



## BASIS OF CHARGE [Section 22]

Building + Land attached	Ownership of HP in PY	Not used for Business
<ul style="list-style-type: none"> <li>Rent of Vacant Land → IFOS</li> <li>Subletting of HP → IFOS</li> </ul>	<ul style="list-style-type: none"> <li>+ Deemed Ownership</li> <li>Registered/Beneficial</li> </ul>	<ul style="list-style-type: none"> <li>If used for Business → No Tax u/h PGBP</li> </ul>

☞ HP with Disputed Title → Owner of HP = As Decided by IT Dep. till the court order.

☞ **Income from Sale of House Property → Taxable u/h "Capital Gains".**

### Rental Income from HP held as SIT [Taxed u/h HP]

- NAV of HP held as SIT = Nil for 2 years from the end of the FY in which completion certificate is issued **if not Let Out for such period.**

### COMPOSITE LETTING [HP + Other Assets/Services]

Tax Treatment	Two lettings are separable	Two lettings are not separable
Rent from HP	Taxable u/h HP	Taxable u/h PGBP or IFOS.
Rent from others	Taxable u/h PGBP or IFOS	<b>Ex:</b> Hotel Business/PG.

PC Note: Expenses for other facilities → Deductible in computing PGBP/IFOS income.

### INCOME FROM FOREIGN HOUSE PROPERTY

<b>1. ROR (Note)</b>	Taxable, whether or not such income is brought into India
<b>2. RNOR/NR</b>	Taxable only if it is received in India.

PC Note: Municipal Taxes Paid o/s India – Deductible if TDS done.

### HOW TO COMPUTE INCOME FROM HOUSE PROPERTY

<b>A.</b> Gross Annual Value (GAV)	xxx
<b>B. Less:</b> Municipal tax paid by owner during PY	(xxx)
<b>C.</b> Net Annual Value (NAV) [A – B]	xxx
<b>D. Less:</b> Deduction u/s 24	(xxx)
<b>24(a):</b> Standard deduction (30% of NAV)	(xxx)
<b>24(b):</b> Interest on borrowed Capital	(xxx)

## A. DETERMINATION OF GROSS ANNUAL VALUE [SECTION 23]

1	<b>Expected Rent (ER)</b> → Higher of (a) MV or (b) FR subject to Max. of SR.
2	Calculate <b>Actual Rent Received (ARR)</b> → Rent receivable - Unrealized Rent
3	GAV = <b>Higher of (1) ER or (2) ARR</b>

PC Note: Vacancy Loss (Rent for Vacant Period) → Not Included in ARR.

LOP – With Vacancy (Imp)	SOP/Unoccupied HP
<ul style="list-style-type: none"> <li>Calculate ER for whole year even if HP was vacant.</li> <li>ARR → Rent for Let out period shall only be taken.</li> <li>If ARR &gt; ER → GAV = ARR.</li> <li>If ARR &lt; ER due to vacancy → GAV = ARR.</li> <li>If ARR &lt; ER due to other reason → GAV = ER.</li> </ul>	<ul style="list-style-type: none"> <li>GAV = Nil for 2 houses (Only for Individual/HUF)</li> <li>MT Paid → No Deduction</li> <li>Thus NAV = Nil.</li> </ul>

LOP for Part Year & SOP for Part Year	Deemed LOP
<ul style="list-style-type: none"> <li>ER → for whole year.</li> <li>ARR → for Let out period only.</li> <li>GAV = Higher of (i) ER (whole year) or (ii) ARR (Let out Period)</li> </ul>	<ul style="list-style-type: none"> <li>&gt;2 Houses &amp; All are SOP</li> <li>2 HP = SOP &amp; Other HP = DLOP</li> <li>GAV of DLOP → ER [No ARR]</li> <li>GAV of SOP = Nil</li> </ul>

### Single House – One portion is Let & other portion is SOP [Imp case]

- SOP → GAV = Nil; No deduction of Municipal taxes paid;
- Limit on Interest u/s 24(b) = Rs. 30,000/2,00,000 [Keep in Mind]
- For LOP → ER shall be computed on proportionate basis.

### B. MUNICIPAL TAXES → Deducted from GAV if paid by Owner during PY

- Deductible in PY of Payment even if they relate to past years.
- Foreign MT paid → Deductible if TDS Done.
- Refund of Municipal Tax Paid → Not Taxable.

