

INCOME FROM HOUSE PROPERTY

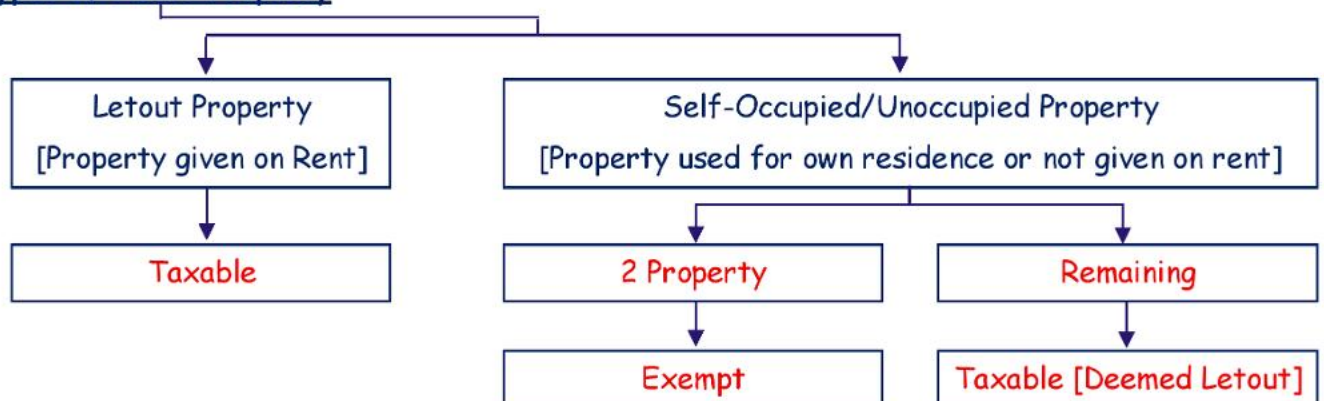


Charging Section [Section 22]

- Rental income from house property is taxable under head "House Property" (HP) if following two conditions are satisfied:
 - There is a House Property [Any building or land attached to such building (garden/garage etc)].
 - Assessee is the Owner of such property.
- Special Points regarding taxability

Rental Income from Residential Building	Taxable under HP
Rental Income from Commercial Building (office/shop/godown etc.)	Taxable under HP
Rental Income from Vacant Land	Taxable under IFOS
<u>Assessee engaged in business of renting of HP</u>	
▪ Residential HP	Taxable under HP
▪ Commercial HP	Taxable under PGBP
<u>HP held as stock in trade [Real Estate Business]</u>	
▪ If HP letout (given on rent)	Taxable under HP
▪ <u>If HP is not letout:</u>	
➤ Upto 2 years from end of year of completion	Not Taxable
➤ After 2 years (treated as deemed letout)	Taxable under HP
<u>Composite Rent [Rent of HP + Other Amenities]</u>	
▪ <u>If separable:</u>	
➤ HP Rent	Taxable under HP
➤ Other Amenities Rent	Taxable under IFOS
▪ If not separable: then whole rent	Taxable under IFOS
HP used in assessee business	Not Taxable

Types of House Property



Note:

- (i) If house is **letout for some part of year & self-occupied for some part** of year, then it is treated as **Letout Property**.
- (ii) **SOP concept is only for Individual/HUF** and not for other assessees.
- (iii) If assessee has **more than 2 self-occupied properties**, he has the **option** to choose any 2 from such properties as self-occupied (exempt) and remaining as deemed letout (taxable).

• **Computation of Taxable Income from House Property**

Particulars	Letout/Deemed Letout	Self-Occupied/Unoccupied [Maximum 2 Property]
Gross Annual Value (GAV)	XX	Nil
Less: Municipal Tax	(XX)	Nil
Net Annual Value (NAV)	XX	Nil
<u>Less: Deduction u/s 24</u>		
➤ Standard deduction [30% of NAV]	(XX)	Nil
➤ Interest on Loan	(XX)	(XX)
Taxable Income from HP	XX	(XX)

Gross Annual Value (GAV) of Letout/Deemed Letout House Property [Section 23]

Step 1	<u>Compute Expected Rent</u> Municipal Value p.a. } Higher or Fair Rent p.a. } or } Lower Standard Rent p.a. }	XX
Step 2	<u>Compute Actual Rent</u> Actual Rent for letout period - Unrealised Rent (if any)	XX
Step 3	<u>GAV</u> Higher of Step 1 and Step 2	XX

Note:

- (i) Municipal Value means rent as per records of local authority.
- (ii) Fair Rent means rent of similar property in same locality.
- (iii) Standard Rent means maximum rent which can be legally recovered as per Rent Control Act.
- (iv) **MV/FR/SR** is to be taken for **full year** (12 months). **Actual rent** is to be taken for the **period actually letout** (whether received or receivable).
- (v) **Unrealised rent** means rent which could not be recovered (**bad debts**).

