

# House Property



## Sec 22

### Charging Section.

Annual value will be assessed under the head House Property if 3 conditions are satisfied:

There should be a House Property.

Condition 1

Assessee should be the owner of the HP

Condition 2

Assessee should not be using it for his business.

Condition 3

### 1] Condition 1

- House Property is not defined under Income-tax Act.
- Based on various case laws, HP means:
  - Any land surrounded by wall ✓
  - Any land appurtenant to a building ✓
- Residential ✓ Commercial purpose ✓

- Incomplete, ruined, demolished building is not a House Property.

VIMP

Rental income received from such demolished building → ~~House Property~~ IFO ✓

- Vacant Land → let out

↓  
~~House Property~~ IFO ✓

- Land appurtenant thereto includes  
↓  
Car park, backyard, approach roads.

### 2] Condition 2

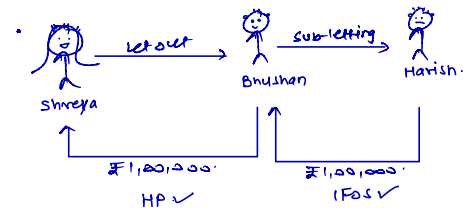
A/c should be the owner

- Registered owner / Beneficial owner.

- FY 20-21 → I was the owner & I did not receive rent.

FY 21-22 → I sold my property on the first day of FY.  
& I received the rent of that property of FY 20-21.

Even though I am not the owner in FY 21-22 But still I am reqd to pay tax because such income is related to FY 20-21 when I was the owner ✓



Letting → HP ✓  
Sub-letting → IFO ✓

### 3] Condition 3

House Property should not be used for Business.

↓  
If used → Taxable under PGBP



### Concept 1 Foreign Property.

If I let out the foreign property & earn rent out of it, then such rent would be **taxable** in India ✓

ROR → Always taxable ✓

RNoR → only if received in India ✓

NR → only if received in India ✓

when 2 lettings are  
NOT separable

↓  
Entire amount of ₹30,000

will be taxable

↓  
IFOS / PuBP.



### Computation of GAR

#### 1] Expected Rent

Expected Rent  
Actual Rent Received

M - Municipal value  
F - Fair Rent  
S - Std. Rent

1] Municipal value  
• value determined by Municipality.  
• value on which municipal tax is charged.

#### 2] Fair Rent.

• Rent of a similar property.  
• in the same locality.

#### 3] Standard Rent.

• Rent computed basis Rent Control Act.



### Concept 2 Composite letting.

When HP is let out along with amenities (eg. Furniture), such letting is called as composite letting.

#### Tax Treatment

₹30,000 per month.

Letting



HP

Furniture.

1] 25000

5000

↓  
HP

↓  
IFOS / PuBP

when 2 lettings are separable

### Concept 3

Format of computing Income from House Property.

Particulars	₹
Actual Rent or Expected Rent Gross Annual value.	xxx
(-) Municipal tax paid by the Assessee during FY	(xx)
Net Annual value.	xxx
(-) Deductions u/s 24	
(a) Standard deduction @ 30%.	(xx)
(b) Interest on borrowed capital.	(xx)
Income from House Property.	xxx



## Situations to Compute GAV

**Situation 1** → where HP is let out for the entire FY.

$$GAV = \text{Expected Rent or Actual Rent Received}$$

**Situation 2**

10m → Let out.  
2m → vacant.

HP is let out for some period & HP is VACANT for some period.

Example

HP let out @ ₹10,000 p.m = 10m.

HP vacant = 2m.

Actual Rent Received = ₹1,00,000 ✓

Expected Rent = ₹1,15,000 ✓

IF ARR is lower than expected Rent due to vacancy.



$$GAV = \text{Actual Rent Received} ✓$$

HP → let out → 10m → ₹10,000 p.m.

vacant → 2m

ARR = ₹1,00,000 | GAV = 1,00,000

ER = ₹1,15,000

**Situation 3**

Property is self-occupied.



$$GAV \text{ NAV} = \text{Nil}$$

Particulars	₹
Net Annual value	Nil
(-) Ded <sup>n</sup> u/s 24	
(a) Std ded <sup>n</sup> @ 30%	Nil
(b) Int on BORN Cap.	(70,000)
Loss from House Property	(70,000)

\* ₹70,000 Int is assumed

- This benefit of NAV = Nil will be applicable only to 2 self-occupied properties.

