UNIT8 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 incomes 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 Section 23 to 27. According to Section 22 of Income Tax Act, under the head "Income from House Property", income is charged on the houses or attached land of which assessee is the owner. Tax is charged on the annual value of the property, but that portion of the property is left out which is used by the assessee for the operation of some business or profession on which income tax is paid. The taxable income from house property is not the income 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 assessee, 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 property is chargeable under the head 'income from house property'. The word 'building' has not been defined in Income Tax Act, 1961. Building as defined in different leading cases of courts, means a place surrounded by walls, even if they may be mud walls. Existence of roof is not necessary to be regarded as building, for example, a stadium, open air swimming pool, dancing house etc. But a residential house without a roof and without doors cannot be regarded as building. Land attached to building means, in case of residential building, the way to the house, chowk, gallery, kitchen-garden, playground, garage and a place for keeping animals etc. 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 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. Tax on foreign building is chargeable from residents only i.e. income from such building is not chargeable to tax from not ordinary residents and non-residents. 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, but taxable under profit and gains from business or profession.

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 (CITUS National news print and paper mills (1978)114ITR388).

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 (Mannohar Singh Vs. CIT (1965) 58 ITR 592).

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 Assessee should be the Owner of the House Property

It is only the owner of the house property, who is liable to pay tax, under the head 'Income from house property'. Ownership means the legal ownership and not beneficial ownership. It is not necessary that the owner of a house must also be the owner of land on which the house is constructed. If there is any controversy about the ownership of property, the person who receives rent or the person who possesses the property, will be supposed to be owner of that house. Any income derived by the assessee by way of sub-letting the property will be taxable under the head 'Income from other sources' and not under the head 'Income from house property'. 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: According to Section 27 of Income Tax Act, 1961, the following persons are treated as deemed owner of the house property:

a) An individual who transfers any house property to his or her spouse, without adequate consideration or 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 [Section 27 (i)].

b) The holder of an impartible estate shall be deemed to be owner of the house property, for all properties of the estate [Section 27 (ii)].

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 [Section 27 (iii)].

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, shall be deemed to be the owner of that building or part thereof [Section 27 (iii) (a)].

e) A person who acquires any rights (excluding any right by way of a lease from month to month or for a period not exceeding one year u/s 269 UA(f) in or with respect to any building or part thereof, shall be deemed to be the owner of that building or part thereof. (Sec. 269 UA(f) Prescribes 12 year lease [Section 27 (iii) (b)].

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

8.2.4 The House Property should not be used for Assessee's Business or Profession

If a property or part of the property is used by the assessee for his business or profession and income from such business or profession is chargeable to tax, the annual value of such property or part of the property will not be taxed under section 22 i.e., Income from house property.

8.3 EXEMPTED INCOMES FROM HOUSE PROPERTY

i) Building situated in the immediate vicinity of agricultural land, and occupied by the cultivator as a dwelling house or as a store house is treated as agriculture income and is fully exempt.

ii) Annual value of any one palace in the occupation of an Ex-Indian Ruler.

iii) House properties belonging to a local authority, scientific research association, University or other recognized 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 provides 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.

8.4 SOME IMPORTANT POINTS

i) **Income from house property situated abroad**: Income from any house property situated abroad is taxable only in case of residents. Not ordinary residents and non-residents 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, Gas, Air conditioning, water, Lift, Watch and Ward etc.) for a composite rent and if the rent of the building can be separated from the rent of such facilities, rent 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 composite 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 (Section 26)**: Where a property is owned by two or more persons jointly and their respective shares are definite and ascertainable, 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 of the property.

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 the annual value of the property. According to Section 23(1) (a) 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.

Note: 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 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/Fair 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?

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2) What is composite rent?

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3) What is standard rent? How is it different from reasonable rent?

