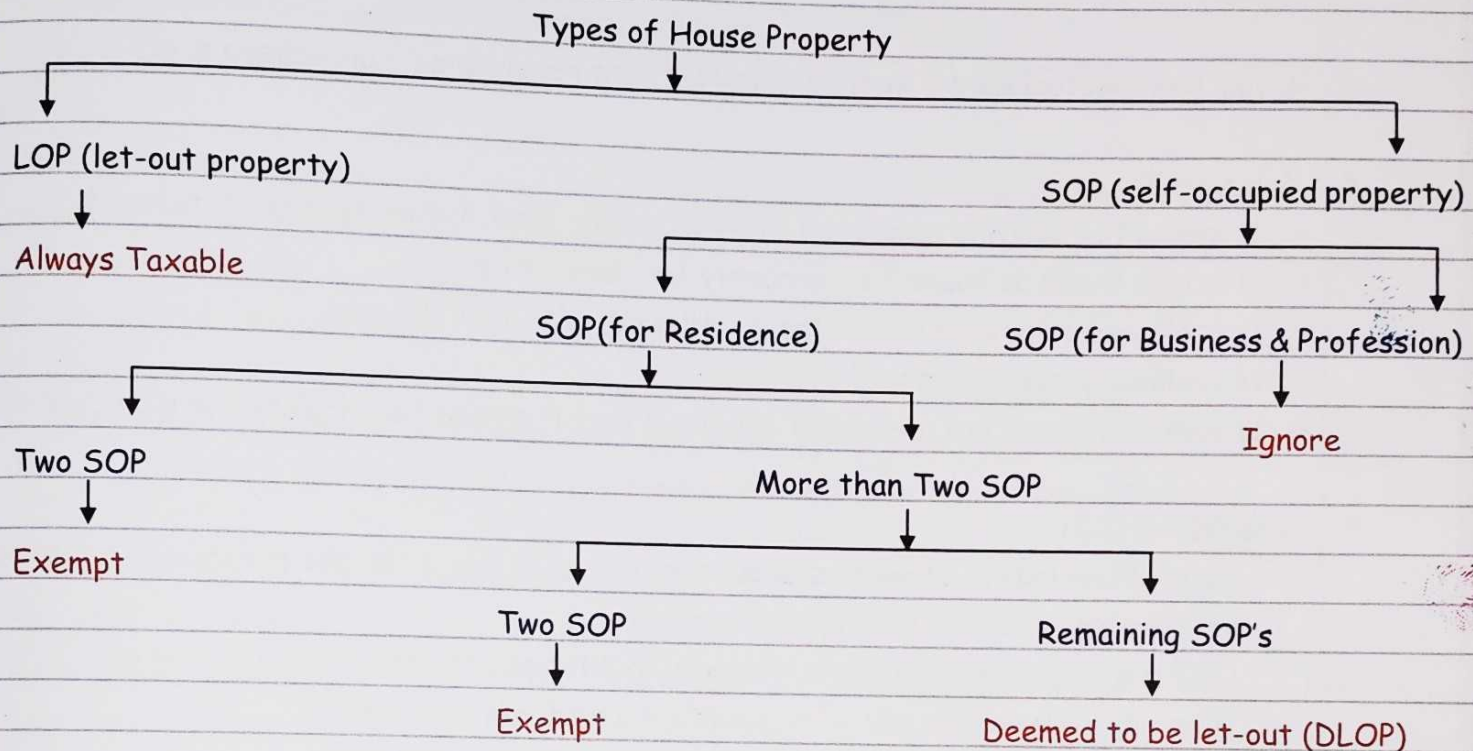


Sec. 22: Charging Section

Rental Income (Annual value) is taxable under the head income from house property if following two conditions are satisfied:

