

PERSONAL TAXATION SBT

# INCOME FROM HOUSE PROPERTY



BBA IT 3

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# OVERVIEW

Property Tax

Annual Value

Vacancy Period

Computation of Income from HP

Deductions u/s 24

# WHAT IS PROPERTY TAX

Property tax is levied annually by the local/municipal authorities on property for the maintenance of basic civic services in a city, town, village or other municipality.

In India, property tax is paid by the property owner, and it is set at a specific rate by the local/municipal authority, according to the property's value.



- Apartments/flats
- Residential houses
- Shops
- Factories
- Office buildings
- Warehouses.

# SOURCES OF PROPERTY TAX

Immovable property is also considered as a source of income, and any revenue generated from it is subject to income tax. Therefore, vacant plots of land without any buildings are taxed as an alternative income source, and are not subject to property tax.



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# ANNUAL VALUE

Inherent capacity of the property to earn income is termed as its "annual value"

## DETERMINANTS

Municipal Valuation

Fair Rent

Standard Rent

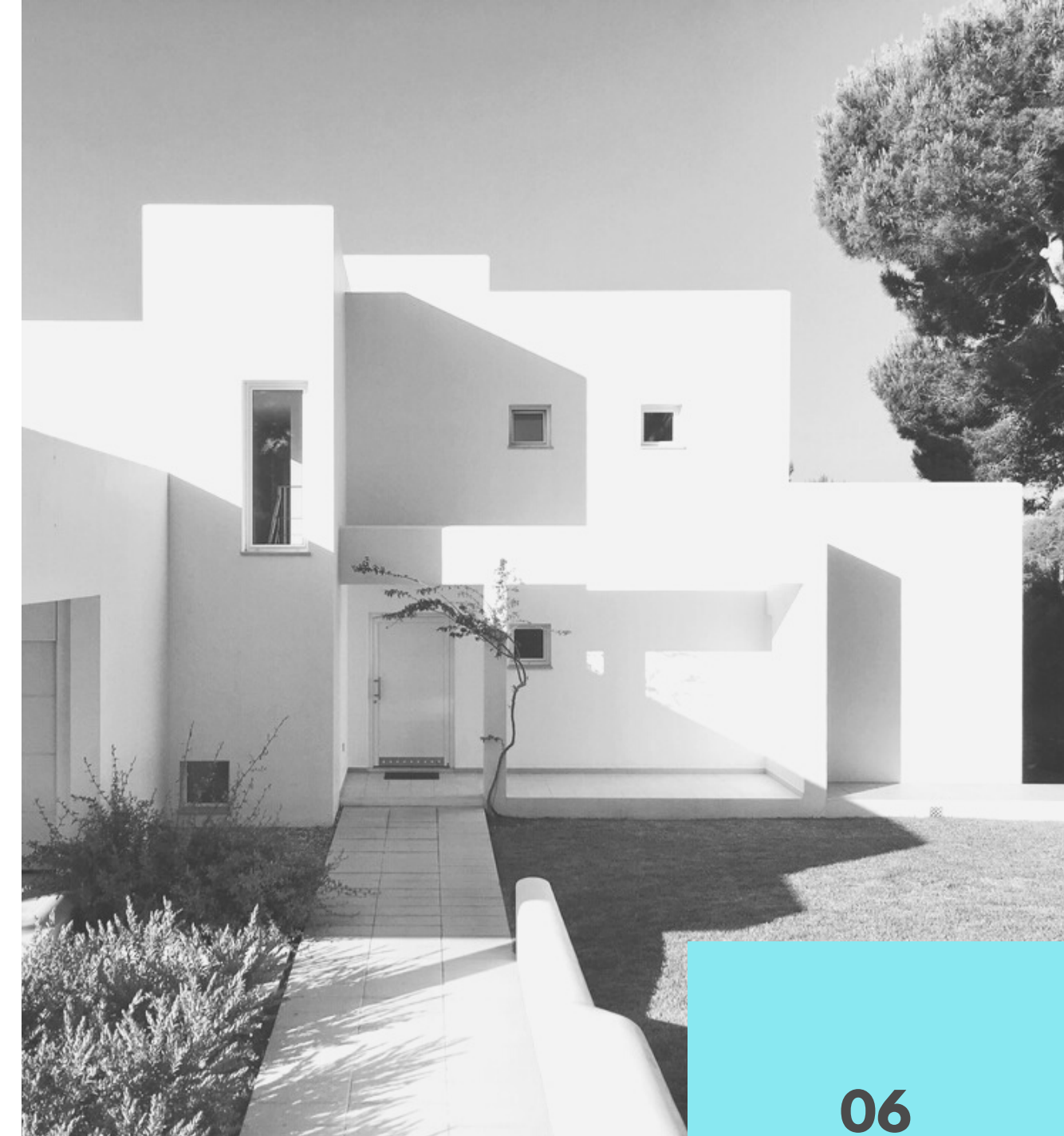
Actual Rent

# ANNUAL VALUE OF HOUSE PROPERTY WHICH IS SELF OCCUPIED

When a house is occupied by an owner for his own residence OR it cannot actually be occupied because his employment has forced him to reside elsewhere in a house that does not belong to him, then the annual value of such house property shall be NIL.