- This benefit is available only Individuals/HUF.

In other words → If a Co/P Firm/LLP uses any property for self-occupied then NAV ≠ Nil

~~~~~

↓  
We compute normally

$$\begin{aligned}
 GAV &= \text{ARR or ER} \uparrow \\
 &= \text{Nil or ER} \uparrow \\
 &= \text{ER} \checkmark
 \end{aligned}$$

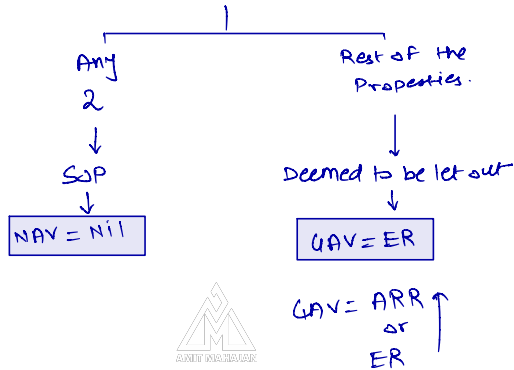


## Situation 5 Deemed to be let out property.

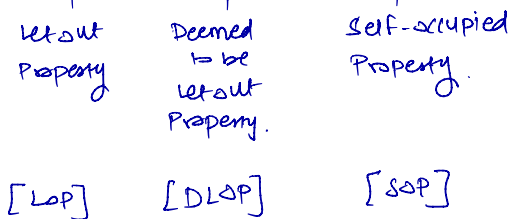
Intro If an A/c has more than 2 properties as SOP, then any 2 properties which are beneficial to the A/c will be considered as SOP & rest of the properties will be considered as deemed to be let out properties.

- This law is introduced so that people having multiple prop. will be discouraged to keep the prop. self occupied & let them out in the market & ↑ the overall supply of properties.
- Resultingly, this step can help reduction of prop. prices ✓.

If I have more than 2 prop. → SOPV



### Types



|    | Mumbai | Bihar | Kolkata |
|----|--------|-------|---------|
| AR | Nil    | Nil   | Nil     |
| ER | 17L    | 7L    | 10L     |

|           |          |
|-----------|----------|
| 2 Prop    | 1 Prop   |
| Mum & Kol | Bihar    |
| NAV → Nil | GAV = ER |

[Logically, we will always consider those properties as SOP which has highest taxable incomes].

## Situation 6

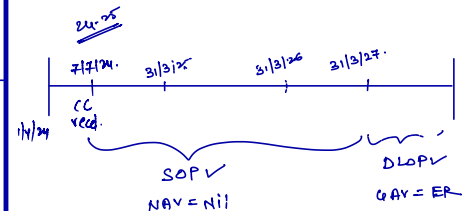
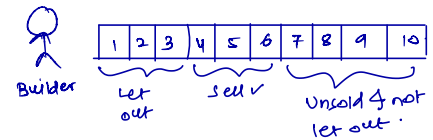
Property held as stock-in-trade.

- In this case, Govt wants to put a pressure on the builder to take out the prop in the market in the form of sale or rent.
- Govt is discouraging the builders to keep the prop. idle for a long duration.
- Govt has given 2 years from the end of FY in which CC is received to either sell the prop or let out the same.

- If neither sold nor let out, Govt will consider those properties as DLOPV.

DLOP →  $GAV = ER$

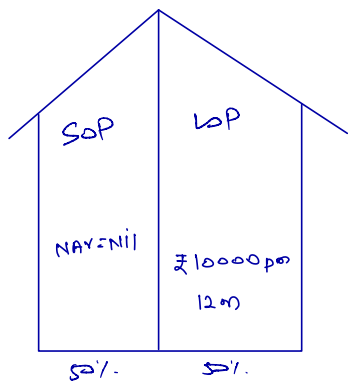
- This will put the builder under pressure to let out the property / sell as soon as possible ✓



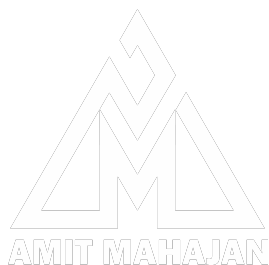
In our example we had sold 3 prop & let out 3 prop. Within 2 FYs & DLOPV will be Prop 7/8/9/10

### Situation 7

Property is partly let out & partly self-occupied.



- Municipal value  $\rightarrow ₹ 3,00,000$
  - Fair Rent  $\rightarrow ₹ 2,00,000$
  - Std rent  $\rightarrow ₹ 1,75,000$
  - Int on borrowed Capital  $\rightarrow ₹ 70,000$
  - Municipal tax paid  $\rightarrow 5\%$
- Compute IFMP



### Concept 4 Municipal Tax.

- Mun. Tax % is to be applied on Mun. value.
- Mun. Tax is reduced from GAV.
- Allowed as ded<sup>n</sup> only if
  - \*  $\rightarrow$  It is actually paid during FY ✓  
[No ded<sup>n</sup> on accrual basis]
  - \*  $\rightarrow$  It is paid by the Assessee himself.  
