# PS,PT MGR Govt Arts and Science College Puthur – Sirkali – Nagai District

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# SUBJECT: INCOME TAX LAW AND RRACTICE

Unit: INCOME FROM HOUSE PROPERTY

Sections 22 to 27 of the Income Tax Act, 1961 deal with the computation of the taxable 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.

# **Rental Value: Meanings**

## 1. 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.).

### 2. 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.).

#### 3. 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.

## 4. Actual Rental Value [ARV]

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

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.

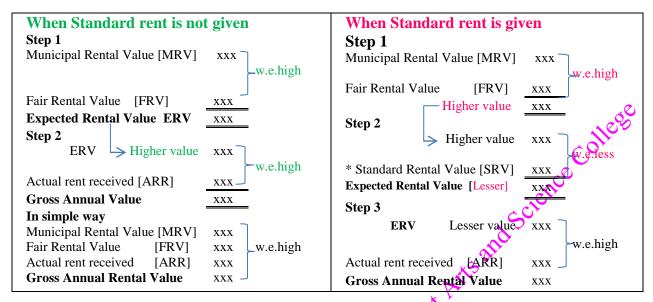
# **Vacancy Allowance**

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.

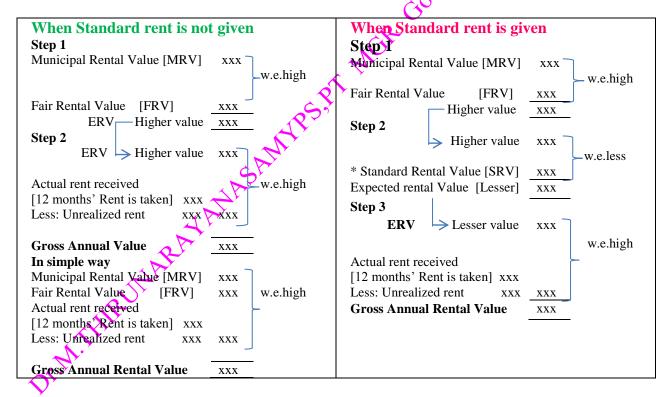
## DETERMINATION OF GROSS ANNUAL VALUE

- I. House Let-out whole year and there is no unrealized rent and vacancy.
  - (a) When Standard rent is not given
  - (b) When Standard rent is given
- II. House Let-out whole year and there is unrealized rent but No vacancy
  - (a) When Standard rent is not given
  - (b) When Standard rent is given
- III. House Let-out whole year and there is vacancy but No unrealized rent
  - (a) When Standard rent is not given
- (b) When Standard rent is given
- IV. House Let-out whole year and there is both unrealized rent and Vacancy
  - (a) When Standard rent is not given
  - (b) When Standard rent is given

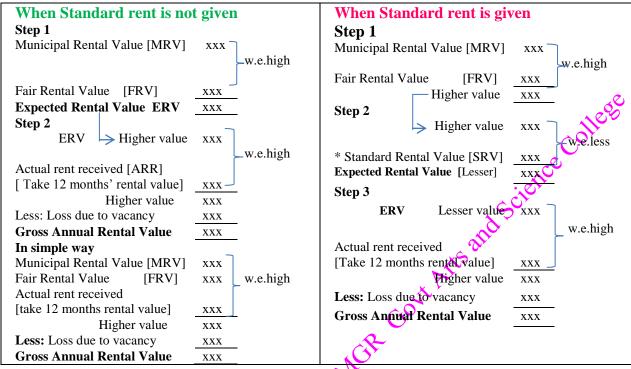
## I. House Let-out whole year and there is no unrealized rent and vacancy.