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4) Tick mark the correct answers.

   i) The liability to pay municipal taxes lies with

      a) Owner
      b) Tenant
      c) Leasee

   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 incomesfrom house property is not charged to tax?

      a) Income from staff flatsallotted to employees
      b) Own house property used for business
      c) Income from accommodation given to a paying guest.

   v) For income-tax purposes, the house means

      a) Dwelling house
      b) Godown
      c) Building for office use
      d) All of the above

8.6 COMPUTATION OF ANNUAL VALUE

When a person owns a house, he may occupy it for his residence or let it out for rent. 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 purpose 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 following categories:

a) Which is not covered by Rent Control Act.
b) Which is covered by the Rent Control Act.
c) Let-out house which remains vacant for whole or any part of the previous year.
d) Let-out house which does not remain vacant during any part of the year but there is unrealised rent.
e) Let-out house, which remains vacant during a part of the previous year and there is unrealised rent.

a) Calculation of annual value which is not covered by the Rent Control Act

(1) The actual rental income or the rent at which it might be expected to be let out or the municipal valuation, whichever is the highest, will be 'Gross Annual Value'. (2) Any municipal taxes paid and borne by the owner shall be deducted from the gross annual value and the balance left will be the 'Net Annual Value'. (3) The municipal taxes shall be deducted in the year in which they are actually paid, whether municipal taxes belong to any financial year.

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 Rent 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 taxes borne by the owner:

			Rs.
i)	Actual rent	(1,500 × 12)	18,000
ii)	Municipal value	(1,200×100 ÷10)	12,000
iii)	Reasonable rent		10,000
Annual value			
Actual rent			18,000
Less: Municipal taxes borne by the owner			
(1,200-700)			500
NetAnnual Value			**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 paid 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 is 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. Fair rent of these two houses is Rs. 13,000 and Rs. 14,000 respectively. What will be their Annual Value?

Solution:

House 1

1st Step

$$\left.\begin{array}{l}\text{Annual Rent = Rs 12,000}\\ \text{Fair rent = Rs 13,000}\\ \text{Municipal Value = Rs 8,000}\end{array}\right\} \quad \text{Highest Value .i.e. Rs 13,000}$$

2nd step

Actual Rent = Rs 12,000
Standard Rent =Rs 14,000 } Highest Value .i.e. Rs 14,000

Lowest value will be GAV i.e. Rs 13,000

House 2

1st step

Annual Rent = Rs 18,000
Fair rent = Rs 10,000
Municipal Value = Rs 14,000 } Highest Value .i.e. Rs 18,000

2nd step

Actual Rent = Rs 18,000
Standard Rent =Rs 16,000 } Highest Value .i.e. Rs 18,000

LowestValue will be GAV i.e. Rs 18,000

Note:

In order to arrive at GAV of the house, we should take the highest value of 1st step, and 2nd step which is Rs. 13,000 and Rs. 14,000 in case of 1st house and Rs. 18,000 for 1st and 2nd step for 2nd house.

After arriving at highest value of 1st step and 2nd step, we must take lowest value among the two highest values calculated above. Now, this lowest value of highest values will be the GAV of house. Now, afterarriving the GAV of the house if we subtract the municipal tax paid by the land lord we shall arrive at Annual value of house.

c) **Let-out house which remains vacant for whole or any part of the previous year:**

   a) House remains vacant for full year: In such a case, gross annual value will be'nil'.

   b) House remains vacant for a part of the previous year:

      i) If the actual rent for the let-out period is more than the expected rent, the actual rent will be the gross annual value;

      ii) If the actual rent for the let-out period is less than the expected rent owing to such vacancy, the actual rent will be the gross annual value.

Illustration 3

Determine the Annual Value of house of Mr. Parmod for the A.Y. 2023-24

Municipal value Rs. 70,000

House let-out @Rs. 8,000 p.m

Municipal tax paid by landlord Rs. 7,000 (10% of M.V.)

Fair rent Rs. 80,000

House remained vacant for 2 months

Solution:

Computation of A.V. of house of Mr. Parmod for the A.Y. 2023-24

	Rs.	Rs.
Actual rent for 10-months	80,000	
M. value	70,000	
Fair rent	80,000	
Gross annual value		80,000
Less: Municipal tax paid		7,000
Net Annual value		**73,000**

d) Let-out house, which does not remain vacant during any part of the previous year but there is unrealised rent

Gross annual value shall be the expected rent or actual rent, whichever is higher. From the gross annual value, taxes actually paid by the landlord and unrealised rent will be deducted to reach at annual value.

> Gross Annual Value = Higher of Expected rent or Actual rent
>
> Net Annual Value = Gross Annual Value – Actual taxed paid by landlord and unrealised Rent

Illustration 4

Determine the annual value of house of Mr. Subhash for the A.Y. 2023-24

	Rs.
Municipal value	1,50,000
Fairrent	1, 70,000
Actual rent per month	15,000
Municipal tax paid by landlord 10% of M.V.	
Unrealised rent	25,000.

