75 Azadi Ka Amrit Mahotsav

COMPUTATION OF INCOME FROM HOUSE PROPERTY

सत्यमेव जयते

कोष मूलो दण्ड:

INCOME TAX DEPARTMENT

Income Tax Department

Central Board of Direct Taxes

1. Under the Income Tax Act what is taxed under the head 'Income from House Property' is the inherent capacity of the property to earn income called the Annual Value of the property. This is taxed in the hands of the owner of the property.

2. COMPUTATION OF ANNUAL VALUE

This is done in the following steps:

(i) **GROSS ANNUAL VALUE (G.A.V.)** is the highest of

(a) Actual rent received or receivable.

(b) Reasonable or expected market rent (i.e. the rent at which the property may reasonably be expected to be let out at). One of the indicators of reasonable rent is the Municipal value, or the rent fetched by a similar property in the same or similar vicinity.

(If however, the Rent Control Act is applicable, the G.A.V. is the standard rent or rent received, whichever is higher).

It may be noted that if the let out property was vacant for whole or any part of the previous year and due to such vacancy the actual rent received or receivable is less than the reasonable market rent, then the amount actually received /receivable shall be taken as the G.A.V. If any portion of the rent is 'unrealizable', then the same shall not be included in the actual rent received/ receivable while computing the G.A.V.; subject to the following conditions :

- The tenancy is bonafide.
- The defaulting tenant has vacated, or steps have been taken to compel him to vacate the property.
- The defaulting tenant is not in occupation of any other property of the assessee.
- 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.

In case of subsequent realization of such unrealized rent or receipt of any arrears of rent in a subsequent year, the same is to be taxed in the year of realization or receipt, regardless of whether or not the assessee continues to be owner of the property in that financial year. A deduction of 30% of such arrears or unrealized rent would be allowed as deduction.

(ii) **ANNUAL VALUE (A.V.)** is the G.A.V. minus the municipal taxes paid by the owner, provided that the municipal taxes were actually paid during the year.

SOME NOTABLE POINTS (FOR A.Y. 2021-22) ABOUT 'ANNUAL VALUE'

- In case of self-occupied properties, the A.V. is taken as nil for two self occupied properties at the option of the assessee. The other self-occupied properties are deemed to be let out.
- A.V. of any two properties away from workplace which are not let out can be taken as NIL provided that these are the only houses owned and are not let out.
- If a let out property is partly self occupied or is self occupied for a part of the year, then the value in proportion to the portion of self occupied property or period of self occupation, as the case may be, is to be excluded from the A.V.

3. INCOME FROM HOUSE PROPERTY is the A.V. minus the following deductions. (These are exhaustive and no other deductions are available)

(a) A sum equal to 30% of the A.V. as computed above in case of let out property. In case of self occupied property, since the A.V. is taken at Nil, 30% deduction is not allowed on it.

(b) Interest on money borrowed for acquisition/ construction/ repair/ renovation of House property is deductible on accrual basis, as below:

(i) For Property having A.V. =NIL

- For loans taken for acquiring or construction a house, a total interest is deductible upto a maximum of Rs. 2,00,000, if the loans had been taken after 1.4.1999 and the acquisition or construction is completed within five years from the end of the financial year in which the capital was borrowed. Otherwise, the deduction is limited to a maximum of Rs. 30,000 per year.
- For all loans taken for renovation of existing house, a maximum of Rs.30,000 is deductible for payment of interest per year.
- For loan taken for construction, total deduction available to the taxpayer on account of interest payable prior to the year of acquiring or construction, 20% (of the total interest) for each year, for 5 years starting from the year of acquiring or construction can also be deducted.

(The maximum deduction allowable under (i) Above is Rs. 2 lakhs.)

(ii) For all other properties:

In case of a let-out property, the taxpayer can claim deduction on account of interest on loan taken for the purpose of purchase, construction, repair, renewal or reconstruction of the property without any ceiling. For loan taken for construction, total deduction available to the taxpayer on account of interest payable prior to the year of acquiring or construction, 20% (of the total interest) for each year, for 5 years starting from the year of acquiring or construction can also be deducted.

To Note:

- Commission/brokerage or processing fee paid for obtaining loan, or for arranging tenant is not allowed as deduction.
- You must have an interest certificate for the loan that you have taken.
- The annual value of a property or part thereof which is held as stock-in-trade by the owner of the property and not let out during the whole or any part of the year shall be taken to be NIL, but only for the period up to 1 year from the end of the financial year. In which the certificate of completion of construction of the property is obtained from the competent authority.

The amount received on account of arrears of rent (not charged to tax earlier) will be charged to tax after deducting a sum equal to 30% of such arrears. It is charged to tax in the year in which it is received. Such amount is charged to tax whether or not the taxpayer owns the property in the year of receipt.

4. PROPERTY OWNED BY CO-OWNERS

In case a property is co-owned by two or more persons, share of each being definite and ascertainable, then the income from house property of each person shall be separately determined as per their respective shares. If the share is not definite and ascertainable, then owners shall be assessed as an 'Association of Persons'.

5. CARRY FORWARD AND SET OFF OF LOSS FROM HOUSE PROPERTY

Loss under this head of income can be set-off against any other heads of income arising during the same year. From Assessment Year 2018-19 onwards this set-off is restricted to Rs. 2 lakhs for each assessment year. The balance of unabsorbed loss can be carried forward to be set-off only against the income from House Property in the succeeding eight assessment years. It may be noted that in case an assessee opts for the new tax regime under Section 115BAC of the Income tax Act, no loss against self occupied house property will be allowed to be set off in the respective assessment year. The deduction of Rs. 2 lakh allowed in the existing system is not available in the new tax regime. In case of a **let-out house property**, the new tax regime restricts the deduction to the taxable rent received from the property as against the old regime. In the new regime, you cannot set-off the loss arising from the house property due to excess of interest paid over the rental income. Also, you cannot carry forward the loss from house property to future years for set off.

