TAXATION-I

INCOME FROM HOUSE PROPERTY

SEMESTER-IV, SECTION-4D

ANNU OJHA(A.O.)

INTRODUCTION

- As per section 14 of income tax (IT) act, 1961, there are five heads of income. The rental income from properties is chargeable to tax under the head 'income from house property'.
- **BASIS OF CHARGE [SECTION 22]: basis of charge refers to the base on which the income from house property can be determined, i.e., annual value of the property.** The annual value of the property will be taxable under the head 'income from house property' if the following condition are satisfied:
- **(i) the property must consist of building or land appurtenant thereto.**
- **(ii) the assessee must be the owner of the property.**
- **(iii) the assesse must not use the property for the purpose of other business or profession carried on by him or her.**

USE OF THE PROPERTY

Income from house property

Used for let out purpose

Residential purpose of tenant

Business or commercial purpose of tenant

Taxable U/H 'income from house property' u/s 23(1)

Used for self-occupied purpose

Residential purpose of assessee

Section 23(2)

Business purpose of assessee

Taxable U/H 'profit and gain' from business or profession

STEPS FOR DETERMINATION OF INCOME UNDER THE HEAD INCOME FROM HOUSE PROPERTY

Income from house property

- Step I
  - Computation of GAV
    - Higher value of
      - Expected rent(ER)
        - Lower value of
          - Higher value of
            - GROSS MUNICIPAL VALUE(GMV)
            - Fair rent(FR)
          - Standard rent(SR)
      - Actual rent received
        - Annual rent (-) loss due to vacancy period (-) unrealised rent
- Step II
  - Computation of NAV
    - Difference between
      - GAV(-) municipal tax
- Step III
  - Computation of income under head 'income from house property'
    - Difference between
      - NAV (-)
      - Deduction u/s 24
        - Statutory deduction u/s 24(a) (+)
        - Interest on loan u/s 24(b)

NOTE: if expected rent is higher than the actual rent received, then loss of vacancy will be deducted from the expected rent and after that comparison will give you the GAV

Computation of NAV(net annual value)

ILLUSTRATION:1

Compute the NAV in the following situation:

GMV(gross municipal value)- Rs.90,000, FR/notional rent- Rs.70,000, standard rent-Rs.1,00,000, rent p.m.- Rs.8,000p.m., unrealised rent- 1month, vacancy period- 2 month. Municipal tax-12%.

STEP-I Computation of GAV(gross annual value)=74,000

Higher value of expected rent or actual rent received=90,000

A. Expected rent lower of=90,000

Higher of =90,000

GMV=90,000

FR=70,000

Standard rent =1,00,000

B. Actual rent received

ANNUAL RENT RECEIVED(8,000*12)=96,000
(-)LOSS OF VACANCY(8000*2)=16,000
(-)UNREALISED RENT(8000*1)=8,000

ACTUAL RENT RECEIVED=72,000

C. Here expected rent is higher then the ARR, therefore
ER=90,000
(-)LOSS OF VACANCY=16,000
=74,000.

D. Step-II
NAV=GAV-MUNICIPAL TAX
NAV=74,000-12%of 74,000
=74,000-8,880
=65,120

DEDUCTION U/S 24

24(a)

Statutory/standard deduction

30% on NAV

24(b)

Interest on borrowed capital/loan

INTEREST ON BORROWED CAPITAL[U/S 24(b)

- Interest on borrowed capital is allowed as deduction if the capital is borrowed for the purpose of construction, purchase, repairs, renewal or reconstruction of the house property.
- The following points are relevant for this purpose:

a. Deduction is available under **accrual basis**
b. Interest on arrear or unpaid interest is not deductible
c. No deduction is allowed for the brokerage, or commission for arranging loan
d. Interest on fresh loan, taken to repay the original loan taken for the above purpose, would be allowed as reduction
e. If interest on loan paid to any person who is non-resident in india without deducting the tax (TDS), such interest is not deductible.

INTETSEST ON PRE-CONSTRUCTION PERIOD

- ‘preconstruction period means:

(a) The period commencing on (i) the date of borrowing on (ii) the date of taking loan, whichever is later, and

(b) Ending on(i) 31st march immediately prior to the date of completion of construction or, date of purchase or, (ii) date of repayment of loan, whichever is earlier.

Period of allowing deduction: interest on ‘pre-construction period’ will be accumulated and claimed as deduction over a period of **five continuous years** in equal instalments.

Commencing from the year of completion of construction or the year in which the property is purchased/acquired.

Interest on post-construction period

- ‘post-construction period’ means

(a) The period commencing from the beginning of the year in which the construction is competed and

(b) Continues until the loan is repaid.

Period of allowing deduction- interest on ‘post-construction period’ will be fully deductible in the relevant previous year.

REMEMBER

(i) Where date of repayment of loan is earlier than date of completion of construction or acquisition, then 'pre-construction period' will be from the date of loan taken and ending on date of repayment of loan. But

(ii) Where date of completion of construction, acquisition is earlier than date of repayment of loan, then 'pre-construction period' will be from the date of loan taken and ending on 31^{st} march immediately prior to the date of completion of construction or acquisition.

In this 2^{nd} situation, 'post-construction period's interest should be calculated to get total deductible amount of interest on loan.

CALCULATION FOR INTEREST ON LOAN

Date of loan taken- 01.05.2015, date of construction completed- 10.07.2018, date of loan repaid- 31.01.2020, amount of loan taken- Rs.2,00,000, rate of interest on loan- 12%p.a.. Calculate out the amount of deduction as per section 24(b) for the year 2019-2020.

Ans.

Interest on loan

Pre-construction period

Starting date

01.05.2015

Ending date

31.03.2018

35 months

Interest loan=**(2,00,000x12%x35/12)=70,000**

Deduction =**70,000/5=14,000**

[deduction should be allowed from the year of completion]

Total interest on loan=(14,000+20,000) =34,000

Post-construction period

Starting date

01.04.2018

Ending date

31.01.2020

Current period=10 months

Interest=**(2,00,000x12%x10/12)=20,000**

Thank you