

II. Income under the House Properties

1 Basis of Charge [Section 22]:

Income from house property shall be taxable under this head if following conditions are satisfied:

- a) The house property should consist of any building or land appurtenant thereto;
- b) The taxpayer should be the owner of the property;
- c) The house property should not be used for the purpose of business or profession carried on by the taxpayer.

2 Computation of income from house property:

Income from a house property shall be determined in the following manner:

Particulars	Amount
Gross Annual Value	-
<i>Less:</i> Municipal Taxes	-
Net Annual Value	****
<i>Less:</i> Standard deduction at 30% [Section 24(a)]	-
<i>Less:</i> Interest on borrowed capital [Section 24(b)]	-
Income from house property	****

3 Gross Annual value [Sec. 23(1)]

The Gross Annual Value of the house property shall be higher of following:

- a) Expected rent, i.e., the sum for which the property might reasonably be expected to be let out from year to year. Expected rent shall be higher of municipal valuation or fair rent of the property, subject to maximum of standard rent;
- b) Rent actually received or receivable after excluding unrealized rent but before deducting loss due to vacancy

Out of sum computed above, any loss incurred due to vacancy in the house property shall be deducted and the remaining sum so computed shall be deemed to the gross annual value.

4 Deductions:

Description	Nature of Deductions
Municipal Taxes	Municipal taxes including service-taxes levied by any local authority in respect of house property is allowed as deduction, if: <ol style="list-style-type: none"> a) Taxes are borne by the owner; and b) Taxes are actually paid by him during the year.
Standard Deduction [Section	30% of net annual value of the house property is allowed as deduction if property is let-out during the previous year.

24(a)]	
Interest on Borrowed Capital * [Section 24(b)]	a) In respect of let-out property, actual interest incurred on capital borrowed for the purpose of acquisition, construction, repairing, re-construction shall be allowed as deduction
	b) In respect of self-occupied residential house property, interest incurred on capital borrowed for the purpose of acquisition or construction of house property shall be allowed as deduction up to Rs. 2 lakhs. The deduction shall be allowed if capital is borrowed on or after 01-04-1999 and acquisition or construction of house property is completed within 5 years.
	c) In respect of self-occupied residential house property, interest incurred on capital borrowed for the purpose of reconstruction, repairs or renewals of a house property shall be allowed as deduction up to Rs. 30,000.

* Any interest pertaining to the period prior to the year of acquisition/ construction of the house property shall be allowed as deduction in five equal installments, beginning with the year in which the property was acquired/ constructed.

* Deduction for interest on borrowed capital shall be limited to Rs. 30,000 in following circumstances:

- a) If capital is borrowed before 01-04-1999 for the purpose of purchase or construction of a house property;
- b) If capital is borrowed on or after 01-04-1999 for the purpose of re-construction, repairs or renewals of a house property;
- c) If capital is borrowed on or after 01-04-1999 but construction of house property is not completed within five years from end of the previous year in which capital was borrowed.

Note:

With effect from Assessment Year 2020-21, deduction for interest paid or payable on borrowed capital shall be allowed in respect of two self-occupied house properties. However, the aggregate amount of deduction under this provision shall remain same i.e., Rs. 30,000 or Rs. 2,00,000, as the case may be.

4.1 Deduction for interest on housing loan [Section 80EE]

Deduction of up to Rs 50,000 shall be allowed to an Individual for interest payable on loan taken for the purpose of acquisition of a house property subject to following conditions:

- a) Loan has been sanctioned by Financial institution during the financial year 2016-17;
- b) The amount of loan sanctioned does not exceed Rs 35,00,000;
- c) The value of residential property does not exceed Rs 50,00,000;
- d) The assessee does not own any residential house property on the date of sanction of loan;
- e) Where deduction has been allowed under this section, no deduction shall be allowed in respect of such interest under any other provision.

4.2 Deduction for interest paid on housing loan taken for affordable housing [Section 80EEA]

With an objective to provide an impetus to the ‘Housing for all’ initiative of the Government and to enable the home buyer to have low-cost funds at his disposal, the Finance (No. 2) Act, 2019 has inserted a new Section 80EEA under the Income-tax Act for those individuals who are not eligible to claim deduction under Section 80EE. An individual can claim deduction of up to Rs. 150,000 under Section 80EEA subject to following conditions:

(a) Loan should be sanctioned by the financial institution during the period beginning on 01-04-2019 and ending on the 31-03-2022;

(b) Stamp duty value of residential house property should not exceed Rs. 45 lakhs;

(c) The assessee should not own any residential house property on the date of sanction of loan; and

(d) The assessee should not be eligible to claim deduction under Section 80EE.

Hence, an individual who does not meet the criteria of Section 80EE shall now be eligible to claim deduction under Section 80EEA of up to Rs. 150,000 in addition to deduction under section 24(b). This deduction is available from Assessment Year 2020-21.

