INCOME FROM HOUSE PROPERTY

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Basis of Charge

- The basis of calculating income from house property is the ***annual value***.

- This is the inherent capacity of the property to earn income. The charge is not because of the receipt of any income but is on the inherent potential of the house property to generate income.

CONDITIONS TO BE FULFILLED FOR PROPERTY INCOME TO BE TAXABLE UNDER THIS HEAD

- The property must consist of **buildings and lands appurtenant** thereto.
- The assessee must be the **owner** of such house property.
- The property may be used for any purpose but should **not be used by the owner for the purpose of any business or profession carried on by him**, the profits of which are chargeable to tax.

DEEMED OWNER

- It is the legal owner of a house property who is chargeable to tax in respect of property income.
- The following persons are deemed to be owners of the house property for the purpose of computing income from house property.
- An individual, who transfers house property otherwise than for adequate consideration to his or her spouse (not being a transfer in connection with an agreement to live apart) or to his minor child (not being a married daughter), is deemed owner of the house property.

Deemed Owner

- The holder of an impartible estate is a deemed owner of all properties comprised in the estate.
- A member of a cooperative society, company or other association of persons, to whom a building or a part thereof is allotted or leased under a house building scheme of the society, company or association of persons, is deemed owner of the property.

COMPOSITE RENT

- In certain cases, the owner charges rent from the tenant not only on account of rent for the house property but also on account of service charges for various facilities provided with the house. Such rent is known as composite rent. The said composite rent can fall under 2 categories:
- (a) Composite rent on account of rent for the property and service charges for various facilities provided along with the house like lift, gas, water, electricity, watch and ward, air conditioning etc. In this case such composite rent should be split

COMPOSITE RENT

up and the portion of rent attributable to the letting of the premises shall be assessable as "Income from house property". The other portion of the composite rent received for rendering services shall be assessable as "Income from other sources".

Composite Rent

- (b) Composite rent on account of rent for the property and the hire charges of machinery, plant or furniture belonging to the owner. In this case if the letting of the property is separable from the letting of the other assets, then the portion of the rent attributable to the letting of the premises shall be assessable as " Income from house property" and the other portion of the composite rent for letting other assets shall be assessable either as "business income" or as "other sources".
- On the other hand, if the letting of the property is inseparable from the letting of other assets like machinery, furniture, the entire income would be taxable as "business income" or as "other sources".

WHEN INCOME FROM HOUSE PROPERTY IS NOT CHARGED TO TAX

In the following cases income from property is not charged to tax:

- Income from any farm house forming part of agricultural income
- Annual value of any one palace in the occupation of an ex-ruler
- Income from house property to a local authority

WHEN INCOME FROM HOUSE PROPERTY IS NOT CHARGED TO TAX

- Income from a house property to an approved scientific research association, to a university or other educational institution, to philanthropic hospital or other medical institution.
- Property income of: (a)any registered trade union, (b) any political party.
- Income from house property held for any charitable purposes.

WHAT IS ANNUAL VALUE?

- As per section 23(1)(a), the annual value of any property shall be the sum for which the property might reasonably be expected to be let from year to year.
- It may neither be the actual rent derived nor the municipal valuation of the property. It is something like notional rent which could have been derived, had the property been let.

Determining Annual Value

In determining the annual value there are four factors which are normally taken into consideration. These are:

- Actual rent received or receivable
- Municipal Value
- Fair rent of the property
- Standard rent

COMPUTATION OF ANNUAL VALUE OF A PROPERTY [SECTION 23(1)]

- As per Income tax, annual value is the value after deduction of municipal taxes, if any, paid by the owner. Annual value may be determined in the following two steps:

1) Determine gross annual value
2) From gross annual value, deduct municipal taxes paid by the owner during previous year.

The balance shall be the net annual value which, as per the Income tax Act, is the annual value.

DIFFERENT CATEGORIES OF PROPERTIES

- The annual value has to be determined for different categories of properties. These are:

(A) House property which is let throughout the previous year

(B) House property which is let and was vacant during whole or any part of previous year.

(C) House property which is part of the year let and part of the year self occupied.

(D) House property which is self –occupied for residential purposes or could not actually be self occupied owing to employment in any other place.

(A)HOUSE PROPERTY WHICH IS LET THROUGHOUT THE PREVIOUS YEAR

The annual value of any such property shall be 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

Determination of Gross Annual Value

As per clause (a) above, the first step for determining the gross annual value is to calculate the sum for which the property might reasonably be expected to let from year to year. For estimation of the same, the higher of the following two is taken to be the expected rent.

(i) Municipal Valuation

(ii) Fair rent

But, in case the property is governed by the Rent control Act, its annual value cannot exceed the standard rent.

Determination of Gross Annual Value

- To conclude: The first step is to calculate the gross annual value which will be the maximum of Municipal value or fair rent, but restricted to the standard rent.
- However, if the actual rent received or receivable exceeds such amount then the actual rent so received/receivable shall be the Gross Annual value.

MUNICIPAL TAXES PAID

- Step 2: Taxes levied by any local authority in respect of the property i.e. municipal taxes (including service taxes) to be deducted: Municipal taxes levied by local authority are to be deducted from the gross annual value, if the following conditions are satisfied:
- (a) The municipal taxes have been **borne by the owner**, and
- (b) These have been **actually paid during the previous year.**

Net Annual Value

- The value arrived at after deducting the municipal taxes, if any, may be referred to as the Net Annual Value.
- From such net annual value, deductions permissible under section 24 (a) & (b) are allowed and the balance is the income under the head "Income from house property".

