

**UNIT 3**

**INCOME FROM HOUSE PROPERTY**

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## Definition

“House property means any building or land connected with building of which assessee is the owner and which is not used by the assessee for his own business or profession”  
(Sec. 22 of Income Tax Act, 1961)

## Exceptions of the definition

- Building or staff quarters let out to employees by the employer.
- Composite letting of Building with other assets like furniture machinery etc.
- Paying guest accommodation (Paying guest includes each and everything with food etc.)
- The property of which assessee is not the owner.
- Income from house property of disputed ownership.
- Palace of Ex-Indian rulers.
- House property owned by local authority, scientific research association, Trade Union, Charitable Trust , Political Party, University and other Educational Institute not working for business purpose and hospital not working for business purpose.

# School of Finance and Commerce

Course Code : BCOM2015

Course Name: Income Tax Law & Practice

## FORMAT

Computation of Income from House Property of Mr./Mrs. XYZ  
(for the assessment year 2020-2021)

Particulars	Rs.	Rs.
<b>Gross Annual Value</b>		√
Less : Unrealised Rent (conditions of Rule -4 are satisfied)	√	
Less : Municipal Tax Paid by owner	√	√
<b>Net Annual Value</b>		√
<b>Less : Deductions Under Section – 24</b>		
1. Standard Deduction @ 30% of Net Annual Value	√	
2. Interest on loan taken for house property		
(a) Interest on loan for previous year.	√	
(b) Interest on loan for pre-acquisition period	√	√
<b>Income from House Property</b>		√
Add: Unrealised Rent Received		√
Add: Arrears of rent received less deduction @ 30% of Rent received		√
<b>Taxable Income From House Property</b>		√

## Explanation of the Provisions

### 1. Gross Annual Value (G.A.V.) :

GAV is a rental value of house property fixed by the Income Tax department according to Income Tax rules.

It is determined as follows:

- (i) When Standard rent is not given**
- (ii) When standard Rent is given**

## **When Standard rent is not given**

- **Municipal value of House Property**
- **Fair rent of House Property**
- **Actual Rent received from House property**

Whichever is greater is called as G.A.V.

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# **When standard Rent is given**

**(a) Municipal value of House Property**

**(b) Fair Rent of House Property**

Whichever is greater is called expected Rent

**(c) Expected Rent of house property**

**(d) Standard rent of house property**

Whichever is less is called annual rent.

**(e) Annual Rent of house property.**

**(f) Actual Rent Received from house property.**

Whichever is greater will be called as Gross Annual Value.

## Important Notes

- Gross Annual value of self-occupied property shall be taken as Nil.
- If any house property let out during the part of previous year and remained vacant during the other part of previous year, than actual rent received will be considered as 'Gross annual value'.
- If any house property let out during the part of previous year and self-occupied during the remaining Part of the previous year, then this property is considered as let out property and 'Gross Annual Value' is calculated as per the rules.
- If any house property is let out in portion or in units, each portion or each unit will be considered as a separate house property and Gross Annual Value is calculated for each portion separately.
- If any house property used by the assessee for his own business and profession, then the income of such property will not be taxable in house property head.



## Unrealised Rent

- The rent which is not recovered by the assessee during the previous year will be called as unrealized rent.
- It can only be deducted from Gross Annual Value if conditions of Rule-4 are satisfied.

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## Municipal Tax or Local Tax

- It includes all taxes paid to municipal corporation by the owner of the house property.
- For example. House Tax, Water Tax, Sewerage Tax, Conservancy Tax etc.
- Municipal tax can be fully deducted if paid by the owner during the previous year whether it relates with current year or preceding years.
- If municipal tax paid by the tenant, it cannot be deducted from Gross Annual value.

# **Standard Deduction**

It is also known as statutory deduction and it is allowed under Sec. 24 @ 30% of Net Annual value.

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## Interest on Loan taken for House Property

- If any loan is taken by the assessee for the purpose of renewal, reconstruction, purchase, repairs etc.
- It will be allowed as follows:
  - **Interest on loan for previous year.**
  - **Interest on loan for pre-acquisition period.**

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## Interest on loan for previous year

Interest on loan paid or payable in the previous year shall be fully allowed so it can be deducted from net annual value.

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## Interest on loan for pre-acquisition period

- It is allowed equal to  $1/5^{\text{th}}$  of the total interest on loan of the pre-acquisition or pre-construction period.
- Pre-acquisition period means the period which starts from the date of loan taken till the date of completion of the construction of house property excluding the financial year in which construction has been completed.

## EXAMPLE of Interest on Loan

- Loan taken on 01.08.2004 = Rs. 10,00,000 @ 12% p.a.
- Construction completed on 31 December 2008.
- Interest for previous year – 2019-20
- $10,00,000 \times 12\% = 120,000$

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## Example Contd...

### **Interest on Pre-Acquisition Period :**

01.08.2004 – 31.03.2005	8 months
01.04.2005 – 31.03.2006	12 months
01.04.2006 – 31.03.2007	12 months
01.04.2007 – 31.03.2008	12 months
<del>01.04.2008 – 31.12.2008</del>	<del>9 months</del>
<b>Total</b>	<b>44 months</b>

$$\frac{1000000 \times 12 \times 44}{100 \times 12}$$
$$= 440000 \times \frac{1}{5}$$
$$= 88000$$



## Loan for Self-occupied house

➤ If loan is taken for the self-occupied house , it will be treated as follows:

(a) If loan is taken for the construction or purchase of self-occupied property on or after 31 march 1999, the maximum amount of interest on loan will be allowed Rs. 2,00,000 (Previous year + Pre-construction period).

(b) If loan is taken for self-occupied property before 31 March 1999 or date is unknown then the maximum amount of interest on loan is allowed up to Rs. 30,000 (Previous year + Pre-acquisition period).

## References

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**THANK YOU**

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