However, even if the house is let out for a month and some benefit is derived, the annual value will not be NIL and will be calculated as shown above.

- Why is it Important?
- Can a empty property be called self occupied?



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## ANNUAL VALUE OF HOUSE PROPERTY WHICH IS LET OUT

According to income tax rules, if you own more than one residential property, only one of those can be considered to be self-occupied.

The others should either be let out or, even if they are not actually rented out, they will be deemed to be properties that have been let out, irrespective of whether you are occupying them, letting them out or leaving them vacant partially or for the whole year.



# VACANCY PERIOD

If the property remained vacant during the full or part of previous year, even after your best effort to let it out, you can claim deduction as vacancy allowance under section 23(1)(c) of the income tax Act. You will not have to pay tax on any notional rent for the period for which property remained vacant.



# ANNUAL VALUE OF A LET OUT HOUSE HAVING VACANCY PERIOD

According to **section 23 of the Income-tax Act, 1961**, the annual value would be the standard rent in case the properties lies under the jurisdiction of Rent Control Legislation or rent based on the municipal value of the property or the rent equivalent to what other similar properties fetch in the same locality. **Highest of these will be considered for taxation purposes.**

However, to calculate net annual value, you can claim few deductions such as municipal taxes, provided the property was let out partially or for whole of the previous year.



# HOW TO CALCULATE INCOME FROM HOUSE PROPERTY FOR INCOME TAX PURPOSES?

The income tax categorizes your income under 2 categories for the purpose of tax-ability of house property income. These are :

- Self Occupied house property
- Let Out house property

Note :Inherited Property is any property inherited from parents, grandparents, etc, can be either considered as self-occupied or let out house property based on the usage as discussed above

<b>Gross Annual Value</b>	XXX
Less: Municipal Taxes	(XXX)
<b>Net Annual Value</b>	XXX
Less: Deductions under section 24	(XXX)
✔ Standard Deduction@30%	(XXX)
✔ Interest paid on Borrowed Loan	(XXX)
<b>Income from House property</b>	XXX

### Steps to compute “Income from House Property”

The calculation of income from house property involves various steps. These steps are common to both the categories of house property Self-Occupied and Let Out.



*Calculate Income from Let out House Property*

Gross Annual Value (GAV) -	750000
Less: Municipal Tax -	<u>50000</u>
	700000
Less: Standard Deduction@30% -	210000
Net Annual Value (NAV) -	490000



*Calculate Income from Let out House Property*

Gross Annual Value (GAV) -	750000
Less: Municipal Tax -	<u>50000</u>
	700000
Less: Standard Deduction@30% -	<u>210000</u>
	490000
Less: Home Loan Interest -	<u>300000</u> (No Limit)
Net Annual Value (NAV) -	190000

# DEDUCTIONS UNDER SECTION 24 OF INCOME TAX ACT

## MEANING

Section 24 of the Income Tax Act lets homeowners claim a deduction of up to Rs. 2 lakhs (Rs. 1,50,000 if you are filing returns for last financial year) on their home loan interest if the owner or his family reside in the house property. The entire interest is waived off as a deduction when the house is on rent.

- For Let out Properties
- Self Occupied Properties
- Types of Deductions

# CONDITIONS TO BE MET U/S 24

An individual has to meet the below three conditions for claiming the income tax deductions:

- The loan should be taken on or after 01<sup>st</sup> of April 1999 for construction or purchase of the house.
- One should have interest certificate for the interest that is payable on the loan is taken.
- The house should be constructed or acquired within five years (three years till the Financial Year 2015-16) from the end date of the financial year during which the loan has been taken.



Income is considered zero as it is considered to be self-occupied.



He claims 2L as a loss and makes a loss under the head house property in his Income Tax Return.



can subtract this loss from his taxable income this year.

# HOW IT WORKS

Siddharth purchased this property jointly with his father. Siddharth has taken a loan of Rs 30 lakhs and his father is not a co-borrower in this loan. His parents live in this house currently.

Siddharth's EMI of Rs.27,000 began in August 2014.

Interest : Rs 2,06,000



# THANK YOU!