[If MT paid by the tenant  $\rightarrow$  X XX]
- Foreign Mun. Tax paid for foreign property  $\rightarrow$  Ded ✓

### Examples of Municipal Tax $\rightarrow$ Fire tax

- Water charged  $\rightarrow 10,000 \times 10\% = 10,000$  Water tax
- Insurance  $\rightarrow 40,000 \times 2\% = 8,000$  Insurance tax
- There are exp & will get covered in 20% sewerage tax etc.

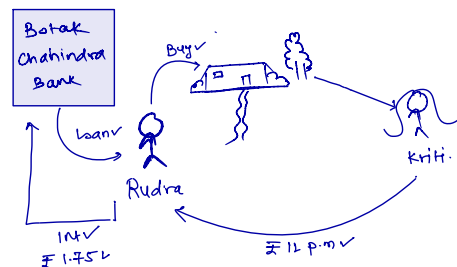
### Concept 5 Deductions u/s 24

#### Section 24(a) $\rightarrow$ Standard ded<sup>n</sup>

- This deduction is allowed to all Assessee.
- Ded<sup>n</sup>  $\rightarrow 30\%$  Flat.
- This deduction includes all costs incurred by the Assessee viz. repairs, maint., insurance, other charges.
- No sep. treatment to be given for these expenses.



### Concept 6 Int. on Borrowed Capital



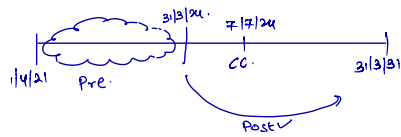
24(b)  $\rightarrow$  Int on borrowed capital ✓

### Interest on Borrowed Capital

- | Pre-constr <sup>n</sup><br>Int                                                                                                                                                                                                                                             | Post<br>Construction<br>Int.                                                                                                                                               |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> <li>• Accumulate the entire pre-construction Int for all the F.Ys.</li> <li>• Ded<sup>n</sup> in the FY in which construction is completed.</li> <li>• Amt of Deduct<sup>n</sup> <math>\rightarrow</math> Equal instalments.</li> </ul> | <ul style="list-style-type: none"> <li>• Int paid after completion of constr<sup>n</sup></li> <li>• This int will always be of the current FY (i.e. for 1 year)</li> </ul> |

## Concept 8

How to identify Pre-construction & Post construction period.



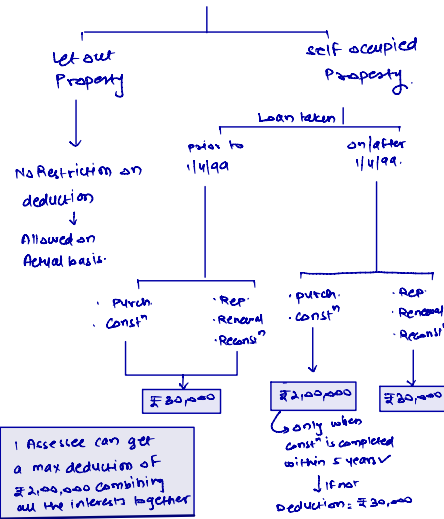
Loan taken → 25/2/20  
 Construction started → 1/4/21  
 CC received → 7/12/24  
 Loan Repaid → 31/3/30

|       | Pre                                                                          | Post                                                                |
|-------|------------------------------------------------------------------------------|---------------------------------------------------------------------|
| Start | • Date on which loan is taken or<br>• Date of beg. of const.<br>LATER        | 1 <sup>st</sup> April of the FY in which CC is received.<br>1/4/24. |
| End   | 31 <sup>st</sup> March of the prec. FY in which CC is received ✓<br>31/3/24. | when loan is fully repaid.<br>31/3/30                               |