6. PROPERTY INCOME EXEMPT FROM TAX

Income from certain properties are exempted from taxation under this head of income. Some of these include: Income from farm house , Annual value of any one palace of an ex-ruler, Property income of a local authority, university/ educational institution, approved scientific research association, political party. Property used for own business or profession, House property held for charitable purposes.

7. DEEMED OWNERSHIP OF HOUSE PROPERTY:

- A person who has received possession of a property under 'Part Possession' u/s 53A of Transfer of Property Act is deemed to be owner of such property.
- An individual who transfers the house property without adequate considerations to his spouse/son/ married daughter etc. will be deemed to be owner of such property.

- The holder of impartible estate shall be deemed to be owner of such estate.
- Members of co-operative societies, company or other associations, who the building or its part is allotted/ leased will be deemed to be owner of such allotted/ leased parts.
- Any person who is in occupation of a leased house property and the leased period is more than 12 years, then such person will be deemed to be owner of that house property.

OTHER DEDUCTIONS AVAILABLE (UNDER CHAPTER VIA OF INCOME TAX ACT, 1961) RELATING TO HOME LOAN

In addition to the deductions contained in para 3 above, following deductions can also be claimed under Chapter VIA of the Act from Gross Total Income :

(a) **Under Section 80C.** The Principal portion of the EMI paid for the year is allowed as deduction under Section 80C. The maximum amount that can be claimed (including all other deductions claimed u/s 80C) is up to Rs. 1.5 lakh. But to claim this deduction, the house property should not be sold within 5 years of possession. Otherwise, the deduction claimed earlier will be added back to your income in the year of sale. In addition to this, the Stamp Duty and Registration Charges can also be claimed u/s 80C but within the overall limit of Rs. 1.5 lakhs. However, it can be claimed only in the year in which these expenses are incurred.

(b) **Additional deduction under section 80EE.** Additional deduction under Section 80EE, maximum up to Rs. 50,000 is allowed to the first time home buyers (individual only) for the interest portion on loan. To claim this deduction, the amount of loan taken should be Rs. 35 lakhs or less and the value of the property does not exceed Rs. 50 lakhs. The loan must have been sanctioned between 1st April 2016 to 31st March 2017, and on the date of sanction of loan, individual does not own any other house.

(c) **Additional deduction under section 80EEA.** From the A.Y. 2020-21, introduced additional deduction under Section 80EEA for home buyers for maximum up to Rs. 1,50,000. To claim this deduction, the stamp duty value of the property does not exceed Rs. 45 lakhs. The loan must have been sanctioned between 1 April 2019 to 31 March 2020, and on the date of sanction of loan, individual does not own any other house. However, the possession eligible for deduction u/s 80EE cannot claim deduction u/s 80EEA.

Note 1: Deductions for Joint Home Loan: If the loan is taken jointly by co-owners, then each of the loan holders can claim a deduction for home loan interest as per the provisions above.

Note 2: New tax regime under Section 115BAC: In case an assessee opts for the new tax regime, none of the above deductions under Chapter VIA shall be available.

ILLUSTRATION 1

'A' who works in a Limited Company in Mumbai has a house property in Kanpur. He has come with his family on transfer to Mumbai where he stays in a rented accommodation. He has only one house at Kanpur which remained unoccupied throughout the year 2020–21 since he could not arrange for a suitable tenant. The rent of a similar property in Kanpur will be Rs. 5000/- p.a. The municipal valuation is Rs. 30,000/- and he has paid municipal taxes of Rs. 2,500/-. He had taken a loan of Rs. 2,00,000 for reconstruction of the property and interest payable thereon is Rs. 25,000/-. What will be his income from House Property?

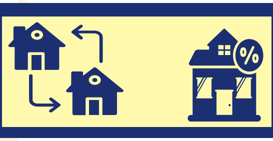
Assessment year 2021-22

Annual value of the House at Kanpur (since the assessee could not use throughout the year because of his employment at Mumbai)	Nil
Less: Interest on money borrowed	Rs. 25000
Loss from house property	(-) Rs. 25,000

(It is assumed that the assessee has opted for the old tax regime)

ILLUSTRATION 2

Mrs. B owns 3 houses in Delhi. Neither of these houses is let out. The details of these houses is as under:



	I	II	III
Municipal valuation	Rs. 3,00,000	Rs. 2,00,000	Rs. 2,50,000
Fair Rent	Rs. 3,20,000	Rs. 2,20,000	Rs. 2,30,000
Annual Rent	Self occupied	Self occupied	Self occupied
Municipal taxes paid	Rs. 20,000	Rs. 20,000	Rs. 20,000

What will be the Income from House Property in A.Y. 2020-21, if any?

Ans. As Mrs. B has more than two house property, all being kept for own use, two house property (as per choice of assessee) shall be treated as self occupied and their Annual Value shall be treated as NIL. In this case, Mrs. B would opt for House I & III as self occupied, while House II would be treated as 'deemed let out'. Hence Income from house property for A.Y. 2021-22 would be :

Assessment year 2021-22

Gross Annual Value of House II	Rs. 2,20,000
Municipal Taxes Paid	(-) Rs. 20,000
Less: Standard Deduction @30%	(-) Rs. 60,000
Net annual value to be included in Total Income of A.Y. 2021-22	Rs. 1,40,000

INCOME TAX DEPARTMENT

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