Solution:

Computation of A.V. of house of Mr. Subhash for the A.Y. 2023-24

	Rs.	Rs
a) Municipal value	1,50,000	
b) Actual rent	1,80,000	
c) Fair rent	1,70,000	
Gross annual value (being highest)		1,80,000
Less: Municipal tax paid by landlord	15,000	
Unrealised rent	25,000	40,000
Net Annual value		**1, 40,000**

Note:

Gross Annual Value = Higher of Actual Rent Received or Expected Rent

Expected Rent = Higher of Municipal Value or Fair Rental Value but restricted to the Standard Rent

e) **Let-out house, which remains vacant during a part of the previous year and there is unrealised rent**

Gross annual value of such house will be calculated as discussed in (a). From the gross annual value, taxes actually paid by the landlord and amount of unrealised rent will be subtracted to reach at annual value.

Treatment of Unrealised Rent [Section 23(1)]

The actual rent received shall not include the amount of rent which the owner cannot realise, subject to the rules made in this behalf.

Rules for Unrealised Rent

The amount of rent which the owner cannot realize shall be equal to the amount of rent payable but not paid by a tenant of the assessee and so proved to be lost and irrecoverable where:

i) The tenancy is bonafide;

ii) The defaulting tenant has vacated, or 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 to institute legal proceedings for the recovery of the unpaid rent or satisfies the assessing officer that legal proceedings would be useless.

Illustration 5

Determine the annual value of house of Mr. Varun for the A.Y. 2023-24

	Rs.
Municipal value	2,00,000
Fair rent	1,80,000
Actual rent (per month)	25,000

House remained vacant for two months during the P.Y. Unrealised rent Rs. 40,000. Municipal tax paid by the landlord Rs. 20,000.

Solution:

Computation of A.V. of the house of Mr. Varun for the A.Y. 2023-24

	Rs.	Rs.
a) Municipal value		2,00,000
b) Actual rent (Rs. 25,000 × 10)	2,50,000	
c) Fair rent		1,80,000
Gross annual value (being highest)		2,50,000
Less: Municipal tax paid by landlord	20,000	
Unrealised Rent	40,000	60,000
Annual value		**1,90,000**

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 the remaining of the previous year it is let out

C) Occupy a part of the house for full year and a part of the house 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) When the house is self-occupied for the full year

i) 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 the remaining part is let out for full previous year, the annual value shall be determined as under:

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

   b) 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 oftwo such houses, 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.

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 6 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 6

From the following information of Mr. A, compute the adjusted annual value of the let out period of the house for the Assessment Year 2023-24.

	Rs.
Municipal value	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 (2,000×6)	12,000
Gross annual value (being highest)	20,000
Less: Municipal taxes	4,000
Annual value	**16,000**

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

Look at Illustration 7 for clear understanding of calculation of annual value of the above-mentioned category of houses:

Illustration 7

Mr Ajay Kumar has a house property in Allahabad whose Municipal Valuation is Rs 2, 00,000. Its fair rental value is Rs 2,40,000. This property was self-occupied by Mr Ajay Kumar from 01/04/2022 to 31/07/2022 w.e.f 1/08/2022, it was let out at Rs 14,500 per month. Compute the annual value of the house property for the AY 2023-24, if Mr Ajay Kumar has paid the municipal taxes Rs 20,000 on 28/02/2023.These taxes include Rs 5,000 of PY immediately preceding the PY.

Solution:

Computation of Annual Value for AY 2023-24 of Mr. Ajay Kumar

The gross annual value of the house property shall be higher of the following three amounts:

	Rs.
a. Municipal valuation	2,00,000
b. Fair Rent	2,40,000
c. Actual rent received for let out period (Rs 14,500 × 8)	1,16,000
Gross Annual Value	2, 40,000
Less: Municipal taxes	20,000
Net Annual Value	**2, 20,000**

Note: Municipal Taxes may relate to any previous year, if these are paid actually in the PY, these shall be deducted from GAV.

8.7 DEDUCTIONS FROM ANNUAL VALUE

For computing the income chargeable under the head 'Income from House Property', following deductions shall be allowed from its annual value under Section 24.

1) An amount equal to 30% of annual value as standard deduction for expenses.

