

VIVEKANANDA COLLEGE
THAKURPUKUR
KOLKATA-700063

NAAC ACCREDITED 'A' GRADE



Topic: Income From House Property

Course Title: CC 4.1 Ch

Paper: TAXATION-1

Unit: 02

Semester: 4th Semester

Name of the Teacher: PINAKI GHOSH

Name of the Department: COMMERCE

Income from House Property

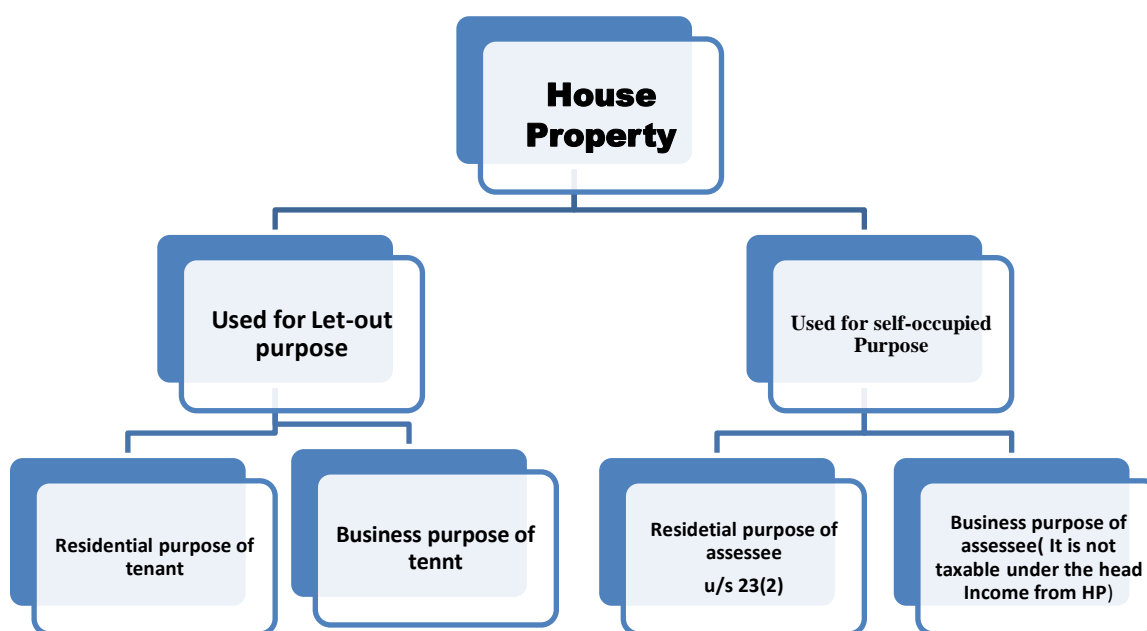
Key words:

Municipal Value : Based on the local survey, the local authority determined the value of the property which is called Municipal value. The amount of Municipal tax to be levied is calculated based on the Municipal Value of the property

Fair rent : It is the rent, a similar property in the same or similar locality can fetch.

Standard rent : Standard rent is the rent which the land lord is expected to receive from the tenant. Standard rent is only provided if the property is under Rent Control Legislation.

Annual rent: It is the actual **monthly rent** received by the owner by renting out the property
*12



Computation of Income from House Property of Mr. X, a resident Individual , for the Assessment Year 2020-21 relating to the Previous Year 2019-20.

Particulars (For Let-out Property)	Amount
Gross Annual Value(Note)	****
Less: Municipal taxes paid during the year by the Assessee	****
Net Annual Value(NAV)	****
Less : Deduction u/s 24(a)-@30% of NAV	****
Less: Deduction u/s 24(b) on account of Interest on borrowed capital	****
Income from House Property	*****

Note: Computation of Gross Annual Value

Step1: Reasonable Expected rent (note)	****
(Higher between Gross Municipal Value and Fair Rent but subject to maximum Standard rent.)	
Step2: Actual rent received or receivable	****
Step3: Higher Between step1 and step2	****
Less : Loss of rent due to vacancy	****
Gross Annual Value	****

Illustration for better understanding

From the following information compute the reasonable expected rent of each property:

Particulars	<i>Property A</i>	<i>Property B</i>	<i>Property C</i>
Municipal Value	30000	30000	30000
Fair rent	20000	20000	20000
Standard Rent	Not applicable	18000	35000

Now how to compute step 1:

Reasonable expected rent will be Rs.30000 (being higher of municipal value and fair rent).	Reasonable expected rent will be Rs.18000 (being higher of municipal value and fair rent, but subject to maximum standard rent).	Reasonable expected rent will be Rs.30000 being higher of municipal value and fair rent, but subject to maximum standard rent. (standard rent is higher and hence restriction of standard rent will not apply in this case).
--	--	--

