

**K.T.S.P.Mandal's**

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**Department of Commerce**

**T.Y.B.COM**

**SEM-VI**

**Subject  
Income Tax**

**Chapter 2**

**Computation of Taxable income under the  
different heads of Income  
(Income from House Property)**

## **Chapter 2**

# **Computation of Taxable income under the different heads of Income**

## **(Income from House Property)**

### **Introduction:-**

### **Basis of chargeability (section-22) :**

Under the head Income from house property the basis of charge is the 'Annual Value' of property.

The following conditions must be satisfied to charge a rental income under the head 'Income from House Property.'

1. The property should consist of any buildings or lands appurtenant etc.
2. Rental income of a vacant plot (not appurtenant to building) is not chargeable to tax under the head 'Income from House property'. It is taxable under the head 'income from other sources or profits and gains of business as the case may be.
3. The assessee should be owner of the property
4. The property should not be used by the owner for the purpose of any business or profession carried on by him, the profits of which are chargeable to income tax.

### **Classification of house property**

#### **A) Self-occupied House Property:-**

Those property used for self-residency. With effect from A.Y 2019-20 if owner having 1 or 2 house property then both property considered as self-occupied. If the following conditions are satisfied

1. The property is not actually let-out during the previous year.
2. No other benefits derived from there

#### **B) Let out House property:-**

Those Property are rented to tenant is called as Let out House property.

#### **C) Deemed Let out House Property:-**

If assessee having more than 2 property. Then vacant property is known as Deemed Let out House property

#### **D) Own Business / Profession:-**

Property used for own Business or Profession

## **Important Concepts**

### **1. Use of property for own business or profession –**

If the property of the assessee is being used for carrying his own business, the income from such property will not be charged under the head 'Income from House Property'. It will be charged under 'income from business.'

### **2. Income from subletting-**

Income from subletting is not taxable as an income from house property.

### **3. Deemed owner –**

The following persons are to be treated as deemed owner of the house property for the purpose of charging tax.

a) An individual who transfers house property without an adequate consideration to his or her spouse or to minor child

b) The holder of impartible estate is treated as deemed owner of house property.

### **4. Municipal Valuation (M.V.) –**

This is the value as determined by the municipal authorities for levying municipal taxes on house property

### **5. Fair Rent (F.R.) –**

It is the rent which a similar property can fetch in the same or similar locality, if it is let out.

### **6. Standard Rent (S.R.) –**

It is the rent fixed under the Rent control Act

### **7. Annual Rent (A.R.)-**

Rent of the previous year (That is Rent for 11 Months) or that part of the previous year when the property was available for letting it out.

### **8. Unrealized Rent (U.R.) –**

It is the rent which the owner cannot realized (Subject to the rules made in this behalf)

### **9. Loss of rent because of vacancy/Loss due to vacancy (L.D.V) –**

Where the property is available for let out but was vacant during the whole or any part of previous year and owing to such vacancy there is loss of rent.

### **10. Municipal Tax-**

Municipal tax is deductible if it is paid by Owner only

## **11. Rules for Calculation Gross Annual Value:-**

### **A) Self-Occupied House Property:-**

Gross annual value of Self-Occupied House Property is always NIL.

### **B) Let out House Property:-**

Use following steps:-

#### **Step No. 1 Expected Rent Received**

a)Municipal Valuation

or

b)Fair Rent

**Whichever is higher but maximum to Standard Rent**

#### **Step No.2 Actual Rent Received**

Rent for the year	<b>xxx</b>
(-) Unrealized Rent	- <b>xx</b>
(-) Rent for vacancy	- <b>xx</b>
Actual Rent Received =	<b>= xxx</b>

After calculating step no 1st and 2nd apply the rule as per Income tax act.

