GOPALA K R M.Com, NET, KSET
Assistant Professor of Commerce
Govt First Grade College, Magadi

INCOME FROM HOUSE PROPERTY

Any rental income derived by an assessee from the house property during the previous year is taxable under the head "**Income from House property"**. The computation of income falling under this head is governed by section 22 to 27 of The Income Tax Act.

Basis of chargeability U/S 22:

Income is chargeable under this head, if the following three conditions are satisfied:

1. The property should consist of any building or land appurtenant thereto.
2. The Assessee should be the owner of the property.
3. The property should not be used by the assessee for running his own business or profession.

The following points to be keep in mind while computing taxable income from house property:

1. **Deemed Owners:** for tax purpose the following are considered as deemed owners:
   - **a.** Transfer of house property to spouse without adequate consideration.
   - **b.** Transfer of the property to minor child (not being a married daughter).
   - **c.** Holder of impartible estate.
   - **d.** A person who takes a land on lease and construct a house upon it.
   - **e.** A person who has acquired a property under a power of attorney transactions.
   - **f.** Property held by a member of co-operative society/company/AOP.

2. **Disputed Ownership:** if the title of ownership is disputed in a court of law. Then, for tax purpose the recipient of rental income of the property is considered as owner of the house property.

3. **Building or staff quarters** let out to **employees** not taxed as income from **house property** but it is charged as **income from business.**

4. **Composite Rent:** It refers the aggregate rent which includes the rent of the house property and also the charges of other facilities provided to the house like lift, security, water pump, air conditioning etc. For tax purpose the charges of facility provided should be excluded from composite rent. Only rent of the house property is chargeable to tax under this head.

5. **When a house property is owned by co-owners:** if the share of co-owners is ascertainable, the share of each such person shall be taxable under this head.

6. <u>**Annual Value u/s 23(1)**</u>**:** Annual value refers to the sum for which the property might reasonably be expected to be let out from year to year.

7. <u>**Income from subletting:**</u> it is not chargeable to tax under this head, it is charged to tax under the head '**income from other sources'.**

Exempted Income from House Property:

1. Income from farm house.
2. Annual value of any one palace of an Ex-Ruler.
3. Property income of a local authority.
4. Property income of a trade union/educational institution/hospitals.
5. House property held for charitable purpose.
6. Property income of a political party.
7. Property used for own business or profession.
8. Annual value of one self occupied property for residence.

Computation of taxable Income from House Property (Let Out):

Particulars	Amount	Amount
Gross Annual Value (GAV)	xxx	
Less: Municipal tax paid by the Assessee	xxx	
Net Annual Value (NAV)		**xxx**
Less: **Deductions u/s 24:**		
1. Standard deduction 30% of NAV	xxx	
2. Interest of borrowed capital	xxx	**xxx**
Taxable Income from House Property		**xxx**

Gross Annual Value: GAV is computed by considering four elements viz., Municipal rental value, Fair Rent, Standard Rent and Actual Rent.

1. **Municipal Rental Value:** It refers to the rental value of the property determined by the local authority. On this only municipal tax is calculated.
2. **Fair Rent:** it refers to the rent of the similar house property in the same locality.
3. **Standard Rent:** it refers the rent of the property fixed by the Rent Control Authority.
4. **Actual Rent:** it refers to the value at which the property is actually let out

Computation of GAV:

A. **When standard Rent is given:**

Municipal Rent XXX
Fair Rent XXX } **WEH**

NotionalRent **XXX**
Standard Rent XXX } **WEL**

Expected Rent **XXX**
Actual Rent Received

Annual Rent	XXX
LESS: Unrealized Rent	XXX

XXX } **WEH**

WEH **XXX**
LESS Vacancy Loss XXX
Gross Annual Value **XXX**

B. <u>When standard rent is not given:</u>

Municipal Rent	XXX	WEH		
Fair Rent	XXX			
Expected Rent		**XXX**	WEH	
Actual Rent Received				
Annual Rent	XXX			
LESS:				
Unrealized Rent	XXX	**XXX**		
			WEH	**XXX**
	LESS	Vacancy Loss		XXX
		Gross Annual Value		**XXX**

<u>Municipal Tax:</u> It refers to the tax levied by the local authority on the basis of municipal value. The amount of municipal tax **actually paid by the assessee during the previous year is deductible** from the Gross Annual Value. Any municipal tax paid by the **tenant or tax due is not deductible.**

<u>Deductions u/s 24:</u>

1. **Standard deduction:** it is a compulsory deduction which is **equal to 30% of Net Annual Value.**
2. **Interest on borrowed capital:** interest on loan taken for the purpose of construction, purchase, repairs or renovation of house property or fresh loan taken to repay the old loan taken for the above mentioned purpose is deductible on **accrual basis. i.e.,** interest on loan related to present previous year is deductible whether actually paid or not.
   Interest of Pre-construction period: Pre-construction period refers to the period commencing on the date of borrowing and ending on March 31, immediately prior to the date of completion of construction/date of acquisition or date of repayment (entire loan) of loan whichever is earlier. **The interest of this period is deducted in five equal annual installments, commencing from the previous year in which the house is acquired or constructed.**

<u>Computation of taxable income from Self Occupied property:</u>

Particulars	Amount	Amount
Net Annual Value (NAV)		NIL
Less: <u>Deductions u/s 24</u>		
1. Interest on borrowed capital	XXX	XXX
Taxable Income from House Property		**XXX**

1. In case of self occupied property the Net Annual Value is exempt from tax, that is why it is taken as NIL.
2. Only interest on borrowed capital is allowed u/s 24. The conditions regarding this as follows:
   a. **<u>The loan is taken on or after April 1, 1999:</u>** maximum interest is deductible upto Rs. 2,00,000 subject to the following conditions:

1. Capital is borrowed on or after April 1, 1999 for purchase or construction of property.
2. The acquisition or construction should be completed within 3 years from the end of financial year in which the loan was borrowed.

b. **The loan is taken before April 1, 1999** for purchase or construction, repairs, renewal etc., maximum interest is deductible upto Rs. 30,000.

Deemed to be let out: Where the assessee has occupied more than one house for his own residential purposes, only one house (according to his own choice) is treated as **self-occupied** and all other houses will be **"deemed to be let out".**

In case of deemed to be let out properties, the taxable income will be calculated in the manner explained as in case of **let out properties.** However, vacancy loss is not to be considered while computing **GAV.**

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