2) Interest on loan taken for the purpose of purchasing, construction, repair and renovation of house property is allowed as deduction even on accrual basis. Interest on unpaid interest will not be allowed as deduction. However, interest on a fresh loan raised merely to repay the original amount of loan taken for the above mentioned purpose will be allowed as deduction. If the landlord has paid any amount as brokerage or commission for raising the loan, it will not be allowed as deduction.

Interest for pre-acquisition or pre-construction period: Interest payable in respect of funds raised for the acquisition or construction of the house property which belongs to the period prior to the previous year in which such property has been constructed or acquired shall be allowed in five equal annual installments starting from the previous year in which the house was acquired or constructed. This deduction shall be allowed in addition to the interest of the current year, i.e. the interest allowable shall be the interest for the current year plus one fifth of the total interest for the previous year prior to the year in which the house is acquired or constructed. Maximum limit for the deduction of interest will be Rs. 30,000 where the loan is acquired on or before 31.3.99 and if it is acquired after 31.3.99, the maximum limit shall be Rs. 2, 00,000. The acquisition or construction should be completed within 5years from the end of the financial year in which funds were raised. In order to claim the deduction of interest, the assessee is required to produce a certificate from the person to whom any interest is payable on the amount of funds raised.

Maximum limit of Rs. 30,000/2,00,000 shall be applicable only for the self-occupied houses.

Illustration 8

Mr. Rajan took loan of Rs 6, 00,000 on 1/04/2000 to construct a house. The construction of the house was completed in the PY 2004-05.The interest on this loan @ 16% p.ais Rs 96,000 for the PY 2022-23. Interest for the preceding years was also paid but not claimed as deduction. Compute the amount of interest deductible in computing the income from house property for the AY 2023-24, if, the house is let-out and if Mr. Rajan lives in the house.

i) If house is let-out

Interest on current PY 2022-23Rs 96,000

Interest for 4 PYs prior to 31st march of completion of house for 2000-2001, 2001-02, 2002-03 and 2003-04 @ 16% on Rs 6,00,000(4×96,000) = Rs 3,84,000, deductible in 5 equal installments of Rs 76,800 each.

But, here no pre-construction interest shall be deducted as maximum period of 5 years which has expired on 31/03/2010 Nil

Total amount of interest = Rs 96,000

ii) If Mr. Rajan lives in the house

Although the construction of house has been completed within 5 years from the date of taking loan, the maximum amount of deduction of interest will be Rs 30,000 as the loan is taken prior to 1/04/99.

8.8 LOSS UNDER THE HEAD 'INCOME FROM HOUSE PROPERTY'

When the total of deductions is more than the adjusted annual value of house property, the balance is known as loss from house property. It can be the following two types:

i) Loss in case of self-occupied house:

The annual value of self-occupied house is always Nil and deduction of interest on loan upto a maximum amount Rs 30,000 is allowed, and after deducting it, there is loss from house property. Such loss can be set off out of the profits of those houses which have been let out on rent.

ii) **Loss from house let-out on rent for full year:**

The houses let out on rent, are given deductions out of their net annual value and if the total of deductions (except unrealised rent) is more than the net annual value, the balance amount will be the loss from house property. This loss can be set-off out of profits of other houses let out on rent. The unabsorbed loss of house property can be set-off out of any source of income.

iii) **If in any previous year, the amount of loss exceeds Rs 2, 00,000, then, such surplus shall not be deducted from any other head of income in such previous year.**

8.9 COMPUTATION OF TAXABLE INCOME FROM HOUSE PROPERTY

Look at Illustrations from 9 to 16 and see how income from house property is computed.

Illustration 9

CA Pawan owns a house of which 50% portion is let out for the purpose of residence at Rs 4,400 per month.25% portion is used by him for his profession and remaining 25% portion is used for his residence.From the following particulars, find out annual value of the house property:

i)	Municipal valuation	Rs 60,000	
ii)	Fair rent of property		Rs 70,000
iii)	Municipal Taxes		10%

Solution:

Computation of Annual Value

Let out portion (50%)	Rs.	Rs
i) Municipal Valuation (50% of Rs 60,000)		30,000
ii) Fair rent (50% of Rs 70,000)		35,000
iii) Rent Received (Rs 4,400 ×12)		52,800
Gross Annual Value (Higher of the above)		52,800
Less: Municipal Taxes (50% of Rs 6,000)	3,000	
Annual Value		**49,800**

Note:

a) 25% portion of the house property is used by CAPawan for his own profession. Its annual value shall not be calculated.

b) 25% portion of the house property is used by CAPawan for his own residence. Its gross annual value shall be Nil or Zero.

c) All the portion of the house property shall be treated as separate house independently.