Some Special Cases(i) GAV of deemed letout property

Since Actual Rent (Step 2) is 0, so **GAV = Expected Rent** (Step 1)

(ii) GAV of Letout property which is SELF-OCCUPIED for some part of the year

Same calculation as given in above table

(iii) GAV of Letout property which is VACANT for some part of the year

If Actual Rent (Step 2) + Vacancy Rent is \geq Expected Rent, then **GAV = Actual Rent** (Step 2)

If Actual Rent (Step 2) + Vacancy Rent is $<$ Expected Rent, then **GAV = Expected Rent** (Step 1)

Example

Mr. Ganesh let out his house property for a rent of ₹ 20,000 p.m. However, the tenant vacated the property on 31.1.26. Unrealised rent was ₹ 10,000.

Case 1: Expected Rent (Step 1) = ₹ 2,10,000

Case 2: Expected Rent (Step 1) = ₹ 2,30,000

Case 3: Expected Rent (Step 1) = ₹ 2,50,000

Compute GAV.

Solution

Step 2: Actual Rent for letout period - Unrealised Rent = $20,000 \times 10 - 10,000 = ₹ 1,90,000$

Vacancy Rent (1.2.26 to 31.3.26) = $20,000 \times 2 = ₹ 40,000$

Step 2 + Vacancy Rent = $1,90,000 + 40,000 = ₹ 2,30,000$

Case 1: Since ₹ 2,30,000 is higher than Expected Rent, so **GAV = ₹ 1,90,000** (Step 2)

Case 2: Since ₹ 2,30,000 is equals to Expected Rent, so **GAV = ₹ 1,90,000** (Step 2)

Case 3: Since ₹ 2,30,000 is lower than Expected Rent, so **GAV = ₹ 2,50,000** (Step 1)

(iv) If portion of HP is letout and portion is self-occupied

- Treat both portions as 2 separate properties (1 letout and 1 self-occupied).
- Divide all amounts (municipal value, fair rent, standard rent, municipal tax, interest on loan) in portion/area ratio. Do not divide actual rent because it is only for letout portion.
- Calculate income separately for letout and self-occupied portion.

Municipal Tax

- Municipal Tax means any tax paid to Municipality/Local Authority such as water tax, local tax, property tax, corporation tax, sewerage tax etc.
- Deduction is allowed only on payment basis (whether paid for current year or past years).
- Deduction is allowed only if it is paid by owner/landlord. If paid by tenant, then no deduction.
- If it is given in %, then apply such % on municipal value, to convert it in amount.

Standard Deduction [Section 24(a)]

- Standard Deduction is allowed @30% of NAV in case of letout/deemed letout property.
- No deduction of any other expenses (insurance, electricity, water, repair & maintenance etc.)

Interest on Loan [Section 24(b)]

- Interest Deduction is allowed if loan is taken for house property for any purpose (purchase, construction, repairs, renovation etc.).
- Loan can be taken from any person.
- Deduction is allowed on accrual/due basis.
- If fresh loan is taken for repayment of earlier loan, then interest on fresh loan is also allowed as deduction.
- Penalty on interest (penal interest/interest on unpaid interest) is not allowed as deduction.
- If loan is taken from outside India, then deduction of interest is allowed only if TDS has been deducted on such interest.
- **Pre-Acquisition/Construction Period Interest**

Pre-Acquisition/ Construction Period Interest	Interest on loan before the year in which acquisition/construction is completed. In other words, Interest FROM date of Loan TO 31 March of preceding PY from year in which property is acquired/constructed.
Deduction Allowability of such Interest	Deduction is allowed in 5 equal installments starting from year in which acquisition/construction is completed.

Example

Aman took a loan of ₹ 1,00,000 on 1.7.2018 for construction of building. Construction of house began in June, 2018 and was completed on 31.5.2021. He paid interest on loan @ 12% p.a. Compute Pre-construction period interest and allowability of such interest.

