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SEMESTER
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UNIT III

INCOME TAX

Income from House property

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INCOME FROM HOUSE PROPERTY

The income from houses, buildings, bungalows, godowns etc. is to be computed and assessed in tax under the head "Income from house property". The income under this head is not based upon the actual income from the property but upon notional income or the annual value of that building .

Different Rental Values

Municipal Rental Value [MRV]

Fair Rental Value [FRV]

Standard Rent [SRV] [As per Rent Control A/c]

Actual Rental Value[ARV]

Real Rental Value [RRV]

Rental Value : Meanings

Municipal Rental Value [MRV]

For the purposes of levying local taxes the local authority i.e. Municipal Corporation/Committee etc. conducts a periodical survey of the house properties in their local limits. On the basis of such survey the rental values are fixed. The rental value so fixed is called Municipal Rental Value (M.R.V.).

Fair Rental Value [FRV]

It is the rental value a house property can fetch. It is based on the rent prevailing for similar type of accommodation in same or similar type of locality. It is based on the principle that rent prevailing in same locality for similar sized property is almost the same. Such rental value is called Fair Rental Value (F.R.V.).

Rental Value : Meanings

Standard Rent [SRV]

The state Govt so fixed the rental value of property. The rent fixed under Rent Control Act, where so ever applicable, is called Standard Rent.

Actual Rental Value [ARV]

It is the rent actually received by the owner of the house property from the tenant.

Note:

In case tenant pays composite rent i.e. rent of building, plant and machinery, furniture etc. and rent is separable, actual rent is reduced by the amount of rent of plant and machinery, furniture. etc. balance is actual rent of house property. Any amount of local taxes paid by tenant, cost of repairs Borne by tenant or any interest on advance deposit are not to be added.

IMPORTANT POINT

Some the owners may provide some common facilities such as common gardener and watchman lift and pump maintenance, lighting of common stairs and corridors and water and electricity bills. Owner borne these cost but such costs are included in rent. Such cost is reduced out of actual rent received and balance [Real Rental Value] alone should be taken for the purpose of compare with other rental values, to arrive gross Annual value.

If owner collect charges for above said facilities separately, not included in the rent, should not deducted and charges collected is to be treated as separate source of income and the expenses incurred on such facilities are deducted out of amount so collected and balance is taxable under the head, "Income from Other sources."

Unrealized Rent (URR)

The rent which could not be realized by the owner from the tenant is called URR. It should be deducted from actual rent received or receivable (ARR) subject to the following conditions.

1. The tenancy is bona fide
2. The defaulting tenant has vacated or steps have been taken to compel him to vacate the property.
3. The defaulting tenant should not occupy any other property of the assessee.
4. The assessing officer is satisfied with all the steps by taken by the assessee with regard to institute legal proceedings for the recovery of the unpaid rent.

Vacancy Allowance

Vacancy means the period for which no one has occupied the house property.

The loss of rent that arises due to this is called loss due to vacancy.

Determination of Gross Annual value when Vacancy and Unrealised rent are Not Given

Municipal Rental Value	xxx	} Which ever is High
Fair Rental Value	xxx	
Highest	xxx	
Standard Rant	xxx	} Which ever is Less
Least	xxx	
Actual Rental Value	xxx	
Gross Annual Value	xxx	} Which ever is High

Determination of Gross Annual value when Vacancy and Unrealised rent are Given

Municipal Rental Value	xxx	} Which ever is High
Fair Rental Value	xxx	
Highest	xxx	
Standard Rant	xxx	} Which ever is Less
Least	xxx	
Actual Rental Value	xxx	
Less: Unrealised rent	xxx	} Which ever is High
Less: Vacancy Allowance	xxx	
Gross Annual Value	xxx	

Calculation of Net Annual Value

Gross Annual Value	xxx	
Less: Municipal Tax	xxx	
Net Annual Value[NAV]	xxx	
Paid by owner [Allowed]		
Paid by tenant [Not Allowed]		
Related to Relevant PY		
Actually should be paid		←
If Due, Payable, unpaid Not allowed		←
If any tax leaved by state Govt shall allowed to deduct		←

Deduction U/S 24

Standard Deduction [Sec. 24(a)]

Owner of the house property may incur certain expenses like rent collection charges, insurance of house, repair of house, etc in connection with earning of rental income. The actual expenses incurred by the owner of house property are not to be considered. Out of net annual value, a flat deduction is allowed for all the expenses with earning of rental income. It is allowed @ 30% of "net annual value".

