

TAXATION-I

INCOME FROM HOUSE PROPERTY
SEMESTER-IV, SECTION-4D

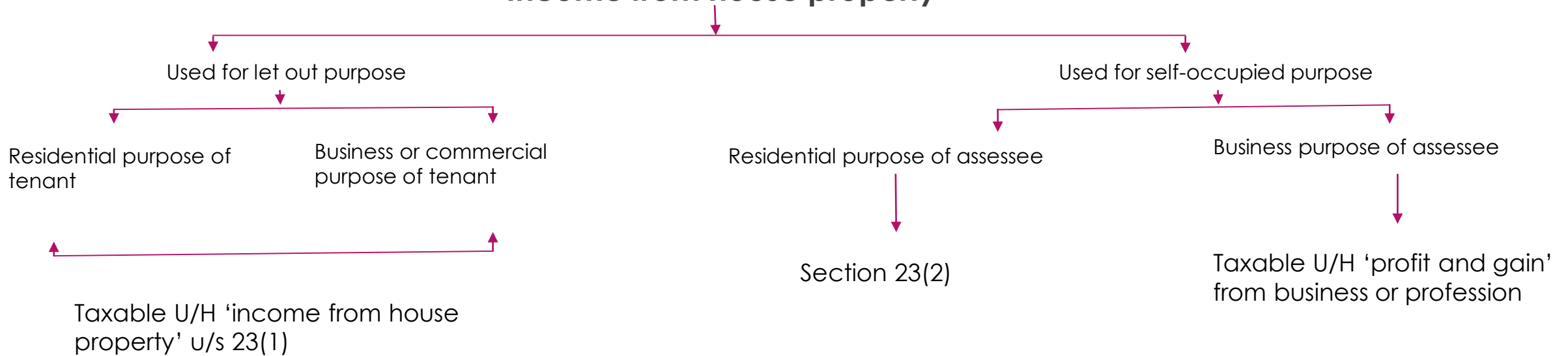
ANNU OJHA(A.O.)

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 assessee must not use the property for the purpose of other business or profession carried on by him or her.