Solution

Pre-construction period interest for 33 months (from 1.7.2018 to 31.3.2021)

$$= 0.12 \times ₹ 1,00,000 \times 33/12$$

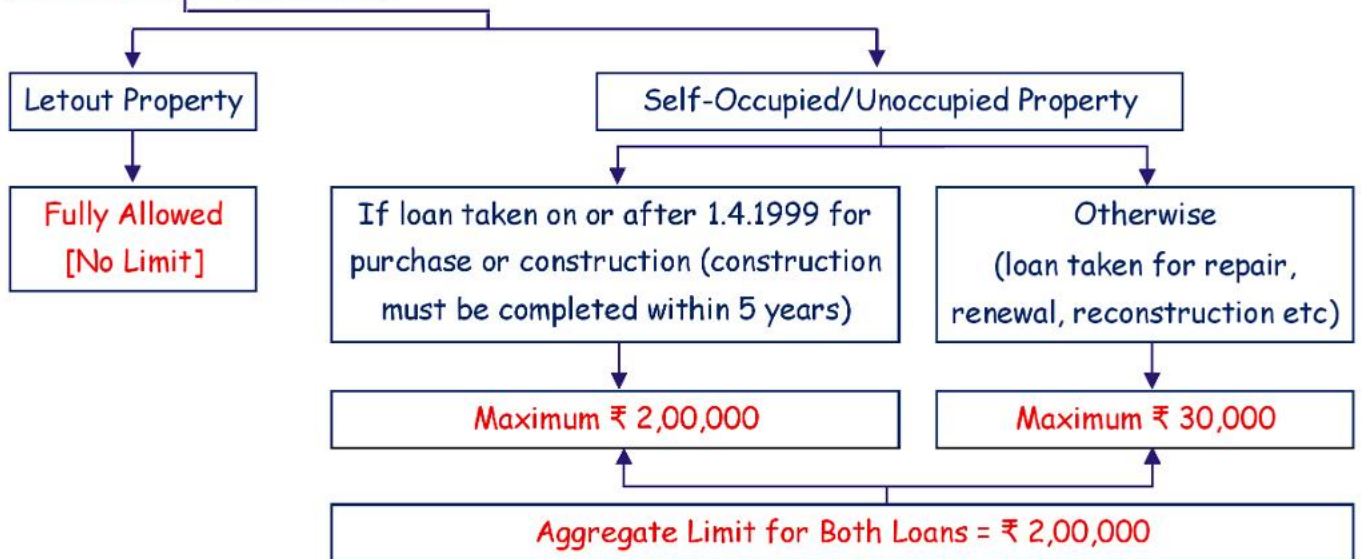
$$= ₹ 33,000$$

Pre-construction period interest deduction is allowed in 5 equal installments of ₹ 6,600 (33,000/5) from year in which construction is completed (from P.Y. 2021-22).

Year	Deduction
P.Y. 2021-22	Interest in P.Y. 2021-22 + ₹ 6,600
P.Y. 2022-23	Interest in P.Y. 2022-23 + ₹ 6,600

P.Y. 2023-24	Interest in P.Y. 2023-24 + ₹ 6,600
P.Y. 2024-25	Interest in P.Y. 2024-25 + ₹ 6,600
P.Y. 2025-26	Interest in P.Y. 2025-26 + ₹ 6,600

• **Amount/Limit of deduction**



Note:

- (i) Above limit is aggregate for 2 self-occupied properties and including pre-acquisition/construction interest installment.
- (ii) No deduction of interest in case of self-occupied/unoccupied property, if assessee follows section 115BAC. In that case, income from self-occupied/unoccupied property will always be Nil.

Recovery of Unrealised Rent and Arrears of Rent Received [Section 25A]

- Taxable in the year in which amount is recovered/received.
- Taxable even if the assessee is not the owner of house property in the year of recovery/receipt.
- Taxable Amount = Unrealised Rent Recovered/Arrears Received - 30% Standard Deduction

Joint Ownership/Co-Ownership [Section 26]

Joint ownership means property is owned by more than 1 owner.	
If such property is letout	Compute income from house property normally, then divide such income between co-owners in ownership ratio.
If such property is self-occupied	Interest deduction limit of ₹ 30,000/₹ 2,00,000 is available to per co-owner independently.

Deemed Owner [Section 27]

Following persons are treated as deemed owners of house property:

- **Individual who transfers his HP to spouse or minor children for without/inadequate consideration.**
- Holder of impartible estate
- Member of co-operative society for HP allotted to him
- Person in possession of HP in part performance of contract
- Lessee having lease right in HP for 12 years or more