Note: The Standard deduction is available even if the owner has not incurred any expense for earning rental income. No Standard deduction is allowed in respect of self-occupied house property.

Interest on 'Housing Loan' [Section 24(b)]

Housing loan means loan taken/amount borrowed for purchase, construction, repairs or renovation, etc. of house property. Interest paid/payable on housing loan is allowed as deduction while computing house property income.

Interest on loan borrowed for the purpose of son/ daughter higher education, marriage, purchase of car or other assets or any other purpose shall

Let Out House Property/Deemed To Be Let Out House Property

Interest on loan taken for purchase/construction /repairs/renovation etc. is allowed as deduction in full.

There is no maximum limit in respect of such interest.

Amount of deduction = Actual interest (without any limit)

For self-occupied house

Although net annual value (NAV) is taken as nil in respect of self-occupied house property, yet interest on loan taken for purchase/construction/repairs/renovation of such a house property is still allowed as deduction.

Self Occupied House cont----

If loan is taken before 1-4-99. Interest on loan is allowed upto a maximum of Rs.30,000. Purpose of loan may be construction/ purchase/ repair/ renovation/extension, etc.

2) If loan is taken on or after 1-4-99. (a) For purchase/ construction of house property. Interest on loan is allowed up to a maximum of Rs.2,00,000 provided the following conditions are

The construction or acquisition of house property is completed within 3 years from the end of the financial year in which capital was borrowed. For repairs etc. or for purchase/construction of house property if such acquisition/ is not completed within 3 years as prescribed in point 2(a) above. Interest on loan is allowed as deduction upto a maximum of Rs. 30,000.

Interest On Loan For Pre - Construction Period

Meaning of Pre-acquisition or pre-construction period. It means the period starting from the due date of borrowing and ending on March 31st immediately proceeding to the year of completion of completion or acquisition.

Pre-construction period shall be the period starting from 1st April and ending on 31st march only any fraction periods shall not include in pre-construction period.

Interest for pre-acquisition/pre-construction period shall be allowed as deduction in 5 equal installments starting from the previous year in which the house is acquired or the construction is completed and for the next 4 previous years .

Example 1

Compute the GAV from the particulars given below.

Particulars	House-1	House-2
Municipal value	24,000	36,000
Fair rental value	18,000	24,000
Standard rental value	Nil	18,000
Actual rental value	36,000	30,000

Determination of Gross Annual value For House Property I

Municipal Rental Value	24,000	Which ever is High
Fair Rental Value	18,000	
Highest	24,000	
Standard Rant	Nil	Which ever is Less
Least	24,000	
Actual Rental Value	36,000	Which ever is High
Gross Annual Value Rs.	36,000	

Determination of Gross Annual value For House Property II

Municipal Rental Value	36,000	Which ever is High
Fair Rental Value	24,000	
Highest	36,000	
Standard Rant	18,000	Which ever is Less
Least	18,000	
Actual Rental Value	30,000	Which ever is High
Gross Annual Value Rs.	30,000	

Example 2

Compute the gross annual value from the information given below

Particulars	House-1
Municipal Rental Value	Rs.18,000
Fair Rental Value	Rs.24,000
Actual Rental Value	Rs.36,000
Standard Rental Value	Rs.48,000
Unrealised Rent (in months)	3 months

AO is satisfied about all the conditions towards unrealised rent

Solution

Determination of Gross Annual value

Municipal Rental Value	18,000	Which ever is High
Fair Rental Value	24,000	
Highest	24,000	
Standard Rant	48,000	Which ever is Less
Least	24,000	
Actual Rental Value	36,000	Which ever is High
Less: Unrealised rent	9,000	
(3 x 3,000)		
Highest	27,000	
Gross Annual Value	Rs. 27,000	

Example 3

From the following information, compute GAV for the following houses.

