15 Income from the head of House Property

Under Section 22 of the Income Tax Income is taxed under the head *House Property with* is the inherent capacity of the property to earn income called the Annual Value of the property. The above is taxed in the hands of the owner of the property.

15.1 House property includes:

i. Any building or land appurtenant may be informed of courtyard or compound forming part of the building but not an open land

ii. Flats, shops, office space, Factory shades, Agricultural land & Farm houses (but there should be superstructure on the Land)

15.2 Meaning of ownership:

i. The name on which the property stands/Registered shall be the legal owner, but it is not necessary that he should be the owner of the Land on which that House Property is built, like in case of a flat.

ii. In case of disputed property, the occupant person will be treated as the owner.

iii. Member of Group Housing Scheme of local Govt. or Cooperative Society

15.3 Annual Value: U/s 23(1) annual value of any property will be:

As per Section 23(1) the Annual Value of property will be the sum whichever is received or is receivable from the following:

- ✓ The Annual value of any property is the sum of what the property might reasonably be expected to fetch if the property is let from year to year [Sec. 23(1) (a)]
- ✓ Where the property or any part thereof is let out, the annual value of such property or part shall be the reasonable rent for that property or part or the actual rent received or receivable, whichever is higher [Sec. 23(1) (b)].
- ✓ Where the property (or part thereof) has been let out and was vacant during any part of the year & if due to such vacancy the rent received or receivable is less than the reasonable a when for the property (or part), then its annual value shall be the amount so received or receivable.

15.4 Net annual value: In case of let out property, the local taxes such as Municipal tax, water & sewage tax, Fire tax & Education Cess levied by a local authority are deductible while computing the net annual value of the property on payment basis.

15.5 Important facts relating house property:

i. Income from Land attached to building used for Agricultural purpose will not be taxable.

ii. If a person is living at some other place due to his profession or business and if no income has been arisen from the house Property, then the annual value of the house property will be treated as Nil.

iii. If the Assessee has only one house property which is self occupied and not earning any amount as rent, then the annual value of such property will be Nil and no income tax will be payable whereas if the house property has acquired or constructed by borrowed capital then the deduction for accrued interest will be allowed as per Section 24(1).

iv. If Assessee has more than one house property then as per Section 23(4) according to his wish annual value of any one house property will be calculated with an assumption that it was rented.

v. In case of joint ownership if a house property is in the ownership of two or more persons with fixed joint ownership, then income after allowable deduction will be taxed to the each of other owner according to their proportionate ownership.

15.6 Deduction allowed u/s 24:

i. Standard Deduction 30% of net annual value

ii. Deduction in respect of accrued interest on borrowed capital for acquisition construction or repairing of house property

Situation 1: When the house property is self-occupied

a. If loan for acquisition/construction of house property has been taken before April 1, 1999, then the maximum limit of allowable deduction for due interest is Rs. 30,000 otherwise it will be Rs 2.0 Lakh from April 1, 2014 .

b. If loan has been taken at any time for renovation, maintenance & repairs of house property, then the maximum limit of allowable deduction for due interest is Rs. 30,000.

Situation 2: When the house property is not self occupied

The whole amount of due interest will be allowable as deduction without any upper limit when the capital is borrowed for any purpose (cons./maint.) of house building.

15.7 The construction/acquisition of house property should be completed within 5 years form the financial year of taking borrowed capital (house loan).

15.8 If capital is borrowed for repayment of housing loan of high interest rate then also the deduction for due interest is allowable.

15.9 The deduction of due interest only is allowable after completion of construction/acquisition of house property. Construction requires times, so for that period pre-EMI is payable towards interest on borrowed capital.The deduction for this pre-EMI will be allowed if the acquisition/construction of house property has been completed in the same financial year, otherwise deduction against pre-EMI will be allowed in the next five years with equal five instalments.

15.10 When loan is taken from Bank or financial institution then EMI is first adjusted with due interest and then balance amount is adjusted with Principal. But when a Govt. employee takes loan from employer then the complete EMI is adjusted with Principal till full adjustment of Principal and then interest. Therefore, Govt. employee initially does not make any payment towards interest, but he can claim deduction towards interest on due basis as per Section 24(1) irrespective of the fact that he has not paid any amount towards interest.

Format for calculation of Income from the head House Property		
1.	Annual value	Rs......................
2.	Less: Tax paid during the financial year to Local Administration	Rs......................
3.	Net Annual Value : (1) - (2)	Rs......................
4.	Less: Allowed Deduction under Section 24	Rs......................
	a. Standard deduction (30% of Net Annual Value)	Rs......................
	b. Interest due on borrowed capital	Rs......................
	c. Total deductible Amount	Rs......................
5.	Income from the head of House Property : (3) - (4)	Rs......................