

# COMPUTATION OF INCOME FROM House Property



**Income Tax Department**

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## INCOME FROM HOUSE PROPERTY

Under the Income Tax Act what is taxed under the head 'Income from House Property' is the inherent capacity of the property to earn income called the Annual Value of the property. This is taxed in the hands of the owner of the property.

## COMPUTATION OF ANNUAL VALUE

This is done in the following steps:

- (i) **GROSS ANNUAL VALUE(G.A.V.)** is the highest of
- Actual rent received or receivable.
  - Reasonable or expected market rent (i.e. the rent at which the property may reasonably be expected to be let out at). One of the indicators of reasonable rent is the Municipal value, or the rent fetched by a similar property in the same or similar vicinity.

(If however, the Rent Control Act is applicable, the G.A.V. is the standard rent or rent received, whichever is higher).

It may be noted that if the let out property was vacant for whole or any part of the previous year and due to such vacancy the actual rent received or receivable is less than the reasonable market rent, then the amount actually received /receivable shall be taken as the G.A.V. If any portion of the rent is 'unrealizable', then the same shall not be included in the actual rent received/receivable while computing the G.A.V.; subject to the following conditions :

- The tenancy is bonafide.
- The defaulting tenant has vacated, or steps have been taken to compel him to vacate the property.
- The defaulting tenant is not in occupation of any other property of the assessee.
- The assessee has taken all reasonable steps to institute legal proceedings for the recovery of the unpaid rent or satisfies the Assessing Officer that legal proceedings would be useless.

In case of subsequent realization of such unrealized rent or receipt of any arrears of rent in a subsequent year, the same is to be taxed in the year of realization or receipt, regardless of whether or not the assessee continues to be owner of the property in that financial year. A deduction of 30% of such arrears or unrealized rent would be allowed as deduction.

- (ii) **ANNUAL VALUE (A.V.) is the G.A.V.** minus the municipal taxes paid by the owner, provided that the municipal taxes were actually paid during the year.

### **SOME NOTABLE POINTS (For A.Y. 2019-20) about 'Annual Value'**

- In case of one self occupied property, the annual value is taken as NIL (if it has not been let out even partly for any period during the year).
  - If more than one property is owned and all are used for self occupation purposes only, then any one can be opted as self occupied, all the others are deemed to be let out.
  - Annual value of one house which the owner is not able to occupy because the house is away from workplace is taken as NIL provided that it is the only such house owned and it is not let out.
  - If a let out property is partly self occupied or is self occupied for a part of the year, then the value in proportion to the portion of self occupied property or period of self occupation, as the case may be, is to be excluded from the annual value.
- (iii) **Income from House property** is the A.V. less the deductions available u/s 24 as given below.

### **DEDUCTIONS U/S 24:- (These are exhaustive and no other deductions are available):-**

- (i) A sum equal to 30% of the A.V. as computed above in case of let out property. In case of self occupied property, since the A.V. is taken at Nil, 30% deduction is not allowed on it.

- (ii) Interest on money borrowed for acquisition/ construction/ repair/ renovation of let out property is deductible on accrual basis.

Note :Interest on money borrowed for acquisition/ construction/repair/renovation of house property, whose annual value is NIL, is deductible on accrual basis upto Rs 30,000. However, this deduction on interest is available upto Rs.2 lakhs on such property, if the home loan is for construction or acquisition of the property, provided the following conditions are also fulfilled:

- (a) The loan must be taken on or after 1st April 1999;
- (b) The purchase or construction of the house property must be completed within 5 years from the end of the financial year in which the loan was taken
- (c) It may be noted that interest payable during the pre construction/acquisition period is also allowed in equal installments in five succeeding financial years, starting with the financial year in which construction/ acquisition is completed.
- (d) The owner must furnish a certificate from the lender, specifying the interest payable for the relevant year.

### PROPERTY OWNED BY CO-OWNERS

In case a property is co-owned by two or more persons, share of each being definite and ascertainable, then the income from house property of each person shall be separately determined as per the foregoing paragraphs. If the share is not definite and ascertainable, then owners shall be assessed as an 'Association of Persons'.

### CARRY FORWARD AND SET OFF OF LOSS FROM HOUSE PROPERTY

In any assessment year, if there is net loss under 'Income from house property', the same can be set off against income from any other head, if available, upto Rs 2 lakhs. Any remaining unabsorbed loss from house property can be carried forward to be set-off only against the income

from house property upto eight succeeding assessment years immediately succeeding the assessment year for which the loss was first computed.

### PROPERTY INCOME EXEMPT FROM TAX

Income from certain properties are exempted from taxation under this head of income. Some of these include : Income from farm house, Annual value of any one palace of an ex-ruler, Property income of a local authority, university/ educational institution, approved scientific research association, political party, Property used for own business or profession, One self occupied property, House property held for charitable purposes.

### DEEMED OWNER

A person shall be deemed to be an owner of a house property for purpose of taxability if :

- (i) He transfers the property for inadequate/no consideration to his spouse or minor child;
- (ii) He is the holder of an impartible estate comprising of such house properties;
- (iii) He, as a member of a Co-operative societies, company or AOP, is the allottee/leesee of a house property;
- (iv) He has received possession of a property under 'Part Possession' u/s 53A of the 'Transfer of Properties Act, 1980'.

### Illustration 1

'A' who works in a Limited Company in Mumbai has a house property in Kanpur. He has come with his family on transfer to Mumbai where he stays in a rented accommodation. He has only one house at Kanpur which remained unoccupied throughout the year 2018-19 since he could not arrange for a suitable tenant. The rent of a similar property in Kanpur will be Rs.5000/- p.a. The municipal valuation is Rs.30,000/- and he has paid municipal taxes of Rs.2,500/-. He had taken a loan of Rs.2,00,000 for reconstruction of the property and interest payable thereon is Rs. 25,000/-. What will be his income from House Property?

**Assessment year 2019-20**

Annual value of the House at Kanpur (since the assessee owns only one house which he could not use throughout the year because of his employment at Mumbai)	Nil
Less: Interest on money borrowed	Rs. 25,000
Loss from house property	(-) Rs. 25,000

**Illustration 2**

Mrs. B owns 2 houses in Delhi. Neither of these houses is let out. The details of these houses is as under:-

	I	II
Municipal valuation	Rs. 3,00,000	Rs. 2,00,000
Fair Rent	Rs. 3,20,000	Rs. 2,20,000
Annual Rent	Self occupied	Self occupied
Municipal taxes paid	Rs. 20,000	Rs. 20,000

What will be the Income from House Property in A.Y. 2019-20, if any?

**Ans.** As Mrs. B has more than one house property, both being kept for own use, one house property ( as per choice of assessee) shall be treated as self occupied and its Annual Value shall be treated as Nil. In this case, Mrs. B would opt for House I as self occupied, while House II would be treated as 'deemed let out'. Hence Income from house property for A.Y. 2019-20 would be :-

Gross Annual Value of House II	Rs. 2,20,000
Municipal Taxes Paid	( - ) Rs. 20,000
Less: Standard Deduction @30%	( - ) Rs. 60,000
Net annual value to be included in Total Income of A.Y. 2019-20	Rs. 1,40,000

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This brochure should not be construed as an exhaustive statement of the law. For details - reference should always be made to the relevant provisions in the Act and the Rules.