within 3 years from the end of the financial year in which capital was borrowed,</u> then deduction on this account will be allowed upto maximum of ` **2,00,000.**

   Interest on loan for self occupied house property

   - Loan obtained before 1-4-99
     - Maximum deduction ` 30,000
   - Loan obtained on or after 1-4-99
     - Utilised for purchase/ Construction of new house
       - Maximum deduction ` 2,00,000
     - Utilised for repairs of existing house
       - Maximum deduction ` 30,000

   Thus, in this case, if at all any income is computed for property it will be a negative income, i.e. loss which can be adjusted against any other income for the same year.

   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. i.e. 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 one house 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

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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. 2018 & then self occupied.

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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

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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 2017 for the purpose of his daughter's marriage. Following are the expenses incurred by him during F.Y. 2017-2018.

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 2018-2019.

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2. Shri Kailash owns a house property known as Gokul Dham situated at Gandhidham, Gujarat. Municipal rateable value of the house is ` 3,000/-. Municipal taxes are 30% of Municipal rateable value. During the previous year he could not occupy this house because of his employment in Mumbai. House remained vacant and no other benefit is derived from this house. He paid interest of ` 35,000 to HDFC on loan borrowed for the purpose of acquiring this house. He is employed with M/s Exact Enterprises on a monthly salary of ` 7,500/-.

You are required to compute his taxable income for assessment year 2018-2019 assuming: -

(a) That the H.D.F.C. Loan taken and acquisition of House property was prior to 1st April,1999

(b) That the H.D.F.C. Loan taken and acquisition of House property was on 1st April, 1999.

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3. Shri Bhola owns two house properties in Mumbai of which he uses second property for his personal use. His total income from sources other than property is ` 30,000. The following are the particulars in respect of the properties:

Year of construction	Building No. 1 1977	Building No. 2 1999
Municipal Rateable value	36,000	16,000
Rent Received (for 10 months)	52,000	Self-occupied
Local Taxes	4,000	4,000
Actual Repairs	2,000	200
Ground Rent	400	-
Fire Insurance Premium	Nil	300
Vacancy	2 months	N.A.
Collection charges	3,000	Nil

Compute the total income of Shri Bhola for the assessment year 2018-2019. Also compute his total income if municipal value of Building No.1 is a) ` 60,000 b) ` 70,000

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4. Mr. Sanjay owns a house property at Delhi. Following details are available regarding this property:

(a)	Actual Rent received per annum from the tenants	17,000
(b)	Municipal taxes per annum	4,600
(c)	Municipal rateable value	20,000
(d)	Legal expenses incurred in respect of taking legal proceedings against one tenant for recovery of rent.	1,250
(e)	Bank commission on realisation of outstation cheque	115
(f)	Conveyance charges, typing charges incurred in connection with collection of rent	1,210
(g)	Amount of Land revenue actually paid other than previous year.	250
(h)	Commission paid to a broker for arranging the loan for purchase of the above house property	2,340
(i)	Insurance premium paid to insure the loss of rent	850
(j)	Unrealised rent (conditions fulfilled)	2,000

You are required to compute the income from House Property, from the above information.

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5. Rajani owns 2 houses in Delhi. The house No.1 is self-occupied with other four (4) co-owners whereas the house No.2 of which she is the only owner is let out at ` 3,200/- p.m.
Compute her income from house property with the help of following further information for the assessment year 2018-19.

	House No. 1 `	House No.2 `
Fair rent	60,000	38,000
Municipal Rateable Value (Net)	50,000	36,000
Fire insurance Premium	3,500	6,000

Unrealised Rent (conditions fulfilled)	-	1,000
Expenditure on repairs	425	1,000
Municipal Tax	1,100	10%
Interest on loan (for both, acquired before 1.4.99)	12,000	40,000

During the previous year 2017-2018 Rajani could not occupy house No. 1 for 3 months due to her overseas visit.

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6. 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 2017-2018:

	Shanti Niketan at Nasik `	Shanti Dham 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 on loan taken for construction prior to 1.4.1999	35,000	32,000

Advice Mr. Sushil taking into consideration the provisions of Income Tax Act, and compute the taxable income under the head Income from House Property.

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7. Mr. Mangesh is the owner of a house property in Nagpur. It has been let out for ` 90,000 Composite Rent. The tax payable by the owner comes to ` 10,000 but the landlord has taken an agreement from the tenant stating that the tenant would pay tax directly to the Municipal Authorities. The landlord, however, bears the following expenses on tenant's amenities: -

	`
Water Charges	1,000
Lift Maintenance	1,000
Salary of Gardner	1,200
Lighting of Stairs	800
The landlord claims the following deductions:	
Repairs	30,000
Land Revenue	1,000
Collection charges	2,000

Legal expenses incurred on purchase of land on which house property is situated ` 24,000.

Compute taxable income from house property.

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8. Mr. Gharwala is the owner of various house properties. The details of which for the previous year 2017-18 is as follows:
   a) Property I is let out on a monthly rent of ` 7,500. The fair rent of the property is ` 8,500 p.m. and municipal valuation is ` 80,000. Municipal Tax paid amounted ` 8,000 p.a. out of which 50% of the tax is borne by tenant. The house remained vacant for 2 months during the year. Mr. Gharwala had taken loan for construction of this property on which interest paid amounted to ` 35,000.
   b) Property II is occupied by himself for his own residence. The municipal valuation of the property is ` 1,20,000 and Fair Rent ` 15,000 p.m. The Municipal taxes of ` 12,000 were paid by him on 29th March 2018. He had constructed this property after 1st April 2009. The Construction started on 1-4-2009 and was completed on 31st March 2010. Loan of ` 2,00,000 @12% p.a. was taken on 1st April 2009 and is still outstanding. Interest is paid regularly.
   c) Property III was inherited by him from his father which is also kept by him for his own residence. The Municipal valuation of the property is ` 46,000 and Fair Rent ` 48,000 Mr. Gharwala paid municipal taxes of ` 4,600 on 10th April 2016 for above house property. He agreed to pay ` 1,200 p.a. as annual charge to his sister. Interest on loan for this house property paid was ` 6,000 to Mr. Ponting of Australia without any TDS and there is no agent of Mr. Ponting in India for the purpose of Income tax.
   d) He also owns an open plot of land which was given on rent during the year for rent of ` 20,000.
   e) He had taken a room on rent for his office work at the rent of ` 1,500 p.m. However, instead of himself using the room he sub-let this room to another person at the rate of ` 2,000 p.m. during the whole of Previous Year 2017-18.

   Compute his Gross Total Income for the Assessment Year 2018-19.

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9. Mr. Govinda and his five brothers became owner of the house "Pushpak" after the death of their father on 22-3-2013. As per the will of their father each brother is required to pay ` 20,000/- in lumpsum to their sister Mrs. Anjali as against this house & these six brothers to share the benefits of this house equally. Following additional information is provided:-

Rent received	` 94,000
Municipal Valuation	` 80,000
Fair Rental value	` 1,05,000
Repairs	` 17,840
Insurance	` 4,200
Municipal taxes	` 21,000
Ground Rent	` 3,000

   Compute the taxable income of Mr. Govinda for the assessment year 2018-2019 under the head income from house property.

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