**INCOME TAX - LAW AND PRACTICE**

**B.B.A. SEM - IV**

**INCOME TAX – LAW AND PRACTICE**

**UNIT 2**

**CHAPTER : INCOME FROM HOUSE PROPERTY**

* **CONDITIONS FOR TAXABILITY UNDER THIS HEAD [Sec.22]**

1. There should be Building or land connected with building;
2. Assessee should be owner of such Building
3. Such building should not be used by assessee for carrying on his own business or profession

* **DEEMED OWNER [Sec.27]**

1. Individual who transfer House Property to Spouse (not in connection with agreement to live apart)
2. Individual who transfer House Property to Minor Child (not to minor married daughter)
3. Member of Co-operative Society
4. Holder of House Property under part-performance of contract
5. Holder of Impartible Estate
6. Lease right of House Property for period of 12 years or more (does not include month to month agreement for period not exceeding 12 months)

* **ANNUAL VALUE [Sec.23]**

1. Annual Value means rental income that property can give under fair market conditions. It is a notional value.
2. There are two types of annual values:-
3. Gross Annual Value [GAV]
4. Net annual Value [NAV]
5. **GAV:-**

Steps to compute GAV –

|  |  |
| --- | --- |
| STEP-1 | MV OR FR W.E. IS HIGHER |
| STEP-2 | STEP-1 OR SR W.E.IS LOWER |
| STEP-3 | D1 – D2 |
| STEP-4 | STEP-2 OR STEP-3 W.E. IS HIGHER |
| STEP-5 | D3 |
| STEP-6 | GAV= STEP-4 (-) STEP-5 |

1. **NAV = GAV – MUNICIPAL TAXES**

* **HOW TO COMPUTE INCOME FROM HOUSE PROPERTY:-**

**A] Let out House Property:-**

|  |  |
| --- | --- |
| **PARTICULARS** | **RS** |
| GAV | XX |
| Less:- Municipal Taxes | (XX) |
| NAV | XX |
| Less:- a) Standard Deduction @ 30% **of NAV** | (XX) |
| b) Interest on Housing Loan **(No limit)** | (XX) |
| INCOME FORM HOUSE PROPERTY | XX |

**IMP POINTS:-**

1) Municipal taxes are allowed on payment basis. It is allowed only if the same is paid by the owner of the property.

2) Interest on housing loan is allowed on DUE BASIS.

**B] Self Occupied House Property:-**

|  |  |
| --- | --- |
| **PARTICULARS** | **RS** |
| GAV | NIL |
| Less:- Municipal Taxes | NOT ALLOWED |
| NAV | NIL |
| Less:- a) Standard Deduction @ 30% | NOT ALLOWED |
| b) Interest on Housing Loan **(Maxi. upto Rs.30,000/ Rs. 2,00,000/-)** | (XX) |
| INCOME FORM HOUSE PROPERTY | XX |

**Note:- If loan was taken for purchase or construction (& construction is completed within 5 years), then the limit of Rs. 2,00,000/- is applicable and if loan was taken for repairs, renewals or reconstruction, then the limit of Rs.30,000/- is applicable)**

|  |
| --- |
| FEW IMPORTANT POINTS FOR SUMS:-   1. Assesse can keep only two house property as self-occupied. If more than two house property is self-occupied, then any two house as per the choice of assessee is to be considered as self-occupied and other is Deemed Let-out Property(DLOP) 2. If house is partly let-out and partly self-occupied, then we have to compute the house property as if the house is let-out for entire previous year; 3. Sometimes, certain portion of single house property is self-occupied and certain portion is let-out. In such case, we have to compute income from house property for both the portion separately. |

* **Co-ownership :-**

When house property is jointly owned by more than one person, then first of all compute income from house property as if it is owned by a single person. Then, distribute that income between co-owners in their respective income sharing ratio.

In such case, deduction for interest on housing loan is available to all the co-owners.

ILLUSTRATION I:

From the following details, compute GAV:

Municipal Value – Rs 100000 P.A.