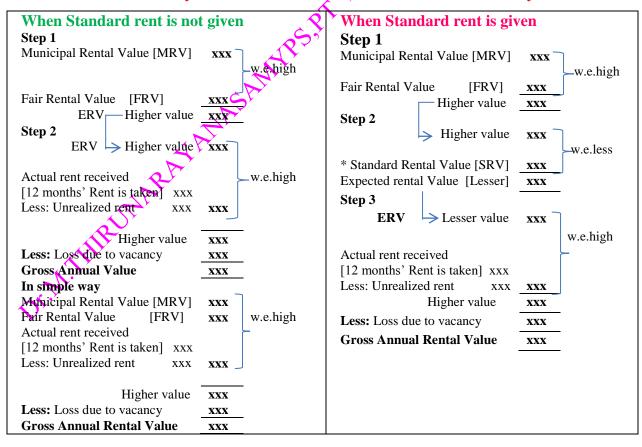
# II. House Let-out whole year and there is unrealized rent but No vacancy



## III. House Let-out whole year and there is vacancy but No unrealized rent



## IV. House Let-out whole year and there is both urrealized rent and Vacancy



## **Important point**

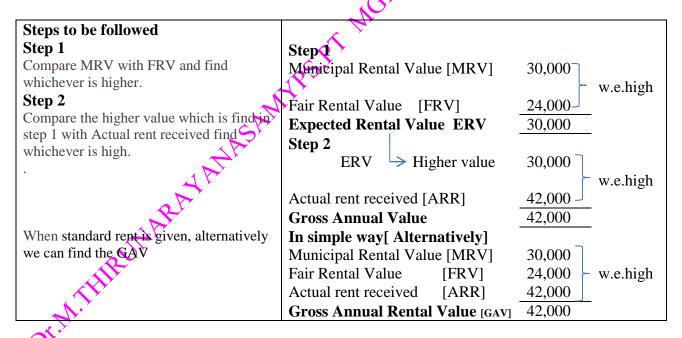
**Note:** Some the owners may provide some common facilities such as common gardener and watchman lift and pump maintenance, lighting of common stairs and corridors and water and electricity bills. Owner borne these cost but such costs are included in rent. Such cost is reduced out of actual rent received 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."

#### **Illustration 1**

The following information provided by Mrs.Jayabharathi about her house property for the AY 2019-20. Find out gross annual value.

Particulars	House-A
	Rs.
Municipal value	30,000
Fair rental value	24,000
Actual value	42,000

#### **Solution**

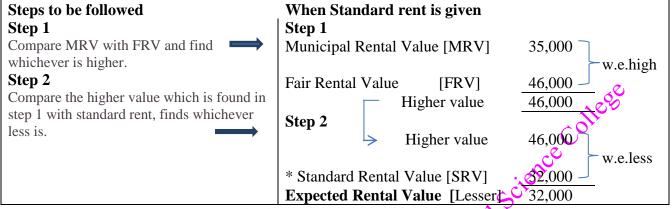


## **Illustration 2** [when standard rent is given]

Calculate the Expected Rental Value from the information given below:

Municipal value Rs. 35,000, Fair rental value Rs. 46,000 and Standard Rent Rs. 32,000

Calculation of Expected Rental Value



## Illustration 3 [when standard rent is given]

Calculate the Expected Rental Value from the information given below: Municipal value Rs. 24,000, Fair rental value Rs.22,000 and Standard Rent Rs.30,000.

#### Solution

Calculation of Expected Rental Value

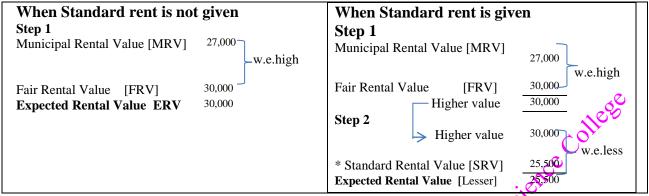
Steps to be followed	When Standard rent is given	
Step 1	Step 1	
Compare MRV with FRV and find	Municipal Rental Value [MRV]	24,000
whichever is higher.		~w.e.high
Step 2	Fair Rental Value [FRV]	22,000
Compare the higher value which is found in	Higher value	24,000
step 1 with standard rent, finds whichever less is.	Step 2	24,000 7
c A	→ Higher value	24,000 w.e.less
AA	* Standard Rental Value [SRV]	30,000
1	<b>Expected Rental Value</b> [Lesser]	24,000

**Note: Important point** 

Based on the judgment given by the Hon'ble Supreme Court of India in a case Balbir Singh vs. MCD [1985] 1521TR 388(SC). Either MRV or FRV is less than the Standard Rent which lesser value is ERV. The higher value among these two MRV or FRV should not exceed over SRV.