1. There should be House property **
2. Assessee should be owner of that house property.

** House property means building or land appurtenant thereto.



Computation of Income from House Property	SOP (Res.)	LOP	DLOP
↑ Municipal value	-	xx	xx
↑ Fair Rent	-	xx	xx
Whichever is higher	-	xx	xx
↓ Standard Rent	-	xx	xx
↑ Expected Rent	-	xx	xx
↑ Actual Rent	-	xx	-
Gross Annual Value (GAV)	-	xx	xx
Less: Municipal taxes paid	-	(xx)	(xx)
Net Annual value (NAV)	-	xx	xx
Less: Deduction u/s 24			
(a) Standard deduction 30% of NAV	-	(xx)	(xx)
(b) Interest on Loan	-(xx)	(xx)	(xx)
Income from House Property	-(xx)	xx	xx



1. Municipal value: It means value of property as per municipality record.
2. Fair Rent: It means rent of similar property in same locality. It is also known as reasonable rent/reasonable letting value.
3. Standard Rent: It means rent as per rent control Act, It is the maximum amount of rent that can be legally recovered by Owner from tenant.
4. Actual Rent: $\text{Actual Rent} = \text{Rent received} (+) \text{Rent receivable} (-) \text{unrealised rent}$.
5. Municipal Taxes
 - ☞ It means tax which is recovered by Municipality, local Authority, gram panchayat.
 - ☞ It is also known as house Tax, property tax, local tax etc.
 - ☞ It is allowed on **payment basis** [paid - Allowed; o/s - Not allowed].
 - ☞ It is allowed only if it is paid by **owner**.
 - ☞ If municipal taxes are given on % age basis then it should be calculated on municipal value.
6. Interest on Loan
 - ☞ Interest on loan is allowed as deduction, if loan is taken for the **purpose of house property** i.e. purpose, construction, repair, renovation.
 - ☞ Loan may be taken from banks, financial institutions trusts, friends, family etc.
 - ☞ Interest is allowed on **due basis** [paid - Allowed; o/s - Allowed]
 - ☞ Interest on Interest (**Penal interest**) is **not allowed** as deduction.
 - ☞ Any fresh loan is taken for repayment of earlier loan & earlier loan was taken for the purpose of house property then interest of fresh loan shall be allowed as deduction.
 - ☞ Interest paid **outside India shall not be allowed** as deduction if **TDS not deducted** on such interest.
 - ☞ Pre-construction/Acquisition interest: It means interest paid **before the year** in which construction was completed. It is allowed in Five equal instalments from the year in which construction was completed.
 - ☞ Limit of Interest Deduction

LOP/DLOP	→	No Limit (Full Interest Allowed)
SOP (Residence) 2 SOP ✓ Special Case → loan is taken on or after 1.4.1999 + loan taken for purchase or construction of house property		Max ₹ 2,00,000

If loan is taken for construction then construction should be completed within 5 years from the end of the year in which loan was taken

✓ General Case

Max. 30,000

➤ Un-realised Rent and recovery of un-realised Rent

Actual Rent = Rent received + Receivable - unrealised rent

Unrealised rent: It means rent which is not recovered by owner from tenant. It is like Bad debts of rent, it is deductible while calculating actual rent if following four conditions of Rule 4 are satisfied.

1. Tenancy should be bonafide.
2. Tenant should have vacated that house property.
3. Such tenant should not occupy any other house property of same assessee.
4. Reasonable step should have been taken for recovery of unrealised rent.

Note : As per ITR FORM unrealised rent can be reduced from Gross Annual Value.

➤ Arrears of rent : It means rent under dispute.