Fair Rent – Rs. 120000 P.A

Standard Rent – Rs 150000 P.A.

Actual Rent – Rs 15000 p.m.

Unrealised rent – 1 month

Loss due to vacancy – 1 month.

SOLUTION:

|  |  |
| --- | --- |
| STEP-1 | MV OR FR W.E. IS HIGHER  = 100000 OR 120000 = 120000 |
| STEP-2 | STEP-1 OR SR W.E.IS LOWER  = 120000 OR 150000 = 120000 |
| STEP-3 | D1 – D2  = 180000 – 15000 = 165000 |
| STEP-4 | STEP-2 OR STEP-3 W.E. IS HIGHER  =120000 OR 165000 = 165000 |
| STEP-5 | D3 = 15000 |
| STEP-6 | GAV= STEP-4 (-) STEP-5  GAV = 165000 – 15000 = 150000 |

ILLUSTRATION II:

From the following details of Mr. John, compute Income From House Property:

Municipal Value – Rs 200000 P.A.

Fair Rent – Rs. 220000 P.A

Standard Rent – Rs 250000 P.A.

Actual Rent – Rs 25000 p.m.

Unrealised rent – 1 month

Loss due to vacancy – 1 month.

Municipal taxes – 10%

Interest on housing loan – Rs. 50000.

SOLUTION:

|  |  |
| --- | --- |
| **PARTICULARS** | **RS** |
| GAV | 250000 |
| Less:- Municipal Taxes | (20000) |
| NAV | 230000 |
| Less:- a) Standard Deduction @ 30% **of NAV** | (69000) |
| b) Interest on Housing Loan **(No limit)** | (50000) |
| INCOME FORM HOUSE PROPERTY | 1,11,000 |

ILLUSTRATION III:

From the following details of Mr. Rohan, compute Income From House Property:

Municipal Value – Rs 300000 P.A.

Fair Rent – Rs. 320000 P.A

Standard Rent – Rs 330000 P.A.

Actual Rent – Rs 40000 p.m.

Unrealised rent – 1 month

Municipal taxes – Rs. 30000 ( only Rs 20000 was paid during the previous year)

Interest on housing loan – Rs. 150000.

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| **PARTICULARS** | **RS** |
| GAV | 440000 |
| Less:- Municipal Taxes | (20000) |
| NAV | 420000 |
| Less:- a) Standard Deduction @ 30% **of NAV** | (126000) |
| b) Interest on Housing Loan **(No limit)** | (150000) |
| INCOME FORM HOUSE PROPERTY | 144000 |

ILLUSTRATION IV:

From the following details in respect of self occupied house property of Mr. Raj, compute Income From House Property:

Municipal Value – Rs 400000 P.A.

Fair Rent – Rs. 520000 P.A

Standard Rent – Rs 430000 P.A.

Municipal taxes – Rs. 30000 ( only Rs 20000 was paid during the previous year)

Interest on housing loan – Rs. 250000.

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| **PARTICULARS** | **RS** |
| NAV | NIL |
| Less:- a) Standard Deduction @ 30% | NOT ALLOWED |
| b) Interest on Housing Loan **(Maxi. upto Rs.30,000/ Rs. 2,00,000/-)** | (200000) |
| INCOME FORM HOUSE PROPERTY | (200000) |

ILLUSTRATION V:

From the following details in respect of house property of Mr. Vansh, compute Income From House Property:

Municipal Value – Rs 400000 P.A.

Fair Rent – Rs. 520000 P.A

Standard Rent – Rs 540000 P.A.

Actual Rent – Rs. 50000 pm

Municipal taxes – Rs. 30000 ( only Rs 20000 was paid during the previous year by tenant)

Interest on housing loan – Rs. 250000.

