UNIT 8 INCOME FROM HOUSE PROPERTY

Structure

8.0 OBJECTIVES

After studying this unit you should be able to

- list the incomes chargeable under the head house property
- list the exempted income from house property
- determine the annual value of house property of different categories
- explain the deductions available in respect of income from house property, and
- compute the income chargeable under the head house property.

8.1 INTRODUCTION

Income from house property is the second head of income since the omission of the head interest on securities and its transference to the head 'income from other sources' by the Finance Act, 1988. The provisions of Income Tax Act, 1961 regarding computation of taxable income from house property are contained in Sections 23 to 27. The taxable income from house property is not the income actually received as rent but is calculated after making many deductions.

In this unit you will study the incomes chargeable and incomes exempted under the head income from house property. You will also study how the annual value of the houses of different categories is calculated and what deductions are allowed to compute the income chargeable under the head income from house property.

8.2 INCOME FROM HOUSE PROPERTY

According to Section 22 of Income Tax Act, 1961 the assessee has to pay tax on annual value of the property:

i) which consists of any buildings or lands appurtenant thereto

ii) which is owned by the assesgee, and

iii) which is not used for purposes of assessee's business or profession.

8.2.1 Buildings or Lands Appurtenant Thereto

House property means buildings or land appurtenant thereto, and the income from such house properly is chargeable under the head income from house property. The word 'building' has not been'defined by the Act. On the basis of judicial decisions, however, the term building is wide enough to include residential houses, warehouses, auditoriums for enfertainment programmes, cinema halls, buildings let out for office use, stadium, open air theatre, dance hall, music halls and lecture halls. Temporary hutments on vacant land are not included in buildings and any income from such hutments is taxable under the head income from other sources. Land appurtenant to building include compound, play ground, kitchen-garden, court yard etc. Land which is not appurtenant to any building does not become house property for the purposes of income tax. That means any rental income from land which is vacant and not attached to building is not chargeable under the head income from house property.

Another point which is to be noted is that the location of the building is immaterial. It may be located in India or abroad; but the income from buildings is taxable under this head of income. However, there are certain exceptions.

Exceptions

a) Building or staff quarters let out to employees and others : Where the assessee lets out the building or staff quarters to the employees of business whose residence there is necessary for the efficient conduct of business, the rental income from such employees is not taxable as income from house property.

b) Building let out for locating bank, post office, police station etc. : If building is let out to authorities for locating bank, post office, police station, central excise office, etc. such an income will be assessable as income from business provided the dominant purpose of letting out the building is to enable the assessee to carry on his business more efficiently and smoothly.

c) Composite letting of building with other assets : Where the assessee lets on hire machinery, plant or furniture belonging to him and also buildings for a composite rent, and the rent of the buildings is inseparable from the rent of the said machinery, plant or the furniture, the income from such letting is chargeable to income tax under the head 'Income from Other Sources' or under the head 'Business or Profession', if such letting is his business.

d) Paying-guest accommodation : It is assessable as business income.

8.2.2 Assessee to Pay Tax on Annual Value

Another important point regarding income from house property is that it is the annual value and not the rental value which is put to tax. Annual value is calculated by making certain deductions from the rental value, reasonable rent or municipal rent. You will study about the calculation of annual value in detail in Section 8.3.

8.2.3 The Assessee should be the Owner of the House Property

In order that a house property may be termed as house property under this head of income', it is necessary that the assessee should be the owner of the house property. It is the legal ownership and not the beneficial ownership. He may or may not be the beneficiary but he must be the legal owner. Where the assessee is the lessee of building and he derives income from sub-letting or re-letting, it will not be taxable under this head of income but under the head 'Income from Other Sources' where the property is mortgaged, the mortgager is the owner and pays tax and not the mortgagee. One point which should be noted is that even if the owner is dealing in the business of letting out of house property, the income therefrom will be charged under Section 22 as income from house property and not under Section 28 under business and profession.

Deemed owner : Section 27 of the Act also provides for certain persons who are not the owners to be treated as deemed owners of house property. These persons have to pay the tax on income from such house property. They include :

a) an individual who transfers otherwise than for adequate consideration any house property to his or her spouse, not being a transfer in connection with an agreement to live-apart, or to a minor child not being-a married daughter, shall be deemed to be the owner of the house property so transferred.

b) the holcler oi an impartible estate shall be deemed to be owner of the house property.

c) **A** member of a Cooperative Society, to whom a building or a part thereof is allotted or leased under the house building scheme of the society, is treated as deemed owner of such property.

d) a person who is allowed to take or retain possession of any building or part thereof in part performance of a contract of the nature referred to in the Transfer of Property Act.

e) a person who acquires any rights in any building or part thereof by virtue of any such transaction as is referred to in the clause (f) of Section 268 VA (Transfer under purchase by Central Government of Immovable Properties)

f) a person who takes land on lease and constructs a house upon it.

8.2.4 The House Property should not Used for Purposes of Assessee's Business or Profession

If the property or part thereof is used for assessee's business or profession, the income from which is chargeable to tax, then the annual value of such property or portion will not be taxed under Section 22 i.e. income from house property.

8.3 INCOME FROM HOUSE PROPERTY EXEMPT FROM TAX

There are two kinds of exemptions regarding income from house property: (1) which is totally exempt and (2) which is partially exempt. The first means which is neither included in total income nor taxable and the second means which is included in total income for rate purposes but is not taxed.