➤ Sec 25A : Recovery of un-realised rent & arrears of rent

Recovery is taxable in the year in which it is recovered, under the head house property, whether the assessee is the owner of the property or not is that financial year. Any expenditure incurred for such recovery shall be Ignored

Taxable Amt = Recovery x 70% [30% std deduction]

➤ Other Expenses

Repair & Maintenance

Society charges

Parking charges

Insurance charges

Electricity & water charges

Lift charges, etc

Not allowed because 30 %
Standard deduction on NAV
is allowed

- Concepts of Vacancy: Let-out property is vacant part of the year due to vacancy

$$\begin{array}{c} ER \leq AR + VR \\ \downarrow \\ GAV \end{array}$$

$$\begin{array}{c} ER > AR + VR \\ \downarrow \\ GAV \end{array}$$

Example

1. Monthly Rent = ₹ 20,000 p.m.

Expected Rent = ₹ 1,92,000

Vacancy = 3 months.

$$\begin{array}{ccc} ER & & AR + VR \\ 1,92,000 & \leq & 1,80,000 + 60,000 \\ & \downarrow & \\ & GAV & \end{array}$$

2. Monthly Rent = ₹ 3,000 p.m.

Expected Rent = ₹ 1,95,000

Vacancy = 2 months.

$$\begin{array}{ccc} ER & & AR + VR \\ 1,95,000 & > & 30,000 + 6,000 \\ & \downarrow & \\ & GAV & \end{array}$$

3. Monthly Rent = ₹ 25,000 p.m.

Expected Rent = ₹ 3,00,000

Vacancy = 3 months.

$$\begin{array}{ccc} ER & & AR + VR \\ 3,00,000 & = & 2,25,000 + 75,000 \\ & \downarrow & \\ & GAV & \end{array}$$

- Concept of Partly Let out property (Area wise)

If some area of House property is let out & remaining is self occupied then let out portion is treated as LOP & self-occupied portion is treated as SOP. In this case, Municipal value, fair rent, standard rent, municipal taxes, interest on loan should be divided between SOP & LOP on area basis.

Actual rent should never be divided because it is always for LOP.

➤ Concept of Partly Let out property (Time wise)

If property is let out for some period of time & self-occupied for remaining time then such property is treated as LOP only. If property is let out for even 1 day, then, also that property is treated as LOP.

➤ Assessee owns more than Two SOP

Two of such house properties (at the option of Assessee) treated as SOP & remaining be treated as DLOP.

➤ Concept of Joint ownership

Joint ownership (co-ownership) means property is owned by more than one owner, in this case, income from house property is calculated normally & thereafter it should be divided between co-owners in their ownership ratio.

Interest on Loan

☞ LOP/DLOP - No Limit

☞ SOP - Limit of ₹ 30,000/ ₹ 2,00,000 apply each owner

➤ Concept of composite Rent

Composite rent = Rent of House property + Rent of other assets & amenities

a) Agreement separable: Rent of HP taxable under IFHP & other asset Rent taxable under PGBP/IFOS.

b) Agreement Not separable: Total Rent taxable under PGBP/IFOS.

Note: If let out of property not feasible without other asset then total rent is taxable under the head income from Business / Profession or income from other sources whether agreement is separable or not. Eg. Hotel.

➤ Sec. 27: Deemed owner

1. If any individual transfers any house property to his / her spouse for without consideration or inadequate consideration then such individual is treated as Deemed owner of such property.
Exception : Transfer in connection of live apart.
2. If any individual transfers any house property to a minor child (other than minor married daughter) for without consideration or inadequate consideration then such individual is treated as deemed owner.
3. In case of a co-operative society, shareholder is treated as deemed owner of such property.
4. Holder of an impartible estate.
5. In case of Immovable property if possession taken in part performance of contract then assessee treated as deemed owner.
6. If property acquired under long term lease (> 12 years) acquirer is deemed owner.



Some Important notes for HP Topic:

1. Where house property is held as stock in trade and not let-out during the P.Y. the NAV of such property shall be treated as NIL for the period of 2 years from the end of Financial Year in which construction was completed.
2. If Assessee pay tax under default taxation regime u/s 115BAC then Interest on loan u/s 24(b) in respect of SOP (30,000 / 2,00,000) not allowed to assessee.
3. SOP means property which is occupied by assessee for self-occupation or could not occupied due to any reason.
4. SOP exemption is allowed only in case of Individual & HUF.
5. Municipal taxes paid to foreign municipality also allowed as deduction if foreign house income is taxable in India.