Annual Value of house property

Annual Value of a home is the sum for which the property might reasonably be expected to be let out from year to year. So it is the notional rent which could be got if the property were to be rented. It is the inherent capacity of the property to earn income.

In order to mathematically calculate annual value, four factors need to be considered.

Municipal Value: The municipal authorities have a host of factors which they consider to arrive at a municipal value of your property on which municipal taxes are then levied.

Fair Rental Value: The rent which a similar property in the same or similar locality would have fetched is the fair rental value of the property.

Standard Rent: Under the Rent Control Act, the standard rent is fixed and it is expected that an owner should not receive rent higher than that specified in the Rent Control Act.

Actual Rent Received or Receivable: The actual rent received by an owner from a tenant, depending on who pays the water, electricity and other bills, is also an important factor in calculating the annual value of a property.

Example

Let us see an example of scenario 1 where the house property is let out throughout the year.

Ravi owns a house which is let out for a rent of Rs 12,000/- per month ,,standard rent is Rs 1,20,000/- If municipal taxes paid are Rs 20,000/-, what is the annual value of the property ?

So Gross Annual Value = Higher of Actual Rent Received (Rs 12,000/- for 12 months = Rs 1,44,000/-) or Expected Rent (Rs 1,20,000/-) = Rs 1,44,000/-.

 Gross Annual Value = Rs 1,44,000/-

If you reduce the municipal taxes from this amount, you will get the Net Annual Value.

Net Annual Value = (Rs 1,44,000/-) – (Rs 20,000/-) = Rs 1,24,000/-

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 this important to calculate ?

After you have arrived at the annual value of your home, you can apply some standard deductions to it. The value got after applying the deductions is the figure that you will need to charge under “income from house property” head when you file your income tax returns.

Cases when house is considered self-occupied

A house property will be termed ‘self-occupied’ when the owner or his/her family members use it for residential purpose. A house could be self-occupied even when it was not occupied throughout the year due to owner’s employment at another place. Also, if a person owns a house but lives with parents, it may be termed as ‘self-occupied’ if it was not rented out.