#### **\* Rule No.1**

**If step no 2nd is more than step no 1st then step no 2 is a Gross Annual Value.**

#### **\* Rule No.2**

**If step no 2nd is less than step no 1st then apply step no 3.**

#### **Step no. 3 Find out the reason**

(Why no 2 step is less than step no 1) Reason

1. For Unrealized Rent: - Then step no 1 is a GAV.
2. For vacancy: - Then step no 2 is a GAV.
3. For both :-

GAV= Step no 1 – Rent for vacancy

### **C) Deemed Let out House Property:-**

To find out GAV of deemed let out House Property Apply only following step:-

#### **Step No. 1 Gross Annual Value**

Municipal Valuation

Or

Fair Rent

**Whichever is higher but maximum to Standard Rent**

**D) Own Business\Profession:-**

If property used for own business or profession the it's not treated as income from house property its taxable under Income form business or profession.

**12. Deduction U\S 24:-**

1) Standard deduction:- 30% of NAV (not allowed for S.O.H.P)

2) Interest on bowered capital\ Loan:-

1. Deduction is allowed on Paid or accrual basis.
2. No limit for Let out and Deemed let out house property.
3. In case of S.O.H.P-

Aggregate Maximum Rs.2, 00,000/- may be one or two properties (w.e.f. 1/4/2019), if loan is taken on or after 1/4/99 and construction is completed within five years.

**(N.A. if new taxation regime u/s 115BAC is exercised w.e.f. 1/4/2020)**

Maximum Rs.30, 000 if conditions in IIIrd above are not fulfilled and if Loan is taken for renewal or repairs of house property.

Interest on loan for pre-construction period is allowed for deduction five equal annual instalments. However the aggregate maximum limit of Rs.2, 00,000 or Rs.30, 000 as the case may be cannot exceeds.

**13. Format of Computation of Taxable income from house property**

Particular	Rs.	Rs.
<b>A) Gross Annual Value</b>	<b>Xxxx</b>	
Less (-) Municipal Tax	- <b>xxx</b>	
<b>B) Net Annual Value</b>		<b>xxxx</b>
<b>C) Less Deduction U/s 24</b>		
1. Standard Deduction (30 % of NAV)	- <b>Xxx</b>	
2. Interest on Borrowed Capital/Loan	- <b>xxx</b>	- <b>xxx</b>
<b>D) Income From House Property</b>		<b>xxxx</b>

**Problems on Income from House Property**

**Problem No. 1)**

Ramesh is the owner of a house. The house has been letout for an annual rent of Rs.1000 p.m. The annual value of the house property is Rs.10, 000. The expenses that have been incurred in connection with the house are as follows:

Municipal Tax	Rs. 1000
Collection Charges	Rs. 800
Annual Charge on Property	Rs. 1000

House remained vacant for a month during the previous year. Calculate the taxable income from house property for the A.Y.2022-23

Particular	Rs.	Rs.
<b>A) Gross Annual Value (W.N. 1)</b>	11000	
Less (-) Municipal Tax	-1000	
<b>B) Net Annual Value</b>		<b>10,000</b>
<b>C) Less Deduction U/s 24</b>		
3. Standard Deduction (30 % of NAV)	3000	
4. Interest on Borrowed Capital/Loan	NIL	<b>-3000</b>
<b>D) Income From House Property</b>		<b>7,000</b>

Working Note (W.N.)

**1. Gross Annual Value**

Step 1-Findout Expected Rent

Municipal Value - Nil

OR

Fair Rent –Nil

Whichever is Higher but Upto Standard Rent- Nil

**So Expected Rent –Nil**

Step 2- Findout Actual Rent Received

Rent for the year (1000 X 12 Months)	<b>12000</b>
(-) Unrealized Rent	- Nil
(-) Rent for vacancy (1 Month)	- 1000
<b>Actual Rent Received =</b>	<b>11000</b>

Step 1- Expected Rent – Nil

Step 2- Actual Rent Recived- 11000

**Actual Rent recived (Step 2) is greater (>) then Expected rent (Step 1) so Gross Annual Value is 11000 (value of Actual Rent Received )**

References:-

- 1) Income Tax by Meera Govindraj, Nirali Prakashan, 2022
- 2) Income Tax by Prof.L.P.Wakale, Gayatri Prakashan, 2020
- 3) Income Tax by Dr. Dinesh D. Bhakkad, Dr. Gautam M. More, Prashant Publications, 2020
- 4) Income Tax by Prof.Dr.Sudhir Borate and Others, Kshitija Publication, 2021