First Category : Income house property which is totally exempt :

i) Buildings situated in the immediate vicinity of agricultural land and which is occupied by the cultivator as a dwelling house or as a store house. It is treated as agriculture income and is fuliy exempt.

ii) Any one palace in the occupation of a Ruler.

iii) House properties belonging to a local authority, scientific research association, University or other recognised educational institution, hospital, or Games or Sports Association and Registered Trade Union.

iv) Property belonging to an authority constituted under any law for the purpose of marketing of commodities and used for letting of godowns or warehouse for storage of commodities.

v) House property'held by a trust established wholly 'for charitable purposes.

vi) House property held by a political party.

vii) House property owned by an assessee and used for his own business or professional purposes.

viii) Self-occupied houses — The Finance Act, 1986 w.e.f. 1.4.1987 provide that where the property consists of one house or part of a house in the occupation of the owner for his own residence and is not actually let out during any part of previous year, the annual value of such a house shall be taken to be nil.

Second Category : Income from house property which is partially exempt :

i) Building belonging to a co-operative society and income derived by it from letting of godowns or warehouses for storage of commodities.

ii) Building belonging to a co-operative society, where the gross total income of the society does not exceed Rs. 20,000 and the society is not a housing society or an urban consumers society or a society carrying on transport business or a society engaged in manufacturing operations with the aid of power.

8.4 SOME IMPORTANT POINTS

i) **Income from house property situated abroad :** Income from any house property situated abroadis taxable only in case of an individual. Not ordinary resident and non-resident pay tax on such property only when it is received in India. A resident will pay tax on foreign property as if such property is situated in India.

ii) **.Disputed Ownership :** If the title of ownership is disputed in a court of law,.the decision as to who is the owner rests with the income-tax department. Generally, the recipient of rental income or the person who is in possession of the property is treated as the owner.

iii) **Composite Rent :** If a building is let out to a person alongwith other facilities (e.g. electricity, cooler, water pump, water tax etc.) for a composite rent'and if the rent of the building can be separated from the rent of such facilities, the two rents will be seperated and that belonging to the building only will be taxed under the head 'House Property' and that which belongs to other facilities will be taxed under the head 'Income from Other Sources'. If the eomposite rent cannot be split up it will not be taxed under the head 'House Property', but under the head 'Other Sources.'

iv) **Property owned by Co-owners :** Where a property is owned by two or more persons jointly and their respective shares are definite and can be ascertained then income from such property shall not be assessed on such persons as association of persons, but the share of each person will be calculated and added to their respective total income.

v) **Income from sub-letting :** This is chargeable under the head other sources as the person sub-letting is not the owner.

8.5 ANNUAL VALUE

As stated earlier, the assessee has to pay tax on the annual value of the house owned by him. Therefore, it is very important to calculate properly the annual value of the property. According to Section **23** of Income Tax Act, 1961, the annual value of a house property shall be :

a) the sum for which the property might reasonably be expected to let from year to year; or

b) where the property is let and the actual rent received or receivable by the owner in respect thereof is in excess of the reasonable rent, the actual amount of rent received or receivable.

Any taxes levied by the local authorities and borne by the owner should be deducted to calculate the annual value of the property.

The above definition makes it clear that annual value of the any house property is its reasonable rent. But, if the actual rent is higher than the reasonable rent then the actual rent received or receivable will be the annual value. It must be noted here that annual value is not determined by actual or reasonable rent alone. In case the rent of house property is fixed by rent controller under the Rent Control Act. The annual value in such a case cannot exceed the rent fixed by the Rent Controller, In case the actual rent exceeds the rent fixed by the rent controller then the actual rent would. be the annual value. From the above discussion it is clear that annual value is determined by taking into account many factors. They are:

i) **Municipal valuation** fixed by the local authorities on the basis of income earning capacity of the property. It is fixed to calculate the house-tax to be paid by the owners.

ii) **Actual rent** received or receivable from the tenant.

iii) **Reasonable rent** i.e. the rent of similar properties in the same locality, and

iv) **Standard rent** the rent fixed by the Rent Controller under Rent Control Act. Where the Standard Rent is applicable reasonable rent and municipal value will not be taken into consideration even though they are higher than the standard rent.

Check Your Progress A

1) Who are the 'deemed owners' of house property ?

....

....

....

2) What is composite rent ?

....

....

....

3) Tick mark the correct answers.

   i) The liability to pay municipal taxes lies with

      a) owner

      b) tenant

      c) lease

   ii) The assessee should be

      a) beneficial owner

      b) mortgagee

      c) legal owner

   iii) Which of the following is treated as business income

      a) income from house let out for residential purposes

      b) income from a hall let out for entertainment

      c) income from houses let out to employees

   iv) Which of the following income from house property is totally exempt

      a) building of a co-operative society let out for storage of commodities

      b) own house property used for business

      c) income from accommodation given to a paying guest.

8.6 COMPUTATION OF ANNUAL VALUE

When a person owns a house he may occupy it himself or rent it out. The annual value of house property would be different for the house which is given on rent and which is occupied by the owner for his residential purposes. For the purposes of calculation of annual value house property is divided into the following categories:

1) House which is let out

2) House which is occupied by the owners for residential purposes

Let us now discuss each one of them in detail:

8.6.1 Let Out House

The house which is let out is divided into two categories :

(A) Which is not covered by Rent control Act.