5 Computation of Income from House Property

S o .	Property Type	Gross Annual Value of the propert y	Deductio n for municipal taxes	Net Annu al Value of the prope rty	Standard Deduction	Interest on borrowed capital
1	Self-occupied house property/properties	<i>Nil</i>	<i>Nil</i>	<i>Nil</i>	<i>Nil</i>	Aggregate Deduction for interest on borrowed capital is allowed up to Rs. 30,000 or Rs. 2,00,000, as the case may be.
2	House property could not be occupied by the owner due to employment or business carried on at any other place	<i>Nil</i>	<i>Nil</i>	<i>Nil</i>	<i>Nil</i>	Deduction for interest on borrowed capital is allowed up to Rs. 30,000 or Rs. 2,00,000, as the case may be.
3	Let out property	To be computed as per	Allowed on actual payment basis	Gross annual value <i>l</i>	30% of Net Annual Value	Entire amount of interest paid or payable on

		provisions of Section 23(1)		ess Municipal taxes		borrowed capital shall be allowed as deduction. Pre-construction interest shall be allowed as deduction in 5 annual equal installments (Subject to certain conditions).
4	More than two-self occupied properties	Only two properties selected by the taxpayer will be considered as self-occupied house properties and all other properties shall be deemed to be let-out for the purpose of computation of income under the head house property.				
5	Self-occupied property/properties let-out for the part of the year	The house will be taken as let-out property and no concession shall be available for the duration during which the property was self-occupied.				
6	One part of the property is let-out and other part is used for self-occupied purposes	Each part of the property shall be considered as separate property and income will be computed accordingly				

6 Composite Rent:

If letting out of building along with movable assets i.e., machinery, plan, furniture or fixtures, etc. forms part of a single transaction and are inseparable, the composite rent shall be taxable under the head “Profits and gains from business or profession” or “Income from other sources”, as the case may be. On the other hand, if the letting out of building is separable from letting of other assets, then income from letting out of building shall be taxable under the head “Income from house property” and income from letting out of other assets shall be taxable under the head “Profits and gains from business or profession” or “Income from other sources”, as the case may be.

7 Treatment of unrealized rent and arrears of rent [Explanation to section 23(1)]

7.1 Deduction for unrealized rent:

Unrealized rent is that portion of rental income which the owner could not realize from the tenant. Unrealized rent is allowed to be deducted from actual rent received or receivable only if the following conditions are satisfied:

- a) The tenancy is bona fide;
- b) The defaulting tenant has vacated, or steps have been taken to compel him to vacate the property;
- c) The defaulting tenant is not in occupation of any other property of the assessee;
- d) The taxpayer 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.

7.2 Arrears of rent or recovery of unrealized rent [Section 25A]

Amount received in respect of arrears of rent or any subsequent recovery of unrealized rent shall be deemed to be the income of taxpayer under the head "Income from house property" in the year in which such rent is realized or received (whether or not the assessee is the owner of that property in that year).

Further, 30% of such rent shall be allowed as deduction.

8 Co-owner and Deemed Owner

8.1 Property owned by co-owners [Section 26]:

If house property is owned by co-owners and their share in house property is definite and ascertainable than the income of such house property will be assessed in the hands of each co-owner separately. For the purpose of computing income from house property, the annual value of the property will be taken in proportion to their share in the property. In such a case, each co-owner shall be entitled to claim benefit of self-occupied house property in respect of their share in the property (subject to prescribed conditions). However, where the shares of co-owners are not definite, the income of the property shall be assessed as that of an Association of persons.

8.2 Deemed owner [Section 27]:

Income from house property is taxable in the hands of its owner. However, in the following cases, legal owner is not considered as the real owner of the property and someone else is considered as the deemed owner of the property to pay tax on income earned from such house property:

1. An individual, who transfers otherwise than for adequate consideration any house property to his or her spouse, not being a transfer in connection with an agreement to live apart, or to a minor child not being a married daughter, shall be deemed to be the owner of the house property so transferred;
2. The holder of an impartible estate shall be deemed to be the individual owner of all the properties comprised in the estate;

3. A member of a co-operative society, company or other association of persons to whom a building or part thereof is allotted or leased under a house building scheme shall be deemed to be the owner of that building or part thereof;

4. A person who is allowed to take or retain possession of any building or part thereof in part performance of a contract of the nature referred to in Section 53A of the Transfer of Property Act, 1882 shall be deemed to be the owner of that building or part thereof;

5. A person who acquires any rights (excluding any rights by way of a lease from month to month or for a period not exceeding one year) in or with respect to any building or part thereof, by virtue of any such transaction as is referred to in section 269UA(f), shall be deemed to be the owner of that building or part thereof.

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