#### Illustration 4

Mr. Nithilan has a house at Chidambaram where Rent Control Act is applicable. Its MRV is Rs. 27,000 p.a. and FRV is rs.30,000 p.a. Standard Rent is Rs.25,500. Calculate the Expected Rental Value from the information given above and shows what difference it will make, if Rent Control Act is not applicable and Standard Rent is not given.



#### **Illustration 5**

Calculate Gross Annual Rental Value from the particulars given by Abishnavi for AY 2019-20.MRV Rs. 1,20,000 p.a. FRV Rs. 1,32,000 p.a. Actual Rent is Rs. 1,44,000 p.a. and Standard Rent is Rs.1,38,000 p.a.

#### **Solution:**

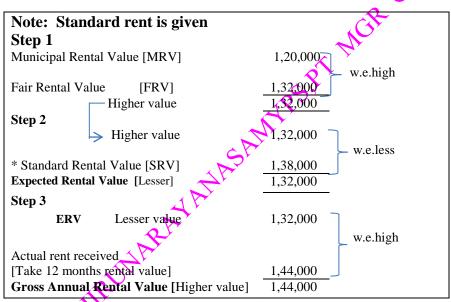
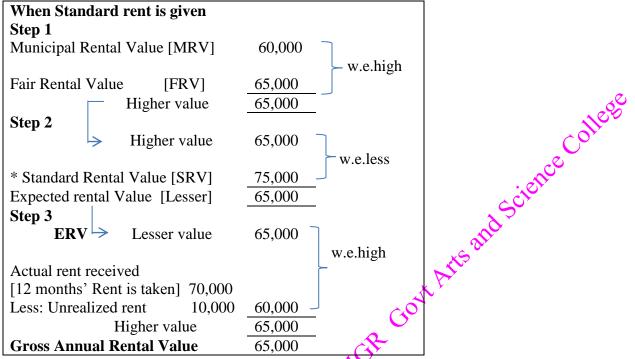


Illustration 5 [When there is Unrealised Rent]

Calculate Gross Annual Rental Value from the particulars given by Mr. Muthuvel for AY 2019-20. Municipal Rental Value Rs. 60,000 p.a. Fair Rental Value Rs. 65,000 p.a. Actual Rent is Rs. 70,000 p.a. and Standard Rent is Rs.75,000 p.a. Unrealised Rent Rs. 10,000.



**Illustration 6 [When there is Unrealised Rent]** 

Calculate Gross Annual Rental Value from the particulars given by Mr. PrasathMurali for AY 2019-20. Municipal Rental Value Rs. 36,000 p.a. Fair Rental Value Rs. 33,000 p.a. Actual Rent is Rs. 3,000 p.m. and Standard Rent is Rs. 31,000 p.a. Two months' rent is unrealised.

#### Solution When Standard rent is given Step 1 36,000 Municipal Rental Value [MRV] w.e.high Fair Rental Value [FRV] 33,000 Higher value 36,000 Step 2 Higher value 36,000 w.e.less \* Standard Rental Value [SRV] 31,000 Expected rental Value [Lesser] 31,000 Step 3 <->ERV → Lesser value 31,000 w.e.high Actual rent received [12 months' Rent is taken] 36,000 Less: Unrealized rent 6,000 30,000 [2 x 3,000] 31,000 Higher value **Gross Annual Rental Value** 31.000

## **Illustration 7 [When there is Vacancy]**

Calculate Gross Annual Rental Value from the particulars given by Mr. Rajiniprasath for AY 2018-19. Municipal Rental Value Rs. 72,000 p.a. Fair Rental Value Rs. 66,000 p.a. Actual Rent is Rs. 5,000 p.m. and Standard Rent is Rs. 55,000 p.a. The house was vacant for two months.

