



INCOME FROM HOUSE PROPERTY

CHARGING SECTION (Sec. 22)

The **Annual value** of **Property** consisting of any buildings or lands appurtenant thereto of which the "Assessee" is the owner, other than such portions of such property as he may occupy for the purposes of any business or profession carried on by him, the profits of which are chargeable to income-tax, shall be chargeable to Income-tax under the head "Income from house property".

ANNUAL VALUE

- ❖ “Annual Value” is also known as “Gross Annual Value (GAV)”
- ❖ Annual value is the rental income which is received or deemed to be received on a particular “House property” for a particular Assessment year.
- ❖ It is also applicable even if the assessee runs a business of renting properties.

DEFINITION OF PROPERTY

- ❖ It should be a property consisting of building or land appurtenant thereto
- ❖ The property should be owned by the Assessee
- ❖ The property should not be used by the owner for his own business or profession, the profit of which is chargeable to Income tax.

MEANING OF PROPERTY

- ❖ A house property can be a home, an office, a shop or a parking lot
- ❖ I-Tax Act doesn't differentiate between commercial and residential property
- ❖ However, if the owner himself is using such a property for business or profession, then it will be charged under the head "Income from Business or Profession"

CLASSIFICATION OF PROPERTY

The house properties can be classified mainly in 3 parts –

1. Self – Occupied property (SOP)
2. Let Out Property (LOP)
3. Deemed to be Let Out property (DLOP)

<u>No.</u>	<u>S.O.P.</u>	<u>L.O.P.</u>	<u>D.L.O.P.</u>
1	House property which is occupied by the Assessee for his own residence	House property which is given on rent by the Assessee	House property which is not let out but still assumed to be let out
2	2 house properties can be claimed as SOPs unless any rent is charged on that property	Any property on which rent is charged will be an LOP	It's the 3rd house property which cannot be claimed as an SOP
3	The G.A.V for such properties will always be "Zero"	The G.A.V. is calculated by comparing the Actual Rent and Expected Rent	The G.A.V. is calculated just like an LOP

COMPUTATION OF G.A.V.

<u>No.</u>	<u>PARTICULARS</u>	<u>SOP</u>	<u>LOP / DLOP</u>
1	Municipal value	----	XX
2	Fair rent	----	XX
3	<u>(Higher of 1. & 2.)</u>	<u>----</u>	<u>XX</u>
4	Standard Rent	-----	XX
5	<u>Expected Rent (Lower of 3. & 4.)</u>	<u>----</u>	<u>XX</u>
6	Actual Rent Received	----	XX
7	<u>Gross Annual Value (GAV) (Higher of 5. & 6.)</u>	<u>NIL</u>	<u>XX</u>

RENT FOR VACANCY PERIOD

- ❖ While computing “Actual Rent”, rent pertaining to the period of vacancy is not to be deducted from the Actual rent.
- ❖ It is a benefit given to the Owner as he has lost rent because of vacancy.
- ❖ However the GAV will be only the amount of rent actually received.

NET INCOME FROM H.P.

<u>PARTICULARS</u>	<u>SOP</u>	<u>LOP / DLOP</u>
Gross Annual Value (G.A.V.)	Nil	XX
Less – Municipal Taxes (If paid by the owner)	<u>Nil</u>	<u>(XX)</u>
Net Annual Value (N.A.V.)	Nil	XX
<u>Less – Deductions u/s 24</u>		
a) Standard Deduction (30%) of NAV	Nil	(XX)
b) Interest payable on loan for property	<u>(XX)</u>	<u>(XX)</u>
<u>NET INCOME FROM HOUSE PROPERTY</u>	<u>(XX)</u>	<u>XX</u>

INTEREST u/s 24(b)

- ❖ As you know, the Annual value (NAV) of SOP is always NIL
- ❖ For such properties, there is a limit for claiming Interest deduction –
 1. Interest on loan for repairs, renewal, etc. – Rs. 30,000
 2. Interest on loan for construction and Acquisition – Rs. 2,00,000

UNREALIZED RENT

- ❖ Unrealized rent is that rent which the owner is not able to collect from the tenant.
- ❖ This can be because the tenant has absconded or is not able to pay the rent.
- ❖ The tenant also must have taken adequate steps to collect this rent.

ARREARS OF RENT

- ❖ Arrears of rent is generally due to retrospective increase of rent.
- ❖ This is basically the rent that I could not collect in the previous years because of some dispute or ambiguity.
- ❖ It is basically the expected rent that I haven't received.

TAXABILITY OF UNREALIZED AND ARREARS OF RENT

- ❖ If Unrealized rent or Arrears of rent are actually received then –
 1. Both of them will be taxed in the previous year they are received.
 2. It will be taxable even if the assessee is no longer the owner of the property.
 3. **Unrealized Rent** won't be eligible for standard deduction, provided it is already deducted in the relevant previous year.

PRE - CONSTRUCTION INTEREST

- ❖ The interest on loan for property can be claimed only when the property is owned by the assessee.
- ❖ However, the owner may also take a loan before he is the owner of the property.
- ❖ The I-Tax Act, also provides the owner with the benefit for the interest he has paid before acquiring or constructing the house property.

PRE - CONSTRUCTION INTEREST

- ❖ It is the interest paid from the date of loan till the previous year immediately before acquiring or constructing the house property.
- ❖ This interest can be claimed as deduction in **5** consecutive years (PY) from the year of acquisition or construction.
- ❖ It can be claimed in **5** equal instalments.
- ❖ For an SOP, the limit is **Rs. 2,00,000/-** including such interest.

PRE - CONSTRUCTION INTEREST

- ❖ Let us understand this with an example.....
- ❑ Mr. P took a loan of **Rs. 10,00,000/-** for construction of a house on 1st April, 2016. The rate of interest is **10%**. Hence, his yearly interest is to Rs. **1,00,000/-**
- ❑ The house was constructed on 1st January, 2020 (P.Y. 2019-20).
- ❑ The interest for **3** years (16-17, 17-18, 18-19) will be considered as Pre construction interest.
- ❑ Rs. 60,000 ($3,00,000 / 5$) will be allowed as deduction in **5 consecutive years** from PY 2019-20.
- ❑ So, from PY 2019-20 a deduction of **Rs. 1,60,000/-** can be claimed (1,00,000 + 60,000)