Particulars	H1	H2
MRV	18,000	15,000
FRV	15,000	18,000
SRV	14,000	24,000
ARV (p.a.)	24,000	12,000
URR (in Rs.)	2,000	1,000
Vacant	2 month	1 month

Solution

Determination of Gross Annual value when Vacancy and Unrealised rent are Given

House property 1

Municipal Rental Value	18,000	} Which ever is High
Fair Rental Value	15,000	
	Highest 18,000	
Standard Rant	14,000	} Which ever is Less
	Least 14,000	
Actual Rental Value	24,000	} Which ever is High
Less: Unrealised rent	2,000	
	22,000	
	Highest 22,000	
Less: Vacancy Allowance	4,000	
	(2 x 2,000)	
Gross Annual Value		
		Rs 18,000

Solution

Determination of Gross Annual value when Vacancy and Unrealised rent are Given

House property II

Municipal Rental Value	15,000	Which ever is High
Fair Rental Value	18,000	
Highest	18,000	
Standard Rant	24,000	Which ever is Less
Least	18,000	
Actual Rental Value	12,000	Which ever is High
Less: Unrealised rent	1,000	
Highest	11,000	
Less: Vacancy Allowance	1,000	
(1 x 1,000)		
Gross Annual Value	Rs. 17,000	

Example 4

Mrs. Abishnavi has one houses at Chennai. The particulars of the houses are as follows.

	Rs.
Municipal value	96,000 p.a.
Fair rent	84,000 p.a.
Standard rent	1,08,000 p.a.
Actual rent	10,000 p.m.
Municipal tax paid	20,000 p.a.
Unrealised Rent	5,000
Vacancy	1 month
Interest on loan borrowed for construction	Rs.20,000 p.a.

Compute the income from house property.

Solution :

Determination Taxable Income from House property

Municipal Rental Value	96,000	} Which ever is High
Fair Rental Value	84,000	
Highest	96,000	
Standard Rant	1,08,000	} Which ever is Less
Least	96,000	
Actual Rental Value	1,20,000	} Which ever is High
Less: Unrealised rent	5,000	
Highest	1,15,000	
Less: Vacancy Allowance	10,000 (1 x 10,000)	
Gross Annual Value	Rs. 105,000	

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Gross Annual Value	Rs. 1,05,000	
Less: Municipal Tax	20,000	
Net Annual Value	85,000	
Less: Deduction U/S 24		
Standard deduction u/s 24 (a) 30% of NAV for cost of repair and collection charges		
85,000 x 30%	25,500	
Interest on loan	20,000	45,500
Income from House property		59,500

Example 5

Determine income from house property of Mr.Nithilan for the A.Y 2019-2020.

	Rs.
Municipal valuation	20,000
Fair rent	30,000
Standard rent	40,000
Rent received	48,000
Municipal taxes paid by tenant	3,000
Municipal taxes paid by owner	5,000
Municipal taxes payable by owner	3,500
Rent collection charges	2,500
Actual repairs charges	3,000
Annual charge	2,250
Ground rent	3,000
Interest on capital borrowed for construction	2,500
Interest on loan borrowed for purchase of car	8,000
Interest on loan borrowed for sun marriage	7,500
Unrealised rent (AO is satisfied only 50%)	10,000
Vacancy	2 Months

Solution :

Determination Taxable Income from House property of Mr.Nithilan

Municipal Rental Value	20,000	} Which ever is High
Fair Rental Value	30,000	
	Highest 30,000	
Standard Rant	40,000	} Which ever is Less
	Least 30,000	
Actual Rental Value	48,000	} Which ever is High
Less: Unrealised rent		
[10,000 x 50%]	5,000	
	43,000	
	Highest 43,000	
Less: Vacancy Allowance	8,000	
(2 x 4,000)		
Gross Annual Value	Rs. 35,000	

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Gross Annual Value	Rs.	35,000
Less: Municipal Tax[paid by Owner]		5,000
Net Annual Value		30,000
Less: Deduction U/S 24		
Standard deduction u/s 24 (a) 30% of NAV for cost of repair and collection charges		
30,000 x 30%		9,000
Interest on loan [for construction]	2,500	11,500
Income from House property		18,500

Note: Important Points

Think why these items are not considered in Solution

Municipal taxes paid by tenant	3,000
Municipal taxes payable by owner	3,500
Rent collection charges	2,500
Actual repairs charges	3,000
Annual charge	2,250
Ground rent	3,000
Interest on loan borrowed for purchase of car	8,000
Interest on loan borrowed for son marriage	7,500
Unrealised rent (AO is satisfied only 50%)	10,000