



**INCOME FROM
HOUSE PROPERTY
(SEC 22-27)**



Tenant

← Giving house on rent

Owner

→ Paying rent

Rental income

Chargeability: [section 22]

The process of computation of income under the head “Income from house property” starts with the determination of annual value of the property. The annual value of any property comprising of building or land appurtenant thereto, of which the assessee is the owner, is chargeable to tax under the head “Income from house property”.

Conditions for Chargeability:

- (i) Property should consist of any building or land appurtenant thereto.** Land appurtenant means land connected with the building like garden, garage etc. Building include not only residential buildings, but also factory building, office, shop, godown and other commercial premises. However, Income from *letting out of vacant land* is, however, taxable under the head “*Income from other sources*”.
- (ii) Assessee must be the owner of the property during the previous year.** Ownership includes deemed ownership.

(iii) The property may be used for any purpose, but it should not be used by the owner for the purpose of any business or profession carried on by him.

(iv) Property held as stock-in-trade etc.: Annual value of house property will be charged under the head “Income from house property” in the following cases also –

(a) Where it is held by the assessee as stock-in-trade of a business,

(b) Where the assessee is engaged in the business of letting out of property on rent.

Income from House Property Situated Outside India:

- (i) In case of a resident in India (resident and ordinarily resident in case of individuals and HUF), income from property situated outside India is taxable, whether such income is brought into India or not.
- (ii) In case of a non-resident or resident but not ordinarily resident in India, income from a property situated outside India is taxable only if it is received in India.

Computation of income from house property [Let Out]

Particulars	Amount (Rs.)
Gross Annual Value	XX
Less: municipal taxes (actual amount paid by the owner during P.Y.)	XX
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Net Annual Value	XX
Less: deduction u/s 24 :	
(i) @ 30% of NAV	XX
(ii) Interest on borrowing (actual amount paid)	XX
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Income from house property	XX

Gross annual value = shall be **higher** of following:

(a) Municipal value or Fair value, whichever is higher,
subject to restricted by Standard Rent,

Or

(b) Actual Rent received or receivable (after deducting
unrealised rent)

(1) Treatment of unrealised rent [*Explanation* to section 23(1)]

The Actual rent received/receivable should not include any amount of rent which is not capable of being realised. However, the following conditions should be satisfied:

- (a) the tenancy is *bona fide*,
- (b) the defaulting tenant has vacated, or steps have been taken to compel him to vacate the property,
- (c) the defaulting tenant is not in occupation of any other property of the assessee,
- (d) the assessee has taken all reasonable steps to institute legal proceedings for the recovery of the unpaid rent or satisfies the Assessing Officer that legal proceedings would be useless.

(2) (i) Interest on borrowed capital is allowed as deduction under section 24(b):

(a) Interest payable on loans borrowed for the purpose of acquisition, construction, repairs, renewal or reconstruction can be claimed as deduction.

(b) Interest payable on a fresh loan taken to repay the original loan raised earlier for the aforesaid purposes is also admissible as a deduction.

(c) Interest relating to the year of completion of construction can be fully claimed in that year irrespective of the date of completion.

(d) Interest payable on borrowed capital for the period *prior to the previous year in which the property has been acquired or constructed*, can be claimed as deduction **over a period of 5 years** in equal annual installments *commencing from the year of acquisition or completion of construction*.

(ii) Deduction in respect of one self-occupied property where annual value is nil:

(1) In this case, the assessee will be allowed a deduction on account of interest (including 1/5th of the accumulated interest of pre-construction period) as under –

(a) Where the property is acquired or constructed with capital borrowed on or **after 1.4.99** and such acquisition or construction is completed within **5 years** from the end of the financial year in which the capital was borrowed.

**Actual interest payable subject to maximum of Rs.
2,00,000**

Where the property is repaired, renewed, or reconstructed with capital borrowed on or after 1.04.1999 or conditions (a) is not satisfied, then

**Actual interest payable subject to maximum of Rs.
30,000**

Taxability of recovery of unrealised rent & arrears of rent received

Unrealized rent (section 25AA): it is deducted from actual rent in computation of annual value. It is taxable in PY in which he recovers the unrealized rent, without any deduction.