Determination of Income from House Property

Gross Annual Value ********

Less: Municipal Taxes

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Net Annual Value

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Less: Deduction under section 24

Standard Deduction (@30%)

******** Interest on borrowed capital

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Income from House Property ********

Example

Example: Municipal value of house is Rs 95,000, fair rent is Rs 130,000 and standard rent is Rs 110,000. The house property has been let for Rs 12000 p.m. Municipal taxes during the year were Rs 40,000. Compute annual value.

(B) HOUSE WHICH IS LET AND WAS VACANT DURING THE WHOLE OR PART OF PREVIOUS YEAR

- I. Gross annual value where the property is let and was vacant for part of the year and the actual rent received or receivable is more than the reasonable expected rent in spite of vacancy period:
- The gross annual value in this case shall be:

(1) The sum for which the property might reasonably be expected to be let from year to year ,or

(2) actual rent received or receivable,

whichever is HIGHER.

(B) HOUSE WHICH IS LET AND WAS

VACANT DURING THE WHOLE OR PART OF PREVIOUS YEAR

- II. Gross annual value where the property is let and was vacant for the whole or part of the year and the actual rent received or receivable owing to such vacancy is less than the expected rent.
- The annual value of the property shall be determined under this situation if all the following 3 conditions are satisfied:

(B) HOUSE WHICH IS LET AND WAS VACANT DURING THE WHOLE OR PART OF PREVIOUS YEAR

(1) The property is let,

(2) It was vacant during the whole or part of the previous year.

(3) Owing to such vacancy, the actual rent received or receivable is less than the expected rent,

In this case, the gross annual value shall be the actual rent received or receivable.

(C). HOUSE PROPERTY WHICH IS PART OF THE YEAR LET AND PART OF THE YEAR OCCUPIED FOR OWN RESIDENCE

- Where a house property is, part of the year let and part of the year occupied for own residence, its annual value shall be determined as per the provisions relating to let out property.
- In this case, the period of occupation of property for own residence shall be irrelevant and the annual value of such house property shall be determined as if it is let. 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.

TREATMENT OF UNREALIZED RENT

- The actual rent received or receivable shall not include the amount of rent which the owner cannot realize, subject to the rules made in this behalf.

Deduction from Income from House Property

- Income chargeable under the head “Income from house property” shall be computed after making the following deductions:
- (a) **Statutory deduction:** From the net annual value computed, the assessee shall be allowed a statutory deduction of a sum equal to 30% of the net asset value. This deduction is allowed towards repairs and collection of rent for the property, irrespective of any expenditure incurred.

DEDUCTION FROM INCOME FROM HOUSE PROPERTY

- (b) **Interest on borrowed capital:** Where the property has been acquired, constructed, repaired, renewed or reconstructed with borrowed capital, the amount of interest payable on such capital is allowed as a deduction.
- The amount of interest payable yearly should be calculated separately and claimed as a deduction every year. It is immaterial whether the interest has been actually paid or not paid during the year.

INTEREST ON PRE CONSTRUCTION PERIOD

- Interest attributable to the period prior to completion of construction: It may so happen that money is borrowed earlier and acquisition or completion of construction takes place in any subsequent year. Meanwhile interest becomes payable.
- In such a case interest paid/payable for the period prior to previous year in which the property is acquired/constructed will be aggregated and allowed in ***five successive financial years starting from the year in which the acquisition/construction was completed*.**

WHICH IS SELF OCCUPIED FOR RESIDENTIAL PURPOSES OR COULD NOT ACTUALLY BE SELF OCCUPIED OWING TO EMPLOYMENT

- **Where the annual value of such house shall be nil:** Where the property consists of a house or a part of a house which:

(a) is in the occupation of the owner for the purposes of his own residence and no other benefit is derived therefrom; or

(b) Cannot actually be occupied by the owner 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 place in a building not belonging to him,

The annual value of such a house or part of the house shall be taken to be NIL.

WHERE ASSESSEE HAS MORE THAN ONE HOUSE FOR SELF-OCCUPATION

- If there are more than one residential houses, which are in the occupation of the owner for his residential purposes then he may exercise an option to treat any one of the houses to be self occupied .
- The other house(s) shall be deemed to be let out and the annual value shall be the sum for which the property might reasonably be expected to let from year to year.

DEDUCTION IN RESPECT OF ONE SELF-OCCUPIED HOUSE WHERE ANNUAL VALUE IS NIL

- Where annual value of one self-occupied house is nil, the assessee will ***not*** be entitled to the statutory deduction of 30% as the annual value itself is nil.
- However, the assessee will be allowed deduction on account of interest (including 1/5th of the accumulated interest of pre construction period as under:

DEDUCTION IN RESPECT OF ONE SELF-OCCUPIED HOUSE WHERE ANNUAL VALUE IS NIL

(a) Where the property is acquired or constructed with capital borrowed on or after 01/04/1999 and such acquisition or construction is completed within 3 years of the end of the financial year in which the capital was borrowed: ***Actual interest payable subject to maximum of Rs 150,000 if relevant certificate is obtained****

DEDUCTION IN RESPECT OF ONE SELF-OCCUPIED HOUSE WHERE ANNUAL VALUE IS NIL

- (b) In any other case, i.e. borrowed for repairs or renewal or conditions mentioned in clause (a) are not satisfied: ***Actual interest payable subject to a maximum of Rs30,000***

COMPUTATION OF ANNUAL VALUE OF ONE SELF OCCUPIED PROPERTY

- In case of one property (which is not let out or put to any other use) used throughout the previous year by the owner for his residential purpose, income shall be determined as follows:

Gross Annual Value	NIL	
Less: Municipal Tax paid		NIL
NET ANNUAL VALUE		NIL
Less: Standard Deduction	NIL	
Less: Interest on borrowed capital	Deductible	
Income from Self occupied Property		***********

THANK YOU