SOLUTION:

COMPUTATION OF GAV

|  |  |
| --- | --- |
| STEP-1 | MV OR FR W.E. IS HIGHER  = 520000 |
| STEP-2 | STEP-1 OR SR W.E.IS LOWER  = 520000 |
| STEP-3 | D1 – D2  = 600000 – 0 = 600000 |
| STEP-4 | STEP-2 OR STEP-3 W.E. IS HIGHER  = 600000 |
| STEP-5 | D3 = 0 |
| STEP-6 | GAV= STEP-4 (-) STEP-5  GAV = 600000 |

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| --- | --- |
| **PARTICULARS** | **RS** |
| GAV | 600000 |
| Less:- Municipal Taxes | (NOT AVAILABLE) |
| NAV | 600000 |
| Less:- a) Standard Deduction @ 30% **of NAV** | (180000) |
| b) Interest on Housing Loan **(No limit)** | (250000) |
| INCOME FORM HOUSE PROPERTY | 170000 |

ADDITIONAL SUMS FOR PRACTICE:

Q-1 From the following details, compute GAV:

Municipal Value – Rs 200000 P.A.

Fair Rent – Rs. 320000 P.A

Standard Rent – Rs 400000 P.A.

Actual Rent – Rs 30000 p.m.

Unrealised rent – 1 month

Loss due to vacancy – 1 month.

[GAV: 300000]

**STEP I : 320000**

**STEP II: 320000**

**STEP III: 330000**

**STEP IV: 330000**

**STEP V: 30000**

**STEP VI: GAV = 300000**

Q-2 From the following details, compute GAV:

Municipal Value – Rs 310000 P.A.

Fair Rent – Rs. 320000 P.A

Standard Rent – Rs 300000 P.A.

Actual Rent – Rs 40000 p.m.

Loss due to vacancy – 1 month.

[GAV: 440000]

Q-3 From the following details, compute GAV:

Municipal Value – Rs 410000 P.A.

Fair Rent – Rs. 400000 P.A

Actual Rent – Rs 42000 p.m.

Loss due to vacancy – 1 month.

Q-4 From the following details of Mr. R, compute Income From House Property:

Municipal Value – Rs 400000 P.A.

Fair Rent – Rs. 520000 P.A

Actual Rent – Rs 50000 p.m.

Unrealised rent – 1 month

Loss due to vacancy – 15 days

Municipal taxes – Rs. 20000 ( 50% was paid during the previous year)

Interest on housing loan – Rs. 220000.

[GAV : 525000; IFHP- 140500]

QUESTION V:

Mr Raj is the owner of House Property which is 50% self occupied and 50% let out. From the following details of about House Property, compute Income From House Property:

Municipal Value – Rs 800000 P.A.

Fair Rent – Rs. 900000 P.A

Standard Rent – Rs 930000 P.A.

Actual Rent – Rs 50000 p.m.

Unrealised rent – 1 month

Municipal taxes – Rs. 20000 ( only Rs 10000 was paid during the previous year)

Interest on housing loan – Rs. 450000 p.a.

|  |  |  |
| --- | --- | --- |
| **PARTICULARS** | **Rs. [L/0 – 50%]** | **Rs. [S/O- 50%]** |
| GAV (NOTE I) | 5,50,000 | NIL |
| Less:- Municipal Taxes | (5000) | NIL |
| NAV | 5,45,000 | NIL |
| Less:- a) Standard Deduction @ 30% **of NAV** | (1,63,500) | NIL |
| b) Interest on Housing Loan **(No limit)** | (225000) | (2,00,000) |
| INCOME FORM HOUSE PROPERTY | 1,56,500 | (2,00,000) |
| NET IFHP |  | (43,500) |

WN” 1: GAV:

1. SELF OCCUPIED – NIL
2. LIO

STEP – I : MV OR FR WE IS HIGHER SUB TO MAXIMUM OF SR

4L OR 4.50L WE IS HIGHER (SUB TO MAXI OF SR 4.65L) = 4.50L

STEP II : D1 – D2 =6L – 50K = 5.50L

STEP III : 5.50L

STEP IV: D3- NIL

STEP V : GAV = STEP III – STEP IV = 5.50L – NIL = 5.50L