(B) Which is covered by Rent Control Act.

(A) Which is not covered by the Rent Control Act

The actual rental income or the rent at which it might be expected to be let out or the municipal valuation, whichever is tbe highest, will be gross annual value. Any municipal taxes or tax levied by any local authority paid and borne by the owner shall be deducted from the gross annual value and the balance left will be the net annual value. The municipal taxes shall be deducted in the year in which they are actually paid, whether for current year only or for tile previous year and not on accrual basis. Look at Illustration 1 and see how the annual value of let out house which is not covered by the Rent Control Act is calculated.

Illustration 1

Mr. Ashok is the owner of a house (not covered under Went Control Act) which is let out at Rs. 1,500 per month. Municipal taxes of the house are Rs. 1,200 (being 10% of the municipal value) out of which Rs. 700 are paid by the tenant. The reasonable rent is Rs. 10,000 per annum. What will be annual value of the house?

Solution

Annual value is the highest of the following three less taxes borne by the owner:

			Rs.
i)	Actual rent	(1500×12)	18,000
ii)	Municipal value	$(1200 \times \frac{100}{10})$	12,000
iii)	Reasonable, rent		10,000

Annual value

	Rs.
Actual rent	18,000
Less municipal taxes borne by the owner (1200-700)	500
	17,500

(B) Which Is covered by the Rental Control Act

In this case standard rent is fixed by the Rent Controller. The annual value will be the actual rent received or standard rent, whichever is higher. It will be gross annual value. From the gross annual value any municipal taxes or tax levied by any local authority and paid and borne by the owner will be deducted and the balance left will be the net annual value. Look at Illustration.2 for calculation of annual value of a let out house covered under Rent Control Act:

Note : Even if the Municipal value or reasonable rent are higher than standard rent or actual rent, they will not be considered in this case.

Illustration 2

Mr. X is the owner of two houses (covered under the Rent Control Act) which are let at Rs. 1,000 p.m. and Rs. 1,500 p.m. Municipal taxes on these houses are paid by the owner which amount to Rs. 800 and Rs. 1,000 respectively (being 10% of municipal valuation). The Standard Rents fixed under the Rent Control Act are Rs. 14,000 and Rs. 16,000 per annual respectively. What will be their Annual Value?

Solution

Gross annual value is the highest of the following;

	First House Rs.	**Second House** Rs.
Rent received	12,000	18,000
Standard rent	14,000	16,000

Gross annual value of the first house will Rs. 14,000 and of the second house it will be Rs. 18,000.

Annual Value will be :

	First House Rs.	Second House Rs.
Gross annual value	14,000	18,000
Less Municipal taxes borne by the owner	800	1,000
	13,200	17,000

Thus annual value of first house is Rs. 13,200 and that of second house is Rs. 17,000.

Statutory Deduction

New houses or units, whose construction commenced after 1st April, 1961, and which are let out for residential purposes are further entitled-to statutory deduction from the annual value determined as above. This deduction is allowable for each independent unit of the house separately, as if each unit is a separate house. Each independent unit is that which has separate municipal number, separate electric and water metres and independent latrine; bathroom, kitchen etc. At present, the deduction is relevant for those houses which are completed after 31st March 1982. This deduction is allowed for a period of 60 months from the date of completion. The rate of deduction is as under :

i) In respect of any residential unit whose annual value as determined does not exceed Rs. 3,600, the amount of such annual value and

ii) in respect of any residential unit whose annual value as determined exceeds Rs. 3,600, an amount of Rs. 3,600.

Illustration 3 will help you understand the calculation of annual value after allowing the permissible amount of statutory deduction:

Illustration 3

From the following particulars compute the adjusted annual value of a house property for the assessment year 1990-91

1) Date of commencement of construction 10th July, 1987.
2) Date of completion of construction 1st May, 1989
3) Let out for the residential purpose on 1st June, 1989 at the rate of Rs. 600 per month. .
4) Municipal value of the property Rs. 6,000.
5) Annual municipal taxes paid Rs. 400.

Solution

	Rs.
Gross annual value (Municipal value or actual rent, whichever is more)	7,200
Less municipal taxes	400
Annual value	6,800
Less statutory deduction	3,600
Adjusted or net annual value	3,200

Hence, proportionate annual value for 10 months will be

$$= \frac{10 \times 3{,}200}{12} = \text{Rs. } 2{,}667.$$

8.6.2 Self-occupied House

The owner of house can

A occupy the house for full year

B occupy the house for a part of the previous year and for some part of the previous year it is let out

C occupy a part of the house for full year and a part for the part of the year (i.e. a part of the house is let out for a part of the previous year).

Let us now see how the, annual value of the house is calculated in the above mentioned three cases.

A i) **When** the house is self-occupied for the full **year**
The annual value of the house which is occupied by the owner for his residential purposes is nil.

ii) If a part of the house is self-occupied by the owner for full previous year and a part is let out for full previous year, the annual value shall be determined as under:

i) From the annual value of the full house the proportionate annual value for self-occupied part for whole year will be deducted;

ii) the balance left will be the annual value of the let out part for full year.