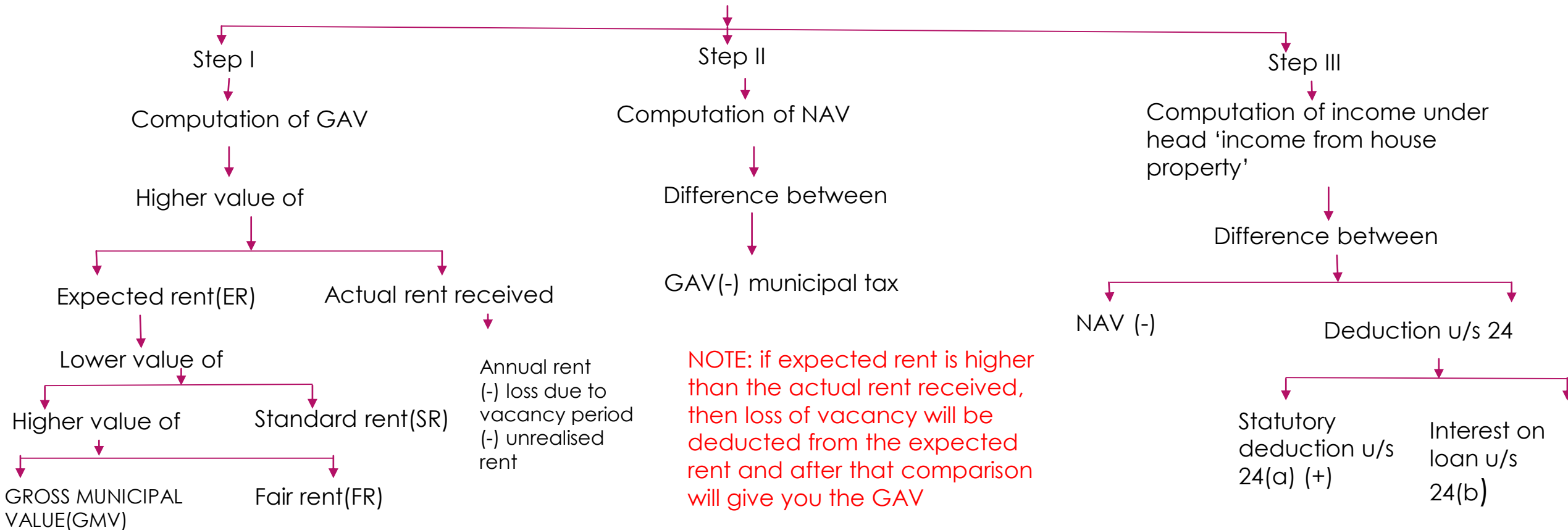
USE OF THE PROPERTY

Income from house property



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

Income from house property



Computation of NAV(net annual value)

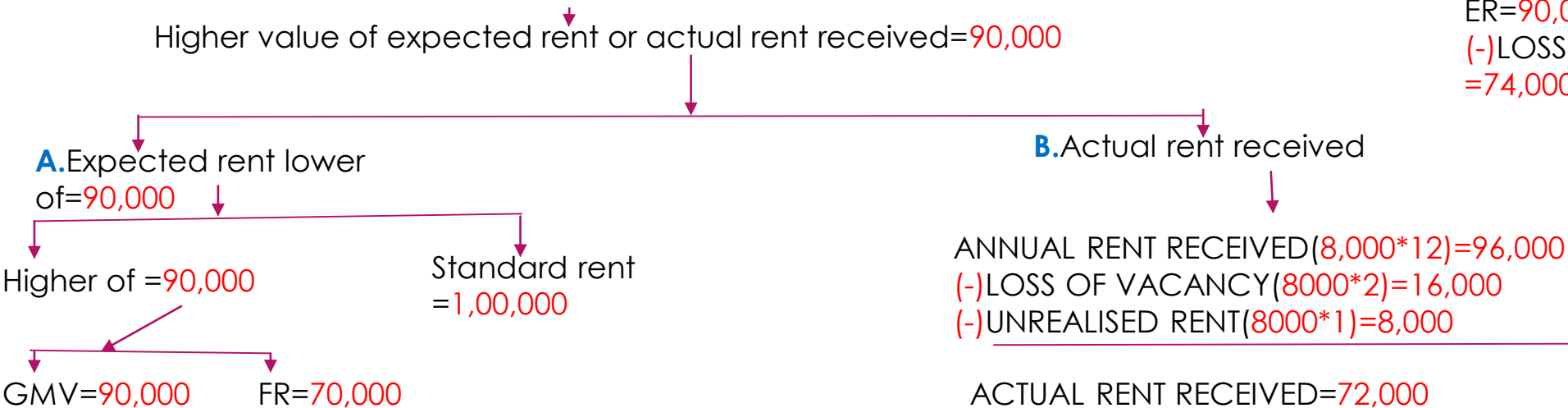
ILLUSTRATION:1

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

C. Here expected rent is higher than 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



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graph TD; A[DEDUCTION U/S 24] --> B[24(a)]; A --> C[24(b)]; B --> D[Statutory/standard deduction]; D --> E[30% on NAV]; C --> F[Interest on borrowed capital/loan]
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The diagram is a flowchart starting with a dark purple header box containing the text 'DEDUCTION U/S 24'. A vertical arrow points down from this header to a horizontal line. From the left end of this horizontal line, an arrow points down to '24(a)'. From the right end, an arrow points down to '24(b)'. Below '24(a)', an arrow points down to 'Statutory/standard deduction', which then has an arrow pointing down to '30% on NAV'. Below '24(b)', an arrow points down to 'Interest on borrowed capital/loan'.

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.

INTEREST 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 completed 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 31st march immediately prior to the date of completion of construction or acquisition.

In this 2nd 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

Ending date

01.05.2015

31.03.2018

35 months

Interest loan = $(2,00,000 \times 12\% \times 35/12) = 70,000$

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

[deduction should be allowed from the year of completion]

Post-construction period

Starting date

Ending date

01.04.2018

31.01.2020

Current period = 10 months

Interest = $(2,00,000 \times 12\% \times 10/12) = 20,000$

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



Thank you