#### **Solution:**

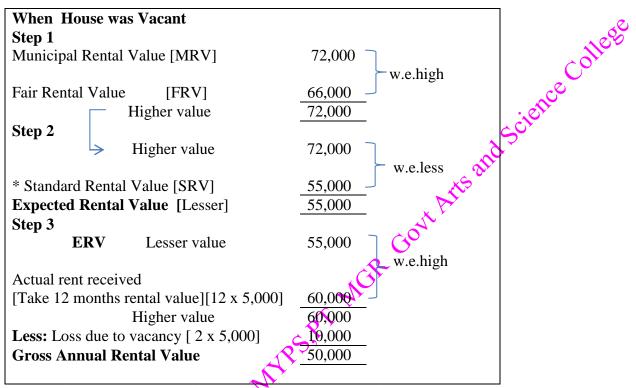


Illustration 8 [When there is both Vacancy and unrealized rent]

Calculate Gross Annual Rental Value from the particulars given by Mrs.Rukmani for AY 2019-20. Municipal Rental Value Rs. 64,000 p.a. Fair Rental Value Rs. 68,000 p.a. Actual Rent is Rs. 6,000 p.m. and Standard Rent is Rs.62,000 p.a. Two months' rent was unrealised and the house was vacant for three months.

#### Step 1

Compare MRV with FRV and find whichever is higher.

#### Step 2

Compare the higher value which is found in step 1 with standard rent, finds whichever less is.

## Step 3

Compare the lesser value which is found in step 2 with actual rent received, finds whichever is higher.

#### Note:

The rent actually received or receivable for full year (after deducting unrealised rent as per conditions given but before deducting loss of vacancy ) should be taken for comparing with ERV.

Firstly deduct unrealised rent out of annual rent received/receivable and compare with ERV and find the higher one and then reduced by an amount of actual rent in proportion of vacancy [deduct the loss due to vacancy] and the value so arrived at shall be the gross annual value.

When Standard rent is given	
Step 1	
Municipal Rental Value [MRV]	64,000 ¬
	– w.e.high
Fair Rental Value [FRV]	68,000
Higher value	68,000
Step 2	100
Higher value	68,000
	w.e.less
* Standard Rental Value [SRV]	62,000
Expected rental Value [Lesser]	62,000
Step 3	<del>)</del>
ERV > Lesser value	62,000
×\$	w.e.high
Actual rent received	- 1111111111111111111111111111111111111
[12 months' Rent is taken] 72,000	
Less: Unrealized rent 12,000	60,000
[2 x 6,000]	,
Higher value	60,000
Less: Loss due to vacancy	18,000
[ 3x 6,000]	
Gross Annual Rental Value	42,000
STORE TAILING THE THE	,000

## Illustration 9 [When monthly rent includes some maintenance charges]

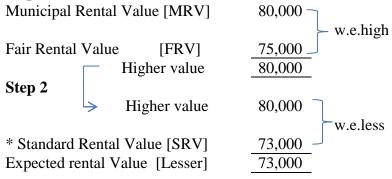
Mr. Selvaganapathi has given some information about his letout house property for AY 2018-19. Municipal Rental Value Rs. 80,000 p.a. Fair Rental Value Rs. 75,000 p.a. Actual Rent is Rs. 7,000 p.m. and Standard Rent is Rs.73,000 p.a. Monthly rent includes Lift maintenance charges Rs.200 p.m, Pump maintenance Rs. 250 p.m., Salary of Gardener and Watchman Rs. 450 p.m and swimming pool expenses Rs.100 p.m. Calculate Gross Annual Rental Value.