In case the property consists of more than one house in the occupation of the owner for the purpose of his own residence, the annual value in respect of one such house, which the assessee may choose, shall be taken as Nil. The annual value of the remaining self-occupied houses will be determined as if such houses had been let out. However, in respect these other self-occupied houses, which have been deemed to be let out, the statutory deduction will not be allowed.

B If the whole house is self-occupied by the owner for a part of the previous year and the whole house is let out for a part of the previous year, the annual value shall be determined as under:

i) First of all the annual value of the whole house shall be determined.

ii) Then the annual value for that period shall be deducted during which the house is self-occupied by the owner. .

iii) The balance left shall 'be the annual value of the house

Illustration 4 will help you to clearly understand the calculation of.the annual value of the house which is self-occupied for a part of the previous year and let out for the remaining part of the previous year.

Illustration 4

From the following information of Mr. A, compute the adjusted annual value of the let out period of the house for the Assessment Year 1990-91.

Municipal value	Rs. 20,000
Municipal tax paid	4,000

House was self-occupied for first six months and for the remaining six months it was let out at the rate of Rs. 2,000 p.m.

Solution

Gross annual value is highest of the following:

	Rs.
Municipal value	20,000
Actual rent (2,000 X 12)	24,000
Gross annual value	24,000
Less municipal taxes	4,000
Annual value	20,000
Less 112 of the annual value for self-occupied period	10,000
Adjusted annual value for let out period	10,000

C If a part of the house is let out for a part of the. previous year or a part of the house property is self-occupied by the owner for full year and a part is occupied by the owner for a part of the year (i.e. a part of the house is let out for a part of the previous year), the annual value shall. be determined as under:

i) First of all from the annual value of the full house, the proportionate annual value of the self-occupied part which is self-occupied for full year shall be deducted.

ii) From the balance the proportionate annual value for the period during which the remaining part was self-occupied shall be deducted.

iii) The balance left shall be the annual value for let out portion for the let out period.

Look at Illustration 5 for clear understanding of calculation of annual value of the above mentioned category of houses:

Illustration 5

From the following information of Mr. A, compute the adjusted annual value of the let out portion of the house for the Assessment Year 1990-91.

Municipal value	Rs. 30,000
Municipal tax paid	Rs. 6,000

House is self-occupied but is 1/4 of the house is let out @ Rs. 700 p.m. from 1.1.90

Solution

Calculation of Adjusted Annual Value:

		RS.
Gross annual value		33,600
Municipal value	30,000	
Actual Rent		
(700 × 4 x 12)	33,600	
Less municipal taxes		6,000
		27,600
Less 314 of the annual value for self-occupied portion for full year		20,700
Annual value of 1/4 of the house for full year		6,900
Less 3/4 (ie. $\frac{9}{12}$ of 6,900 for self-occupied portion of the house for mine months		5,175
Part of the house is let out for 3 months		1,725

Adjusted annual value of part of the house for part of the previous year.

Note : If the house is newly constructed and is let out for residential purposes during the year, statutory deduction will be allowed as per rules for five years from the date of construction. Such a deduction will be allowed only when the let out portion is an independent unit.

Self-occupied house remaining vacant

If the owner for some reason is not able to stay in the house then the annual value of such self-occupied vacant house would be nil provided the house is not let out and no other benefit is derived from it by the owner in the previous year.

8.7 DEDUCTIONS FROM ANNUAL VALUE

For computing the income chargeable under the head 'Income from House Property', Section 24 provides for the following deductions to be made from the adjusted annual value of house property apart from the deductions regarding local taxes and statutory allowance. They are :

1) **Repairs**

a) Where the property is let to a tenant or is deemed to be let out and the owner has undertaken to bear the cost of repairs a sum equal to 116th of adjusted annual value shall be deducted as Repairs Allowance. It is a .statutory allowance which is always allowed irrespective of the fact, whether the actual expenditure on repairs is less than or is more than 116th of annual value, or whether no amount is spent on repairs or even if the house remained vacant throughout the previous year.

b) Where the property is in the occupation of a tenant who has undertaken to bear the cost of repairs, the repair allowance shall be limited to either:

   i) the excess of annual value over the amount of rent payable for a year by the tenant; or

   ii) a sum equal to 116th of the annual value, whichever is less.

Note : If adjusted annual value is less than or equal to actual **rent** payable **during** the year, no deduction is allowed in respect of repairs in that year.

Look at Illustration 6 and see how deductions in respect of repairs are made from annual value to calculate income from house property.

Illustration 6

Mr. Ramesh owns a house, whose municipal valuation is Rs. 10,000 p.a. The house is let out at a monthly rent of Rs. 8,200 p.a. to Suresh who undertakes the cost of repairs. Local taxes of Rs. 600 are paid by Mr. Ramesh. Compute the income from house property.

Solution

			Rs.
Gross annual value			10,000
Municipal value	Rs. 10,000		
Actual rent	Rs. 8,200		
(whichever is higher)			
Less municipal taxes			600
Annual value			9,400
Less allowance for repairs, least of the following two			
i) 1/6 of Rs. 9,600		1600	
ii) Annual value	9600		
Less actual rent paid	8200	'1400	1,400
Income from house property			8,000

2) Insurance Premium

   Any insurance premium paid on house property against the risk of damage or destruction through any cause, e.g., fire, earthquake, lightening and so on. It is only the actual premium paid that can be claimed as deduction.