Illustration 10

On the basis of the following informationfurnished by Mr. Kalia, determine annual value of the house for A.Y. 2023-24.

1) Two-third portion of the house is self-occupied;
2) One-third portion of the house let-out for Rs. 5,000 p.m.;
3) During the previous year, the let out portion remained vacant for four months and the tenant did not pay the rent for one month. The landlord could not fulfill the conditions regarding claim for unrealised rent.
4) Municipal tax paid Rs. 33,000.
5) Municipal value Rs. 1, 30,000.

Solution:

Computation of Annual Value of the House of Mr. Kalia for the Assessment Year 2023-24.

		Rs.	Rs.
i)	A.V. of self-occupied portion	Nil	
ii)	G.A.V. of let-out portion(Rs. 60,000-20,000)		40,000
	Less: Municipal tax (1/3rd of Rs. 33,000)	11,000	29,000
	Annual Value		**29,000**

Note: The unrealised rent is not deductible in computing annual value as the landlord has not claimed the unrealised rent.

Illustration 11

Ms. Richa is the owner of a house at Mumbai, particulars of which for the year ended 31st March, 2023 are as under:

		Rs.
1)	Actual rent received	4,800
2)	Municipal Valuation	4,200
3)	Total Municipal Tax	630
4)	Municipal Tax paid by Ms. Richa	400
5)	Municipal Tax paid by the tenant	230
6)	Interest on loan taken for renovation of the house	200

Compute Ms. Richa's Income from House Property for the A.Y. 2023-24.

Solution:

Computation of Income from House Property of Ms. Richa for the AY2023-24

	Rs.	Rs.
G.A.V (Actual rent being higher than M.V)	4,800	
Less: Municipal Tax paid by owner	400	
Annual Value		4,400
Less:Standard Deduction (30% of A.V)	1,320	
Interest on Loan	200	1,520
Income from the House Property		**2,880**

Illustration 12

Aliya is the owner of a house property in Pune. It is let out for Rs. 90,000 p.a. The municipal tax payable by the owner comes to Rs. 10,000 but the landlord has taken an agreement from the tenant stating that the tenant would pay the tax direct to the municipality. The landlord, however, bears the following expenses on tenant's amenities under an agreement:

Particulars	Rs
Water charges	1,500
Lift maintenance	1,000
Lighting of stairs	800
Gardener's salary	700
The landlord claims the following deductions:	
Repairs	20,000
Land Revenue	2,000
Collection Charges	6,000
Legal expenses incurred in connection with the purchase of land on which the house is built	24,000

Compute the taxable income from house property for the A.Y. 2023-24.

Solution:

Computation of Taxable Income from House Property of Ms. Aliya for the Assessment Year 2023-24

		Rs.
Gross annual value of the property is calculated as under:		Rs.
Rent realized		90,000
Less: Value of tenant's amenities provided by the landlord:	Rs.	
i) Water charges	1,500	
ii) Lift maintenance	1,000	

iii) Lighting of stairs	800	
iv) Gardener's salary	700	4,000
Gross Annual Value		86,000
Less: Municipal tax paid by the owner	Nil	
Annual Value		86,000
Less: Standard Deduction (30% of A.V)		25,800
Taxable Income from House Property		**60,200**

Illustration 13

Sambhav is the owner of two houses. He has furnished the following particulars for the financial year 2022-23.

First House — Its municipal valuation is Rs. 40,000. It is used by Sambhav for his own residence. He paid Rs. 200 Fire Insurance Premium and Rs. 4,000 Municipal Tax. He also paid interest on loan of Rs. 25,000. This loan was taken to repay another loan taken for the construction of this house.

Second House — Its municipal valuation is Rs. 24,000 and Standard Rent is Rs. 30,000 (Rent Control Act applicable). It has been let out at Rs. 3,000 per month. He made the following payments:

	Rs.
Municipal Tax	6,000
Repairs	1,000
Land Revenue	200
Annual Charge	3,000

Compute his taxable income from house property for the A.Y. 2023-24.