## **Solution**

### Note:

In case the monthly includes cost of common facilities such as lift and pump maintenance, alary of common gardener and watchman, lighting of common stairs and corridors and water and electricity bills are borne by the owner and rent includes the cost of these items. Such cost is reduced out of actual rent received and balance is called

# When Standard rent is given Step 1



Real Rental Value (R.R.V.) only Step 3 ERV -> should be taken for compare with Lesser value 73,000 ERV. w.e.high Monthly rent Rs.7,000 \*Real Rent received Less: [ 12 x 6,000] 72,000 Lift maintenance charges Rs.200 Higher value 73,000 Pump maintenance Rs. 250 **Gross Annual Rental Value** 73,000 Salary of Gardener and Watchman Rs. 450 Swimming pool expenses Rs.100 1,000 \* Real Rental Value Rs.6,000 COMPUTATION OF NET ANNUAL RENTAL VALUE Gross Annual Rental Value as XXXcomputed above Less: Municipal Tax **Important Points** [Local Tax] XXXNet Annual Rental XXX Value 1. Municipal [Local] Tax may include any other tax levied by local authority in respect of house namely Sanitation cess, Education cess, House tax, water and fire tax, conservancy and Sewerage tax. 2. If the above said taxes levied by state government shall not be allowed to deduct from Gross Annual value. 3. The local taxes shall be allowed as deduction only if municipal [Local] tax paid and borne by the owner of the house property only shall be allowed as

deduction. Thus, where the above said tax paid by tenant shall not be allowed as deduction. If both owner and tenant shared the local tax, a part paid by owner

5. Municipal taxes should not be allowed as deduction if the house property is  $\leftarrow$ 

**4.** The local taxes should be related to previous year. And actually paid alone shall be allowed, if it have not been paid still pending at the end of previous year

only shall be allowed as deduction.

shall not allowed as deduction.

self-occupied.

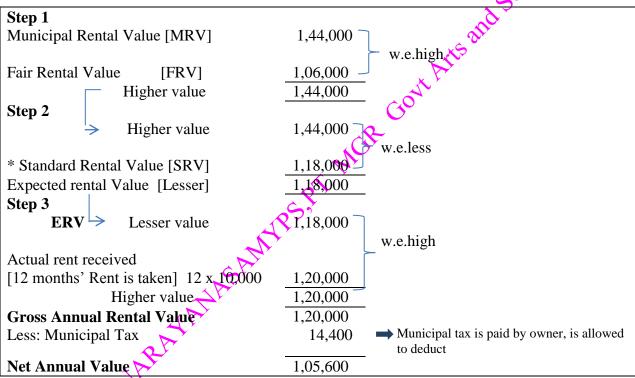
## Illustration 10 [Computation of Net annual value]

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

	House-A
	Rs.
Municipal value	1,44,000 p.a.
Fair rent	1,06,000 p.a.
Standard rent	1,18,000 p.a
Actual rent	10,000 p.m.
Municipal tax [paid by Shanthi ]	14,400 p.a.
~	

Compute net annual value.

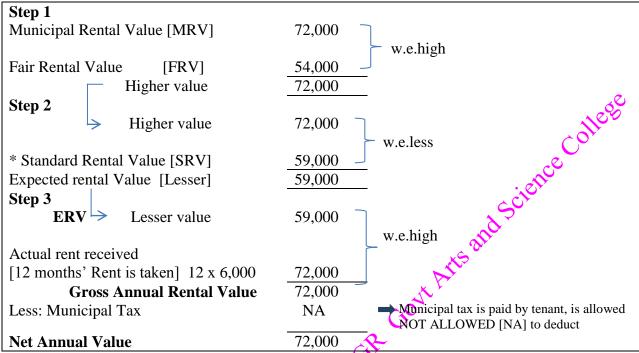
#### **Solution**



## Illustration 11 [Computation of Net annual value]

The following particulars Mr. Srinivasan' houses at Chennai, compute net annual value.

	House-A
	Rs.
Municipal value	72,000 p.a.
Fair rent	54,000 p.a.
Standard rent	59,000 p.a.
Actual rent	6,000 p.m.
Municipal tax [paid by tenant]	8,000 p.a.
Compute net annual value.	