3) Annual Charge

   If there is an annual charge on the property it is an allowable deduction; but such charge should be legally enforceable and should neither be created, by the assessee voluntarily nor it should be in the nature of capital charge. Thus a revenue annual charge is allowable as deduction only if it has not been created by the assessee voluntarily. It does not include any tax in respect of the property.

4) Ground Rent

   The owner of a building may be lessee of the land on which the building is erected. Any ground rent payable in respect of the lease of that land is allowable as a deduction on accrual basis. No deduction is allowed for interest on enhanced ground rent but any additional ground rent paid to regularise the unauthorised use of building is allowed.

5) Interest on Loan Taken in Respect of House Property

   Interest on loan taken for the purpose of purchasing, constructing, reconstructing or repairing the house property is allowable as a deduction on accrual basis. It is not necessary, for the purpose, that the loan so borrowed or the interest payable thereon is secured by a charge on property.

Explanation : Interest payable in respect of funds borrowed for the acquisition or construction of house property and pertaining to the period prior to the previous year in which such property has been acquired or constructed, shall be deducted in five equal annual instalments commencing from the previous year in which the house was acquired or constructed.

Illustration 7

Interest on loan of Rs. 40,000 taken on 1.4.1986 at the rate of 10% p.a. to construct a house is Rs. 4,000 for the previous year 1989-90, when the construction of the house was completed. Interest for the preceding three years was also paid but not claimed as deduction.

Compute for the assessment year 1990-91 the amount of interest deductible in computing the income from house property if the house is (i) let out, and (ii) self-occupied.

Solution

	Rs.	Rs.
i) Interest for P.Y. 1989-90	4,000	
Interest for three years prior to the current previous year (during which the construction of the house is completed) Rs. 12,000 deductible In five equal instalments.	2,400	6,400
ii) If the house isself-occupied the deduction shall be allowed to the extent of Rs. 5,000 only.		

6) **Land Revenue and Property Tax**

Any sum paid on account of land revenue or any other tax levied by the State Government in respect of the property is deductible.

7) **Collection Charges**

Any sum spent to collect the rent from the property, not exceeding 6% of adjusted annual value of the property, is allowed as deduction. It includes (i) legal expenses incurred to collect the rent, (ii) salary paid to an employee to collect the rent, (iii) conveyance charges incurred to collect the rent, (iv) postal charges incurred to collect the rent, (v) bank commission to collect the rent.

8) **Vacancy Allowance**

When the property is let and remains vacant during a part of the year, the part of the adjusted annual value which is proportionate to the period during which the property is wholly unoccupied will be deducted as 'vacancy allowance'. Where the property is let out in parts, and any part of it remains vacant for a part of the previous year, that portion of the adjusted annual value appropriate of any vacant part, which is proportionate to the period during which such part remains vacant will be deducted as 'Vacancy Allowance'. Where the property remains vacant for full year, no vacancy allowance will be available.

Example

Annual value of the house is Rs. 80,000 and Adjusted Annual Value is Rs. 60,000. A portion of the house fetching rent Rs. 2,000 p.m. remain vacant for 4 months during the previous year, the vacancy allowance would be computed as follows:

In this case, vacancy allowance shall be computed as under:

$$\frac{\textbf{Rent p.m.} \times \textbf{Vacancy period} \times \textbf{Adjusted Annual Value of the house}}{\textbf{Annual value of the house}}$$

or $\frac{2{,}000 \times 4 \times 60{,}000}{80{,}000} = \text{Rs. } 6{,}000.$

9) **Unrealised Rent**

If the assessee is unable to recover the entire amount of rent due from his tenant in respect of house property let out to him, the unrealised amount of rent shall be deducted from the adjusted annual value of that house, provided that it fulfils the following conditions:

i) the tenancy is bonafide;

ii) the defaulting tenant has vacated or legal steps have been taken to compel him to vacate the property;

iii) the defaulting tenant is not in occupation of any other property of the assessee;

iv) the assessee has taken all reasonable steps of instituting legal proceedings for the recovery of the unpaid rent or satisfies the Assessing Officer that legal proceedings would be useless; and

v) the annual value of the property to which the unpaid rent relates has been included in the assessed income of the previous year during which the rent was due and tax has been duly paid on such assessed income. This is subject to the limit that deduction to be allowed on this account shall not exceed the income under the head 'Income from House Property' included in the total income as computed without making this deduction. Unrealised rent would be deductible from the income from house property in each assessment year till such deduction is exhausted. From the assessment year 1987-88 no deduction will be allowed in respect of self-occupied property where annual value is nil or in respect of the property which cannot be occupied and whose annual value is nil. However, this prohibition will not hit the deduction of interest on capital borrowed for construction, repairs etc. of self-occupied property if the amount of interest does not exceed Rs. 5,0001-.

8.8 COMPUTATION OF TAXABLE INCOME FROM HOUSE PROPERTY

Computation of income fram house property is done in the following proforma:

Fair Rental Value of the house : (Actual rent or Municipal value, whichever is higher, or if Rent Control Act is applicable on the house, Standard Rent or Actual Rent, whicli is higher)		....
Less i) Local Taxes paid by the owner	....	
ii) Cost of other facilities provided by the owner to the tenant, such as lift, chowkidar etc.	....	
Annual Value		....
Less Statutory Deduction for 5 years (In case of newly built house after 31.3.1982 and let out for residential purposes)		....
Adjusted Annual Value		....
Less Deductions:		
i) Repairs Allowance	....	
ii) Insurance Premium Paid	....	
iii) Annual Charge	....	
iv) Ground Rent	....	
v) Interest on Loan taken in respect of house property	....	
vi) Land Revenue paid	....	
vii) Collection Charges paid (restricted to 6% of A.A.V.)	....	
viii) Vacancy Allowance	....	

ix) Unrealised Rent	....	....
Taxable Income from House Property		Rs. ....