Solution:

Computation of Taxable Income from House Property of Mr. Sambhav for the Assessment Year 2023-24.

First House (Self-Occupied)	Rs
Annual Value	Nil
Less: Interest on loan	25,000
Loss from First house (a)	(-) 25,000
Second House:	
i) Expected rent Rs. 24,000	
ii) Actual rent Rs. 36,000	
G.A.V [(i) or (ii), whichever is greater]	36,000
Less: Municipal tax	6,000
Annual Value	30,000
Less:Standard deduction (30% of A.V)	9,000
Income from second house (b)	21,000
Loss from House Property (a-b)	**(-) 4,000**

Note: Other expenses are not allowed.

Illustration 14

MrKaushal has the following properties:

i) Flat in Mumbai purchased on 1st June, 2022 which was let-out on monthly rent of Rs 12,000.The building in which the flat is located, was completed on 31st January, 2019.The flat was let-out from 1st August, 2022

ii) Flat in Delhi constructed in 2010 which is self-occupied.

iii) Godown in Kolkata constructed in 2012 which is let-out at a monthly rent of Rs 6,000.

The following actual expenses from the rental income are:

	At Mumbai (Rs)	**At Delhi (Rs)**	**At Kolkata (Rs)**
Municipal Taxes	8,000	8,000	18,000
Maintenance Charges	1,000	900	-
Electricity Charges	-	1,200	4,800
Collection Charges	700	-	5,400
Insurance Premium	-	-	600
Repairs	20	1,900	11,000

The following additional information is given below:

1) The flat in Delhi is let-out for godown w.e.f 1/1/2023 which fetches a monthly rent of Rs 4,000.

2) Mr. Kaushal carries on a business in which he suffered a loss of Rs 10,000 during the year ended on March 31st, 2023.

3) Mr. Kaushal received a consolidated salary of Rs 5,500 per month during the year from a part time employment which he holds.

Compute Mr. Kaushal's taxable income from house property for the year ended on 31st march, 2023.

Solution:

Computation of Income from House Property of Mr. Kaushal for the AY 2023-24

Flat at Mumbai

Rent receivable for 8 months	Rs 96,000	-
Less: Municipal taxes Paid	Rs 8,000	
Net Annual Value	Rs 88,000	
Less: Admissible deduction u/s 24		
Statutory deduction @ 30% of NAV	Rs 26, 400	
Income from flat at Mumbai		Rs 61,600

Godown at Kolkata

Annual letting value	Rs 72,000	-
Less: Municipal taxes	Rs 18,000	
Net Annual Value	Rs 54,000	
Less: Admissible deduction u/s 24		
Statutory deduction @ 30% of NAV	Rs 16, 200	
Income from Godown at Kolkata		Rs 37,800

Flat at Delhi (Self-occupied for part of the year)

Rent (Rs 4,000 × 12)	Rs 48,000	-
Less: Municipal taxes Paid	Rs 8,000	
Net Annual Value	Rs 40,000	
Less: Admissible deduction u/s 24		
Statutory deduction @ 30% of NAV	Rs 12, 000	
Income from flat at Delhi		Rs 28,000
Taxable Income from House Property		Rs 1,27,400

Note:

i) It is assumed in case of flat in Mumbai that it remained vacant from 1st June, 2022 to 31st July, 2022.

ii) GAV of Delhi Flat shall be calculated on this assumption that it is let out for 12 months because the owner of the house lives in this flat for some months of the year and this flat is let out for remaining part of the year.

Illustration 15

Mr. Ashish is an income tax officer at Bikaner. He owns two residential houses. The first house is at Delhi. It was constructed on 31stDecember;2010.He has let it out at a rent of Rs 3,000 per month to a company for its office. The second house is at Bikaner. Its construction was completed on 1stMarch, 2022 and has been occupied by him for his own residence since 1st June, 2022. He took a loan of Rs 60,000 on 1st August, 2020 at 12% p.a interest for the purpose of construction of this house. Other relevant particulars in respect of these houses are given below:

	1st house (Rs)	**2nd house (Rs)**
Municipal Valuation	24,000	18,000
Municipal Tax	10%	6.25%
Expenses on repairs	1,150	-
Fire Insurance Premium	200	-
Ground Rent	175	130
Land and Building tax	1,000	650
Wages of Gardener p.m	100	60
Interest on Loan	-	7,200

The ground rent of Delhi house and municipal tax, land and building tax of Bikaner house are unpaid. Mr. Ashish was transferred to Udaipur on 1st December, 2022 where he resides in a house at a monthly rent of Rs 2,400 and his house at Bikaner was let out on the same day at rent of Rs 2,000 per month.