Step2: Actual rent received or receivable (ARR) = Annual rent-unrealized rent(if any)

Computation of Income from Self-Occupied House Property

Particulars	Amount(Rs)
Net Annual Value u/s 23(2)	*****
Less: Deduction u/s 24(b),for interest on Loan	****
Income from Self-occupied property	*****

Some Imp points :

1. In case of Metro cities like Kolkata , Delhi, Mumbai, Chennai(KDMC)-

Municipal value is to be charged on Net Municipal Value(NMV)

NMV= Gross Municipal Value *90%

2. In case of Non- Metro cities

Municipal value is to be charged on Gross Municipal Value

3.Municipal taxes are always borne by the owner(Assessee).

4.Municipal tax paid by the owner during the previous year on cash basis.

5. Notes on Borrowed Capital u/s 24(b)

a. According to section 24(b) deduction of interest on home loan is allowed as deduction for the purpose of purchase or construction or repair or reconstruction of house property.

b. Such deduction is allowed on accrual basis, not on paid basis. In other words, the interest payable for the year is allowed as deduction whether such interest is actually paid or not.

c. No deduction is allowed for service fees, brokerage, commission, prepayment charges etc.

d. Interest on unpaid interest shall not be allowed as deduction.

Date of loan taken	Objectives of loan taken	Maximum allowable deduction
Before 01.04.1999	Construction, Re-Construction, Repairs and Renovation	Rs. 30000/-

On or After 01.04.1999	1.Repairs,renovation or Re-Construction 2.Construction or Acquisition	1.Rs.30000/- 2.Rs.200000
Within 5 years from the end of financial year in which loan was taken		Rs.200000/-
After 5 years from the end of financial year in which loan was taken		Max.Rs.30000/-

6. From the A.Y 2020-21, if the assessee owns two self-occupied house properties, the annual value of that properties shall be nil. The Assessee will get deduction u/s 24(b) a sum of Rs.200000/-(Total) for the both the houses.

7.Deduction on Pre-construction Interest

The Assessee also claim interest on housing loan paid before completion of construction of the property. It is termed as pre-construction interest. It is allowed in 5 equal installments beginning from the financial year in which the construction is completed. The limit of 200000 will also apply for pre-construction interest in case of self-occupied property. However it is fully allowed in case let our property.

Example:

On 1.12.2016 Mr.PG borrows Rs. 300000 from SBI for the purpose of construction of a residential house. The bank charges interest @15% p.a.The entire loan and interest remain outstanding. The construction was completed on 01.04.2018.

Hence, Pre-construction period= 01.01.16 to 31.03.2018= 27 months

So, interest in pre-construction period will be = $200000 \times 15\% \times 27/12 = 67,500$

and deductible interest for the current year $67,500 \times 1/5 = 13500$

Interest for the current previous year = $200000 \times 15\% = 30,000$

Total interest on loan for the current previous year = $13500 + 30000 = 43500$

8. Receipts of arrears of rent/recovery of unrealized rent u/s 25A

-A standard deduction of 30% of the amount of arrears received will be allowed as deduction.

Mr.PG is the owner of the two houses, the particulars of which for the previous year 2019-20 are as follows :-

Particulars	House1	House2
How used	Let-out	Self-occupied
Gross Municipal Value	240000	240000
Fair rent	200000	-
Standard rent	260000	-
Annual rent	360000	-
Vacancy period	2 Months	-
Interest on Loan taken for construction	10000	15000
Municipal Tax @ 10%		

Compute the Income from House Property for the A.Y 2020-21.

Solution-

Particulars	Amount(Rs)	Amount(Rs)	
House 1(Let-out)-	240000		
Step1: Reasonable Expected Rent (Higher between GMV or FR but subject to maximum SR)			
Step2: Actual rent received or receivable	360000		
Step3: Higher Between step1 and step 2	360000		
Less: Loss of rent due to vacancy (360000*2/12)	60000		
Gross Annual Value	300000		

Less: Municipal Tax paid by the owner (240000*10%)	24000		
Net Annual Value (NAV)		276000	
Less: Deduction u/s 24			
(i) Standard deduction u/s 24(a)- 30% of Rs.276000	82800		
(ii) Interest on Loan u/s 24(b)	10000	92800	
Income from Let-out Property			183200
House 2(Self-Occupied)			
Net Annual Value u/s 23(2)(a)		nil	
Less: Deduction u/s 24(b),for interest on Loan		15000	
Income from Self-occupied property			(15000)
Total Income from House Property			168200

End