Look at Illustrations 8, 9 and 10 and see how Income from House Property is computed.

Illustration 8

Mr. X owns four houses, the details regarding which are as follows:

1) The first house of the annual rental value of Rs. 10,000 was occupied by him for his residence. This house was constructed by a loan, Rs. 7,000 is the interest paid during the year on the same.

2) The second house of the annual rental value of Rs. 10,000 was let out for Rs. 12,000 per annum. He claims the following expenses in addition to the statutory allowance for repairs, viz., Rs. 100 for Fire Insurance Premium, Rs. 24 for Ground Rent and Rs. 1,000 for collection charges.

3) The third house of the municipal valuation of Rs. 6,000, was let out at Rs. 600 p.m. A loan was taken on 1st April 1985 for the construction of the third house, the construction of which began on 1st May 1985 and ended on 31st January 1987. The house was let out on 1st February 1987. For the previous year 1989-90 the interest paid by him in respect of the loan amounted to Rs. 800 and for the previous years 1985-86 to 1988-89 the interest paid has been Rs. 1,500, Rs. 1,400, Rs. 1,200 and Rs. 1,000 respectively. Municipal taxes were paid @ 10% of municipal valuation.

4) The fourth house, the municipal valuation of which is Rs. 6,000 was let out at Rs. 600 p.m. It remained vacant for 4 months. The unrealised rent in respect of this house for past years was Rs. 10,000 which satisfies all conditions for its allowance.

Find out the taxable income from house property for the assessment year 1990-91.

Solution

Computation of Taxable Income from House Property
For the Assessment Year 1990-91

1) First House			
Annual value of self-occupied house		Nil	Rs.
Less Interest on loan upto Rs. 5,000		5,000	
Loss from the house.........			–5,000
2) Annual value of the second house..............		12,000	
Less 1/6th for Repairs	2,000		
Fire Insurance Premium	100		
Ground Rent	24		
Collection charges restricted to 6% of A.V.	720	2,844	9,156
3) Annual value of the third house		7,200	
Less Municipal taxes (10% of 6,000)		600	
		6,600	
Less Statutory Deduction		3,600	
Adjusted annual value..............		3,000	
Less Deductions:			
1/6th for Repairs	500		
Interest on loan for P.Y. 1989-90	800		
115th of interest on loan paid in 1985-86 (P.Y.)	300	1,600	1,400
4) Annual value of the fourth house		7,200	
Less Deductions:			
1/6th for Repairs	1,200		
Vacancy Allowance	2,400		

Unrealised Rent	9,156	12,756	
		Loss from the fourth house	−5,556
Taxable Income from House Property........................			Nil

Notes

1) In respeci of the third house, interest on loan paid in the previous years prior to construction of the house is allowable in five equal annual instalments commencing from the year in which the house is constructed. Here the house was constructed in the P.Y. 1986-87, so the interest for the P.Y. 1985-86 will be allowable in five equal annual instalments commencing from the P.Y. 1986-87 or Assessment Year 1987-88. For the A.Y. 1990-91 fourth instalment of Rs. 300 has been deducted. The interest for P.Y. 1986-87 to 1988-89 would have been allowed fully in the respective Assessment Years.

2) The unrealised rent in respect of the fourth house is Ks. 10,000, but the taxable income under the head 'House Property' before making deduction for unrealised rent is (9,156 + 1,400 + 3,600 − 5,000) = 9,156. Hence, deduction in this respect is allowed to the extent of Rs. 9,156 only.

Illustration 9

Mr. X owns a house at Kanpur (Municipal value Rs. 20,000) of the fair rent of Rs. 24,000 p.a. During the previous year 1989-90 the house is used by him for his own residence from 1st April 1989 to 30th June 1989 and let out for residential purposes on 1st July 1989 @ Rs. 2,500 p.m. I-Ie makes the following expenditure in respect of the house property.

Municipal taxes Rs. 6,000, Repairs Rs. 2,000, Fire Insurance Premium Rs. 3,500, Land Revenue, Rs. 4,000 and Ground Rent Rs. 2,000 were paid during the year. A loan of Rs. 30,000 was taken on 1st April 1986 @ 15% p.a. for the construction of the house which was completed on 1st April 1989. Nothing was repaid on loan account so far. Find out his taxable income from house property for the Assessment Year 1990-91

Solution

			Rs.
Fair Rent being based on actual rent (Rs. 2,500 × 12)			30,000
Less Municipal Taxes			6,000
Annual value			24,000
Less annual value for self-occupied period (114 of 24,000)			6,000
Net annual value			18,000
Less statutory deduction for 9 months			2,700
Net Adjusted annual value			15,300
Less Deductions:			
116th for Repairs		2,550	
Fire Insurance Premium		3,500	
Land Revenue		4,000	
Ground Rent		2,000	
Interest on Loan for P.Y. 1989-90	4,500		
Add: 115th of interest on loan paid for P.Y. prior to construction, i.e. Rs. 4,500 per year for 3 years, i.e. 1/5th of Rs. 13,500	2,700		
	7,200	7,200	
		19,250	
Amount deductible cannot exceed Rs. 15,300 u/s 24(3)............			15,300
Taxable Income from House Property			Nil

Illustration 10

Assume in illustration 8 that:

a) three-fourth portion of the house is self-occupied for full year; and

b) one-fourth portion of the house is let out for residential purposes from 1st April 1989 to 31st December 1989 on a rent of Rs. 700 p.m. and from 1st January 2990 it was again used for his own residence.