Calculate the income from house property of Mr. Ashish for the AY 2023-24

Solution:

Computation of income from house property of Mr. Ashish for Assessment Year 2023-24

First house		Rs.
Gross annual value being rent received		36,000
Less: Municipal Tax		2,400
Net Annual Value		33,600
Less: Statutory deduction @ 30% of NAV		10,080
Income from first house		**23,520**
Second house (Let out for part period and self-occupied for part period)		
Gross Annual Value: Higher of the following two:		
i) Municipal Value, Rs 18,000 or Fair rent, Rs.24,000		
(Whichever is higher)	24,000	
ii) Actual Rent received (Rs 2,000 × 4)	8,000	
Gross annual value higher of (i) and (ii) above		24,000
Less: Municipal Taxes (Unpaid)		-
Net Annual Value		24,000
Less: Deductions u/s 24		
a) Statutory deduction @ 30% of NAV	7,200	
b) Interest on loan (Rs 7,200 for PY 2020-21		
+ Rs 960 for pre-construction interest)	8,160	15,360
Income from second house		**8,640**

Income from house property = Rs 23,520 + Rs 8,640 = Rs 32,160

Note:

1) Wages of gardener has not been deducted from rent received because it is not clear in the question that the landlord has provided Gardner under terms of tenancy agreement

2) Interest of prior period (from 1/08/2020 to 31/03/2021) for 8 months is Rs 4,800. Its one-fifth part shall be allowed as deduction. Deduction of total interest =Rs 7,200+ Rs 960 = Rs 8,160.

Illustration 16

Mr Raman is the owner of a big house. Municipal valuation of his house is Rs. 1, 00,000. He has let out 1/3rd portion of the house on a monthly rent of Rs 8,000 and occupies remaining 2/3rd portion for his own residence. Municipal taxes in respect of the whole house were Rs 15,000.He paid Rs 12,000 on insurance of the house. The house is constructed on leased land. He paid Rs 2,000 as its rent. He had constructed the house with a loan of Rs 15, 00,000 taken on 1st April, 2010, which was completed on 31st March, 2013 on which he pays 12% p.a. interest. Compute his income from 'House property' for the AY 2023-24.

Solution:

Computation of Income from House property of Mr Raman for AY 2023-24

Self-occupied Portion (2/3rd)

		Rs.
Annual Value		Nil
Less: Interest on loan (2/3rd of Rs 1,80,000)		1,20,000
Loss from Self-Occupied house		(-)1,20,000

Let-Out portion (1/3rd)

Rental value of (1/3rd portion) being more than municipal value		96,000
Less: Municipal taxes paid (for 1/3rd portion)		5,000
Net Annual Value		**91,000**
Less: Deductions:		
i) Statutory Deductions @ 30% of NAV		27,300
ii) Interest on loan (1/3rd of Rs 1,80,000	60,000	87,300
Income from let-out portion		**3,700**

Loss from house property = Rs 3,700 –Rs 1, 20,000= Rs (-) 1,16,300

Note:

i) Interest of pre-construction period shall not be deducted because its maximum period of 5 years has expired on 31/03/2018.

ii) Loan has been taken on 1/04/2010 (after 01/04/1999) for construction of house and construction of the house has been completed within 5 years from the year of taking loan. The maximum limit of deduction of interest is Rs 2, 00,000. Therefore, deduction Rs 1, 20,000 shall be allowed.

Check Your Progress B

1) How do you calculate the annual value when the part of a house is let out for a part of the previous year and self-occupied in the remaining period?

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2) Choose the correct answer from the following:

   i) Municipal taxes shall be deducted:

      a) If its payment has become payable on owner of house.

      b) If its payment has actually been done by the owner of the house.

      c) If its payment has been done by the tenant.

      d) None of these.

   ii) How much statutory deduction is allowed in computing taxable income from house property:

      a) 25% of Annual Value

      b) 30% of Annual Value

      c) $1/5^{th}$ of Annual Value

      d) $1/6^{th}$ of Annual Value

   iii) Unrealised rent shall be deducted from the following:

      a) From Net Annual Value

      b) From Annual Value

      c) From Gross Annual Value

      d) None of these

   iv) If an assessee has more than one house, the option to choose a house for self-residence, is given to the following:

      a) To an individual assessee

      b) To association of persons

      c) To a company assessee

      d) None of these

8.10 LET US SUM UP

Income from house property is second major head of income. Income from house property is the annual value of any property which consists of building and land appurtenant 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 municipal 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 controller), 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 for 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.