## Concept 9

### Int on Borrowed Capital



## Concept 9

2<sup>nd</sup> loan taken to repay the earlier



Int paid on the second loan

- If 2<sup>nd</sup> loan taken to repay the Princ. comp. of 1<sup>st</sup> loan  
 ↳ Ded<sup>n</sup> ✓ (2<sup>nd</sup> loan's Int.)



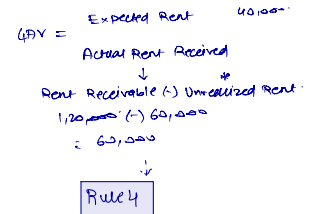
- If 2<sup>nd</sup> loan taken to repay the Interest comp. of the 1<sup>st</sup> loan  
 ↳ Ded<sup>n</sup> × (2<sup>nd</sup> loan's Int.)
- If loan taken to repay the Municipal Tax  
 ↳ Ded<sup>n</sup> ×

24(b) → Int on borrowed capital

Accrual basis.

Even though A/c did not make a part, still, we will get a deduction ✓

## Concept 10 Unrealised Rent



HOWEVER, conditions to Rule 4 to be satisfied:

1. Tenancy is bona fide
2. The defaulting tenant has vacated, or steps have been taken to compel him to vacate the property;
3. The defaulting tenant is not in occupation of any other property of the assessee;
4. 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.



Concept 11 → Arrears of Rent or Unreceived Rent recd.

FY 23-24 → URR ded<sup>n</sup> ✓

FY 26-27 → I recd URR of FY 23-24.

→ URR received → consider it as your income ✓

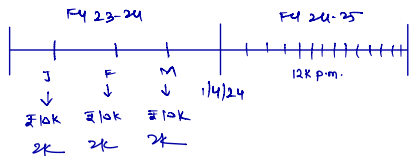
Even if I am not the owner in FY 26-27.

Unreceived Rent Received

xxx

(-) Std ded<sup>n</sup> @ 30%.

Arrears of rent



Rent → 12K X 12

7K X 3 → Arrears of Rent  
↓  
Receipt.

• I increased the rent retrospectively from Jan. & I communicated the same to tenant in April.

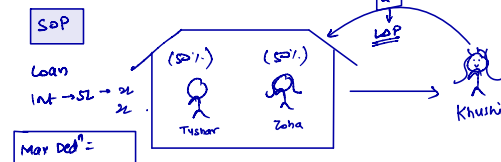
• I received arrears of rent in April ✓

Arrears of Rent → received → consider it as your income ✓

Even if I am not the owner

Deduction @ 30% → Allowed ✓

Concept 13 Co-owned Property.



Mar Ded<sup>n</sup> =

Let out

Self-occupied.

- Make only 1 computation ✓
- Get final Answer
- Bifurcate into 2 in the proportion ✓

- 2 sep. computations.
- Limit of ₹2,00,000/₹30,000 is available to both the co-owners independently ✓
- Tax planning Point  
It is always beneficial to buy a new SOP on loan jointly so that benefit of limit of Int can be availed by both.

★ 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 owner of HP. [Except: HP is transferred to minor married daughter] 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 property. However, clubbing provisions will be attracted.
3. **Holder of Impartible Estate** → Impartible estate is the property which is legally not divisible. 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 society → Deemed owner of building allotted to him although co-op 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 owner of HP although it is not registered in his name.
6. **Person having right in 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.