**Net Annual Value = GAV – Municipal Taxes paid by owner during PY.**

## D. DEDUCTIONS U/S 24

**Sec 24(a): Standard Deduction = 30% of NAV** [Flat Deduction] [No other deduction]

**Sec 24(b): Interest on Borrowed Capital** [Deductible on Accrual Basis]

❖ **Current Year Interest** → [Interest of PY of completion of construction & afterwards]  
Interest = Amount of Loan × ROI p.a (Without any limit)

❖ **Pre-Construction Interest** → Deductible in **5 successive PYs** from PY of completion.

▪ **Start:** From Date of Borrowing &

▪ **End:** (a) Repayment date or (b) 31<sup>st</sup> March before completion of construction [W.I.E]

**PC Note:** Interest will be aggregated from date of borrowing till the end of PY prior to PY of completion of construction & NOT till the date of completion of construction.

### PC Note:

- Interest on fresh loan taken to repay original loan → Deductible.
- Brokerage/commission for Arrangement of loan → Not Deductible.
- Interest on unpaid interest → Not Deductible.
- If loan is taken from o/s India → Interest is deductible if TDS Done.

### LIMIT ON DEDUCTIONS OF INTEREST FOR SOP [No Limit for LOP/DLOP]

Case	Max. Deduction
Loan for <b>repair/renovation</b> of HP on/after 1.4.1999	Max, <b>30,000</b>
Loan for <b>acquisition/construction</b> of HP on/after 1.4.1999 & such acquisition or construction is completed within 5 year	Max. <b>2 Lacs</b>

**PC Note:** Limit is applicable combined for 2 SOPs & not for each SOP.

**Note:** No Deduction of Interest u/s 24(b) for SOP/UOP under section 115BAC.

**Note:** Interest u/s 24(b) for LOP/DLOP is allowed in both the regimes (New & Old).

### TREATMENT OF INCOME FROM CO-OWNED PROPERTY [Section 26]

Co-owned HP is SOP	Co-owned HP is LOP
<p><b>For Each Co-owner:</b></p> <ul style="list-style-type: none"> <li>▪ Annual Value → Nil</li> <li>▪ Deduction of 30K/2 L u/s 24(b) <b>separately</b> for each co-owner.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Compute Income from HP as if there is <b>one owner</b></li> <li>▪ Income so computed shall be <b>apportioned</b> amongst each co-owner <b>as per their share.</b></li> </ul>

**Note:** If Shares of co-owners are not definite: Income from HP → Taxed as Income of AOP.

**HP OWNED BY P'SHIP FIRM** → Income is assessed in hands of firm & not to partners.

## DEEMED OWNERSHIP [SEC 27]

1. **Transfer of HP to spouse for inadequate consideration** → Transferor is deemed to be owner of HP transferred. [Except: Transferred under agreement to live apart].
2. **Transfer of HP to Minor Child for inadequate consideration** → Transferor is deemed as owner of HP. [Except: HP is transferred to a minor married daughter]
3. **Holder of Impartible Estate** → Deemed as owner of all properties in the estate.
4. **Member of a Co-operative Society** to whom a building is allotted/leased under House Building Scheme of → Deemed as owner of that building allotted to him although co-operative society is legal owner of that building.
5. **Person in possession of HP under part-performance of a contract [Sec 53 of TOPA]** Buyer will be deemed as owner of HP although not registered in his name.
6. **Person having right in a property by way of Lease for 12 years or more:** A person who acquires any building by way of lease for a period of 12 years or more shall be deemed to be the owner of that building.

**Exception:** Lease is acquired from **month-to-month** basis or for **< 1 year**.

### EXEMPT INCOME FROM HOUSE PROPERTY

1. Income from Farmhouse [If building is in immediate vicinity of Agri. Land]
2. Property held for charitable or religious purposes.
3. House property used for own business/profession.
4. Income from House property of Registered Trade union/Local Authority.
5. Annual value of 1 Palace of Ex-ruler.

### Unrealised Rent & Arrears of Rent received Subsequently [Sec 25A]

- Taxable @ 70 % of Amount Received in PY of Receipt.
- Amount taxed earlier will not be taxable again.

### Q. When unrealized rent shall be deducted from actual rent receivable?

**Answer:** If all the following conditions are satisfied:

- (a) Tenancy is **bonafide**;
- (b) Defaulting tenant has **vacated**, or steps have been taken to vacate the property;
- (c) Defaulting tenant is **NOT in occupation** of any other property of the assessee;
- (d) Assessee has taken **all reasonable steps to institute legal proceedings** for **recovery** of unpaid rent or **satisfies AO** that **legal proceedings would be useless.**

**ALTERNATE VIEW:** Income tax returns permits deduction of URR from GAV.