Certain deductions are allowed from adjusted annual value to compute income from house property. These deductions are: (i) standard deduction equal to 30% of annual value, (ii) interest on loan taken for the purpose of repairs, construction, and renovation and purchase of the house and interest for pre-construction or pre-acquisition period.

8.11 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 along with 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.

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.

Unrealised Rent: Rent not recoverable by the owner.

8.12 ANSWERS TO CHECK YOUR PROGRESS

Check Your Progress A

4 i) a ii)c iii) c iv) b v) d

Check Your Progress B

2. i) b ii) b iii) c iv) a

8.13 TERMINAL QUESTIONS/EXERCISES

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) Composite rent

   b) Unrealised Rent

   c) Interest on loan taken for construction of house property

   d) 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.

4) Mr Ramesh has two house properties. One is in Mumbai and other is in Delhi. House at Mumbai is meant for Self-Residence, but he let out his house since 1stSeptember, 2022 at rent of Rs 4,000 per month. The Delhi house consists of 2 show showrooms and 2 residential flats. The rent of each showroom is Rs 5,000 p.m. and that of each flat is Rs 4,000 p.m. The construction of both the houses was completed on 1st July, 2009and 1st May, 2010 respectively. The municipal tax paid by Ramesh for the Mumbai and the Delhi houses is 6.25% and 10% of the municipal value respectively which amounts to Rs 3,100 and Rs 8,500. Compute the net annual value of house properties for the assessment year 2023-24.

   [Answer: NAV= House at Mumbai, Rs 46,500, House at Delhi, Rs 2, 07,500]

   Note:

   1) The municipal valuation of both the houses shall be determined on the basis of municipal taxes paid.

   2) House at Mumbai shall be deemed to be let out throughout the year.

5) From the following information, compute the annual value of the house:

	Rs.
Municipal value	3,00,000
Fair rent	2,70,000
Standard Rent	4,00,000
Actual rent (per month)	45,000

Building remain vacant for two months during the PY

Unrealised rent, Rs 35,000.Conditions of Rule 4 are satisfied

Municipal tax paid by the owner, Rs 25,000 and by the tenant, Rs 10,000

[Answer: Annual Value= Rs 3,90,000]

6) Rahat owned a house property at Delhi which is used for his residence. He was transferred to Hyderabad in June, 2022 and therefore, he let out the property with effect from 1st July, 2022 on a monthly rent of Rs 3,000.The corporation tax @ 20% payable in respect of the property was Rs 6,000 of which 50% was paid by him before 31/03/2023.Interest on money borrowed for the construction of the property amounted to Rs 20,000.Compute the income from house property for the AY 2023-24.

   [Answer: Loss from House Property = Rs 3,100]

7) Mr. Vinay owns four houses, the details regarding which are as follows:

   1) The first house of the annual rental value of Rs 44,000 was occupied by him for his residence.

   2) The second house of the annual rental value of Rs 56,000 was let out at Rs 4,000 p.m. He paid Rs 6,000 as interest on money borrowed for construction of the house, Rs 800 as ground rent and Rs 2,000 as fire insurance premium.

   3) The fair rent of the third house is Rs 46,000 and its actual rent is Rs 44,000 but in respect of this house legal maintenance charge of Rs 12,000 per year exits in favor of his father.

   4) The fourth house, the municipal value of which is Rs 60,000 was let out at Rs 6,000 p.m. It remained vacant for 4 months. The unrealised rent in respect of this house for previous year was Rs 40,000, which satisfies all conditions for its allowance.

   Find out his income from house property for the AY 2023-24.

[Answer: Income from house property, Rs 71,000, Income from 1st house, Nil, 2nd house, Rs 33,200, 3rd house, 32,200, 4th house, Rs 5,600]

Note: These questions and illustrations are helpful to understand this unit. Do efforts for writing the answersto these questions but do not send your answers to university. It is only for your practice.