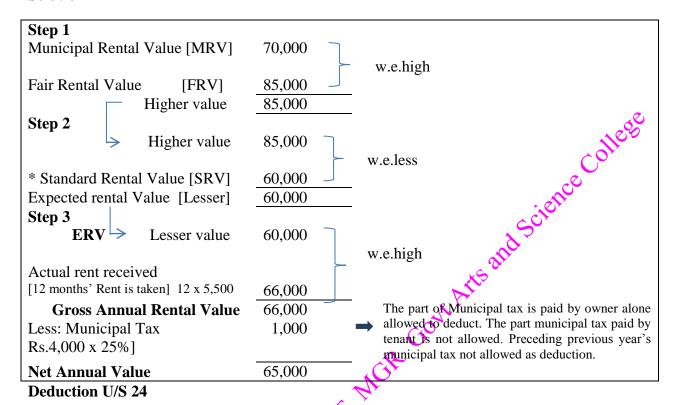


## **Illustration 12 [Computation of Net annual value]**

The following particulars given by Mrs. Vijayalakshmi about her houses property at Delhi, Compute net annual value for AY 2019-20.

Municipal value
Fair rent
Standard rent
Actual rent
Municipal tax
For 2016-17 Rs. 2,000
2017-18 Rs. 4,000

25% of Municipal tax paid by owner. Compute net annual value.



# Standard Deduction [Sec. 24(a)]

Owner of the house property may incurred certain expenses like rent collection charges, insurance of house, repair of house, etc in connected 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 Joan 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 sun/ daughter higher education, marriage, purchase of car or other assets or any other purpose shall not be allowed as deduction.

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.

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 up to 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 1<sup>st</sup> April and ending on 31<sup>st</sup> 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:

#### Illustration

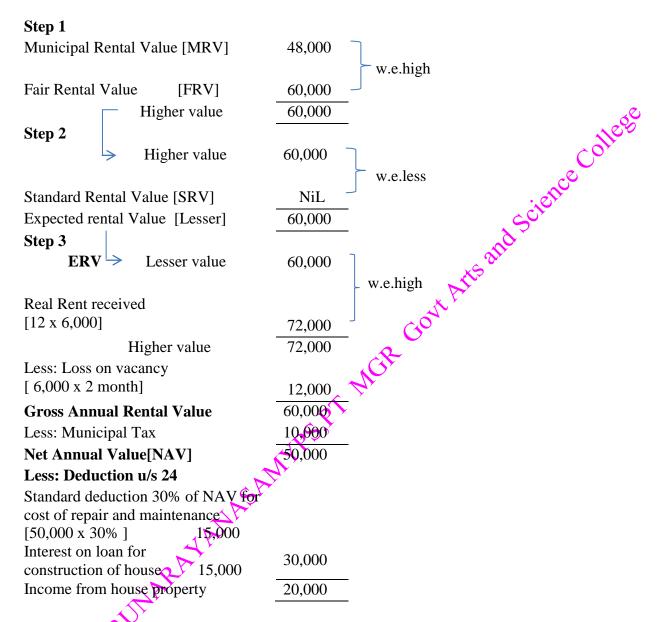
Mr. Samybharathi owns a house at Mumbai whose municipal value is Rs.48,000 p.a. and fair rent is Rs.60,000 p.a. It was let out for residential purposes at a monthly rent of Rs.6,000. The house was vacant during the P.Y 2017-18 for two months. The expenses relating to the property during the previous year were as follows:

1	Rs.
Municipal taxes	10,000
Annual charge	12,000
Collection charges	9,000

Interest on loan for:

i) Purchase of T.V 3,000 ii) Construction of house 15,000

Compute his income from house property



# Note:

While calculating property income, Standard deduction should allow 30% of NAV irrespective of whether it is given in the problem or not. Loan is borrowed for purchase of TV is not allowed as deduction u/s.24.