Arrears of Rent (section 25B): if assessee has increased rent payable by tenant and same has been in dispute, and later on he receives the increased rent, then it is taxable in the year in which he receives arrears of rent, after 30% deduction.

Deemed Ownership [Section 27]:

As per section 27, the following persons, though not legal owners of a property, are deemed to be the owners for the purposes of section 22 to 26.

(i) Transfer to spouse [Section 27(i)] – In case of transfer of house property by an individual to his or her spouse, otherwise than for adequate consideration, the transferor is deemed to be the owner of the transferred property.

Exception – the transferor will not be deemed to be the owner if-

- (a) In case of transfer to spouse in connection with an agreement to live apart,*
- (b) Transfer is for adequate consideration*

(ii) Transfer to a minor child [Section 27(i)] – In case of transfer of house property by an individual to his or her minor child, otherwise than for adequate consideration, the transferor would be deemed to be owner of the house property transferred.

Exception – In case of transfer to a **minor married daughter**, the transferor is not deemed to be the owner.

Note - Where cash is transferred to spouse/minor child and the transferee acquires property out of such cash, then the transferor shall not be treated as deemed owner of the house property. However, clubbing provisions will be attracted.

(iii) Holder of an impartible estate [Section 27(ii)] –
The impartible estate is a property which is not legally divisible. The holder of an impartible estate shall be deemed to be the individual owner of all properties comprised in the estate.

(iv) Member of a co-operative society etc. [Section 27(iii)] – A member of a co-operative society, company or other association of persons to whom a building or part thereof is allotted or leased under a House Building Scheme of a society/company/association, shall be deemed to be owner of that building or part thereof allotted to him although the co-operative society/company/ association is the legal owner of that building.

(v) Person in possession of a property [Section 27(iiiia)]

– A person who is allowed to take or retain the possession of any building or part thereof in part performance of a contract of the nature referred to in section 53A of the Transfer of Property Act shall be the deemed owner of that house property. This would include cases where the –

(1) possession of property has been handed over to the buyer

(2) sale consideration has been paid or promised to be paid to the seller by the buyer

(3) sale deed has not been executed in favour of the buyer, although certain other documents like power of attorney/agreement to sell/will etc. have been executed.

(vi) Person having right in a property for a period not less than 12 years [Section 27(iiib)]



Practical Problems

Question 1. Mr. Anuj has let out his residential property on a monthly rent of Rs. 30,000. Other details relating are as follow:

Fair rent Rs. 3,20,000

Standard rent Rs. 3,10,000

Municipal value Rs. 3,00,000

- (a) From the above information compute G.A.V.
- (b) Unrealised rent was Rs. 20,000, Compute G.A.V.

Question 2.

Mr. Anirudh has a property whose municipal valuation is 1,30,000 p.a. The fair rent is 1,10,000 p.a. and the standard rent fixed by the Rent Control Act is 1,20,000 p.a. The property was let out for a rent of 11,000 p.m. throughout the previous year. Unrealised rent was 11,000 and all conditions prescribed by Rule 4 are satisfied. He paid municipal taxes @10% of municipal valuation. Interest on borrowed capital was 40,000 for the year.

Compute the income from house property of Anirudh for A.Y.2017-18.

Solution:

Computation of Income from house property of Mr. Anirudh for A.Y. 2017-18

Gross Annual Value is Higher of, [MV Rs. 1,30,000 or FR Rs. 1,10,000 But restricted to SR Rs. 1,20,000]	1,20,000	1,21,000
Or		
Actual rent less unrealised rent is (1,32,000 – 11,000)	1,21,000	
Less: municipal tax @10% on 1,30,000		13,000
Net Annual Value (NAV)		1,08,000
Less: <u>deduction u/s 24</u>		
(a) 30% of NAV	32,400	
(b) Interest on borrowing	40,000	72,400
Income from house property		35,600

Question 3.

Miss kajal Agarwal had taken a loan of Rs. 5,00,000 for construction of property on 1.10.2012. Interest was payable @ 10% p.a. The construction was completed on 30.6.2013. No principal repayment has been made up to 31.3.2014. Compute the interest allowable as deduction under section 24 for the A.Y.2014-15.