Find out his taxable income from Rouse Property for the Assessment Year 1990-91.

Solution

		Rs.
Fair rent being based on actual rent (700×4×12)		33,600
Less municipal taxes		6,000
		27,600
Less annual value of 314 portion which is self-occupied		20,700
Annual value of 114 portion............		6,900
Less annual value for 3 months during which 114 portion is self-occupied		1,725
Annual value of 114 portion let out for 9 months		5,175
Less statutory deduction @ Rs. 3,600 p.a. for 9 months		2,700
Net adjusted annual value u/s 23(2)(a)(ii)		2,475
Less **Deductions:**		
116th for Repairs	412	
Fire Insurance Premium	3,500	
Land Revenue	4,000	
Ground Rent	2,000	
Interest on loan as determined in the preceding illustration	7,200	
	17,112	
Amount deductible not to exceed Rs. 2,475 uls 24(3).............		2,475
Income from House Property...............		Nil

Check Your Progress b

1) A is owner of a house (covered under Rent Control Act). He lets out his house to B at Rs. 8,000 per annum. Rent Controller fixes the standard rent at Rs. 9,600. However the municipal value of the house is Rs. 10,000. A pays Rs. 800 as local taxes. What is the annual value of the house ?

....

....

....

2) How do you calculate the annual value when the part of a house is let out for a part of the previous year.

....

....

....

3) The annual value of a house is Rs. 8,400 and it is let out at an actual rent of Rs. 9,600. What is the amount of deduction available for repairs.

....

....

....

8.9 LET US SUM UP

Income from house property is second major head of income. Income frorn house property is the annual value of any property which consists of building and land appartment thereto, is owned by the assessee and is not used for assessee's business or profession.

Annual value of the property is not the rent received but the reasonable rent, but where actual rent is higher than the reasonable rent the annual value is the actual rent received as reduced by the inunicipal taxes borne by the owner of the house.

For the purposes of computation of annual value the house property is divided into two:

i) Let out house
ii) Self-occupied house.

A house which is let out can either be under Rent Control Act or not. When it is not under Rent Control Act the annual value is actual rent, reasonable rent or municipal value whichever is higher as reduced by municipal taxes paid by the owner. When it is under Rent Control Act the annual value is actual rent or standard rent (as fixed by rent contoller) whichever is higher as reduced by municipal taxes paid by the owner.

A self-occupied house can be divided into:

i) Self-occupied house for full year–annual value is nil.

ii) Part of the house is self-occupied and a part is let out for full year–annual value is calculated as:
Annual value of the full house for full year less annual value of self-occupied house foir full year.

iii) Full house self-occupied for a part of year and let out for the remaining part of the year. Then, annual value is calculated as follows.

Annual value of full house for full year. Less annual value of full house for the period for which it is self-occupied.

iv) A part of the house is let out for a part of the previous year, then the annual, value is:
Annual value of full house for full year
Less proportionate annual value of self occupied part for full year.

Less proportionate annual value of self-occupied portion for part of these year.

Statutory deduction is allowed on all the houses newly constructed for five years from the date of completion @ Rs. 3,600 on each independent unit let out. Annual value as reduced by statutory deduction is called adjusted annual value.

Certain deductions are allowed from adjusted annual value to compute income from house property. They are repairs @ 1/6th of adjusted annual value or excess of annual value over rent payable, whichever is less; insurance premium paid; annual charge on property; ground rent, interest on loan taken for construction, purchase, repairs etc. of house; land revenue and property tax; collection charges; vacancy allowance and unrealised rent. After allowing all these deductions from adjusted annual value the resulting figure would be the taxable income from house property.

8.10 KEY WORDS

Annual Value : Annual value of a house property is reasonable rent or actual rent (if let out) whichever is higher as reduced by municipal taxes borne by the owner.

Composite Rent : When the building is let out alongwith certain facilities e.g. lift, electricity etc. then the rent includes the rent for the house and these facilities. Such a rent is called composite rent.

Ground Rent : Rent paid by the lessee on the land on which his building is erected:

Municipal Value : Value of the property fixed by local authorities on the basis of its income earning capacity.

Reasonable Rent : Rent of similar properties in the same locality.

self-occupied House : House occupied by the owner of the property for his residential purposes.

Standard Rent : Rent fixed by the Rent Controller under Rent Control Act.

Statutory Deduction : Deduction available to newly constructed houses for five years from the date of completion.