Solution:

Interest for the year (1.4.2013 to 31.3.2014) = 10% of Rs. 5,00,000 = Rs. 50,000

Pre-construction interest = 10% of Rs. 5,00,000 for 6 months (from 1.10.2012 to 31.3.2013) = Rs. 25,000

Pre-construction interest to be allowed in 5 equal annual installments of Rs. 5,000 from the year of completion of construction i.e. in this case, P.Y.2013-14.

Therefore, total interest deduction under section 24 = 50,000 + 5000 = Rs. 55,000.

Let out property vacant for part of the year -

Question 4.

Ganesh has a property whose municipal valuation is Rs. 2,50,000 p.a. The fair rent is Rs. 2,00,000 p.a. and the standard rent fixed by the Rent Control Act is Rs. 2,10,000 p.a. The property was let out for a rent of Rs. 20,000 p.m. However, the tenant vacated the property on 31.1.2018. Unrealised rent was Rs. 20,000 and all conditions prescribed by Rule 4 are satisfied. He paid municipal taxes @8% of municipal valuation. Interest on borrowed capital was Rs. 65,000 for the year. Compute the income from house property of Ganesh for A.Y.2018-19.

Solution:

Computation of income from house property of Mr. Ganesh for A.Y.2018-19

Gross Annual value, is higher of,

(a) 2,50,000 or 2,00,000 whichever is higher,

Limited to 2,10,000

2,10,000

Or

(b) Actual rent for let out period
less unrealized rent

1,80,000

1,80,000

2,00,000-20,000 = 1,80,000

*(If actual rent is lower due to vacancy,
Then actual rent is GAV)*

GAV

1,80,000

Less: municipal taxes @ 8%

20,000

Net Annual Value		1,60,000
Less: Deduction u/s 24		
(a) 30% of NAV	48,000	
(b) Interest on borrowings	65,000	1,13,000
Income from house property		47,000

House property let-out for part of the year and self-occupied for part of the year –

Question 5

Miss kajal agarwal owns a house property at Tamilnadu. The municipal value of the property is Rs. 5,00,000, fair rent is Rs. 4,20,000 and standard rent is Rs. 4,80,000. The property was let-out for Rs. 50,000 p.m. up to December 2017. Thereafter, the tenant vacated the property and Miss kajal used the house for self-occupation. Rent for the months of November and December 2017 could not be realised in spite of the owner's efforts. All the conditions prescribed under Rule 4 are satisfied. She paid municipal taxes @12% during the year. She had paid interest of Rs. 25,000 during the year for amount borrowed for repairs for the house property. Compute her income from house property for the A.Y. 2018-19.

Solution: Computation of income from house property of Ms. Kajal for A.Y.2018-19

Gross Annual Value is higher of,

(a) MV Rs. 5,00,000 or FR Rs. 4,20,000 **4,80,000**

But limited to SR Rs. 4,80,000

(b) Actual rent for let out period less unrealized rent

4,50,000 – 1,00,000 = 3,50,000 **3,50,000**

G.A.V. 4,80,000

Less: municipal tax paid by kajal during year

12% x 5,00,000 60,000

Net Annual Value 4,20,000

Net Annual Value		4,20,000
Less: <u>Deduction u/s 24</u>		
(a) 30% of NAV	1,26,000	
(b) Interest on borrowing	25,000	1,51,000
income from house property		2,69,000

Question 6. Kejriwal has two houses, both of which are self-occupied. The particulars of the houses for the P.Y.2017-18 are as under:

Particulars	House I	House II
Municipal value	1,00,000	1,50,000
Fair rent	75,000	1,75,000
Standard rent	90,000	1,60,000
Date of completion	31.03.1999	31.03.2001
Municipal taxes paid during the year	12%	8%
Interest on money borrowed for repair of property During current year	-	55,000

Compute kejriwal income from house property for A.Y. 2018-19 and suggest which house should be opted by kejriwal to be assessed as self occupied so that tax liability is minimum.

Answer:

Computation of income from house property of kejrival for A.Y. 2018-19:

Note- Let us first calculate the income from each house assuming that they are deemed to be let out.

Particulars	House I	House II
GAV	90,000	1,60,000
Less: municipal tax	12,000	12,000
NAV	78,000	1,48,000
Less: Deduction u/s 24		
(a) 30% of NAV	23,400	44,400
(b) Interest on borrowing	-	55,000
Income from House Property	54,600	48,600