Unrealised Rent : Rent not recoverable by the owner;

8.11 ANSWERS TO CHECK YOUR PROGRESS

A 3 i) a   ii) c   iii) c   iv) b

B 1 Rs. 8,800

3 Rs. 1,400

8.12 TERMINAL QUESTIONS/EXERCISES

Questions

1) Define annual value and state the deductions that are allowed from the annual value in computing the income from house property.
2) Write short notes :
   a) Vacancy Allowance
   b) Unrealised Rent
   c) 'Repair Allowance
   d) Income from House Property in foreign country
   e) Standard Rent.
3) How would you determine the annual value of house property, which is self-occupied for a part of the year only and let out for the remaining part.

Exercises

1) Mr. X owns house property. Its annual letting value is Rs. 8,000. During the previous year it was let out to a tenant on monthly rent of Rs. 600. He claimed the following expenses actually incurred by him:
   i) Municipal taxes Rs. 800.
   ii) Expenses for the recovery of rent Rs. 600.
   iii) Maintenance allowance paid to the step-mother Rs. 1,000 annually which was a charge on the property according to his father's will.

   The house remained vacant for one month during the previous year. Find out the income from house property for the assessment year 1990-91.
   (Answer : Rs. 3,968)

2) Mr. A owns a house which is let out for residential purposes. The construction of the house was completed in June 1986. The annual letting value of the house is Rs. 8,400. Municipal taxes paid Rs. 1,200. He spent Rs. 200 on repairs. On 1.4.1984 he had borrowed Rs. 30,000 on pro-note at 12% interest and spent it on the construction of the house. Nothing has been repaid out of this loan so far. Mr. A earns salary of Rs. 2,400 p.m. He has a scooter for going to office and spends for petrol etc. on an average Rs. 100 per month. Compute his income from house property and also his total income for the assessment year 1990-91.

   (Answer : Property Loss Rs. 2,040; Net Salary Rs. 19,200; Total Income Rs. 17,160.)

3) An assessee owns three house properties of which he used one (No. III) for his residence. The following are the particulars in respect of the p operties for the year ended 31st March, 1990:

	I	II	III
When constructed	1953	March 1985	1968
	Rs.	Rs.	Rs.
Standard Rent	13,000	5,000	—

Municipal Value	12,000,	'4,000	10,000
Rent Received	14,000	4,800	—
Municipal Tax Paid	1,500	500	500
How used	Let out for business	Let out for residence	Self-occupied
Repairs	600	200	—
Interest on mortgage (Loan not taken for house property)	—	500	—
Ground Rent	50	30	—
Fire Insurance Premium	70	—	—
Vacancy	3 months	—	—
Collection charges	850	50	—

The assessee's total income from other sources is Rs. 20,000. Compute the total income of the assessee.

(Answer : Property I Rs. 6,422; Property **II** Rs. 670; Property **III** Nil; Total Income Rs. 23,092 or Rs. 27,090)

4) Mr. A has the following properties:
   1) Flat in Bombay purchased on 1st June, 1989, which is let out on a monthly rent of Rs. 2,000. The building in which the flat is located was completed in May 1989. The flat was let out from 1st August, 1989.
   2) Flat in Delhi constructed in 1985 which is self-occupied.
   3) Godown in Calcutta constructed in 1985 which is let out on a monthly rent of Rs. 6,000.

   The expenses actually incurred during the year against rental income are:

	At Bombay Rs.	At Delhi Rs.	At Calcutta Rs.
Municipal Taxes Paid	5,000	8,000	18,000
Building Co-operative Maintenance Charges	1,000	900	—
Electricity Charges	—	1,200	4,800
Fire Insurance Premium	—	—	600
Collection Charges	700	—	5,400
Repairs	20	1,900	11,000

   The following further information is given:
   1) The flat in Delhi is let out for godown w.e.f. 1.1.1990 which fetches a monthly rent of Rs. 4,000.
   2) Mr. A received a consolidated salary of Rs. 1,500 per month during the year from a part-time employment which he holds. Compute Mr. A's gross total income for the year ended on 31.3.1990.

   (Answer : Bombay Flat Rs. 6,900; Calcutta Godown Rs. 41,160; Delhi Flat Rs: 8,333; Salary Rs. 12,000; Gross Total Income Rs. 68,393.)

5) Mr. P. owns a house at Kanpur (Municipal value Rs. 30,000) of the fair rent of Rs. 36,000 p.a. During the previous year 1989-90 the house is let out for residential purposes on a monthly rent of Rs. 4,000 from 1st April 1989 to 30th June 1989 and self-occupied for residential purposes for the remaining part of the year 1989-90. Municipal taxes Rs. 6,000, Fire Insurance Premium Rs. 3,000, Land Revenue Rs. 3,000 and Collection Charges Rs. 600 were paid during the year. A loan of Rs. 50,000 was taken on 1st April 1986 @ 10% p.a. for the construction of the house which was completed on 1st January '89. Rs. 10,000 was paid towards the loan account on 1st April 1988.. Find out his taxable income from house property for the Assessment Year 1990-91.
   (Answer : Taxable Income from House Property Nil)

6) Assume in Exercise 5 that:
   a) two-third portion of the house is self-occupied. and

b) .ope-third portion of the house is let out for residential purposes from 1st April 1989 to 30th November 1989 on a rent of Rs. 1,500 p.m. and from 1st December 1989 it was again self-occupied.

Find out his taxable income from house property for the Assessment Year 1990-91.

(**Answer** : Taxable Income from House Property Nil)

Note : These questions **will** help you to understand the unit better. Try to write answers for them. But do not submit your answers to the University. These are for your practice only.