

UNIT – 2: INCOME FROM HOUSE PROPERTY

LEARNING OUTCOMES

After studying this unit, you would be able to-

- ♦ **comprehend** when income is chargeable under the head “Income from house property”;
- ♦ **appreciate** the meaning and tax treatment of composite rent;
- ♦ **determine** annual value of different categories of house property;
- ♦ **compute** income from house property for different categories of house property;
- ♦ **comprehend** and **apply** the tax treatment on recovery of unrealized rent and arrears of rent;
- ♦ **compute** income from co-owned property.



2.1 CHARGEABILITY [SECTION 22]

- (i) The process of computation of income under the head "Income from house property" starts with the determination of annual value of the property. The concept of annual value and the method of determination is laid down in section 23.
- (ii) The annual value of any property comprising of buildings or lands appurtenant thereto of which the assessee is the owner is chargeable to tax under the head "Income from house property".

Exceptions: Annual value of the following properties are chargeable under the head "Profits and gains of business or profession"-

- (i) Portions of property occupied by the assessee for the purpose of any business or profession carried on by him
- (ii) Properties of an assessee engaged in the business of letting out of properties.



Annual value is the amount for which the property might reasonably be expected to let from year to year.



2.2 CONDITIONS FOR CHARGEABILITY

- (i) **Property should consist of any building or land appurtenant thereto.**
 - (a) Buildings include not only residential buildings, but also factory buildings, offices, shops, god owns and other commercial premises.
 - (b) Land appurtenant means land connected with the building like garden, garage etc.



Income from letting out of vacant land is, however, taxable under the head "Income from other sources" or "Profits and gains from business or profession", as the case may be.

- (ii) **Assessee must be the owner of the property**
 - (a) Owner is the person who is entitled to receive income from the property in his own right.
 - (b) The requirement of registration of the sale deed is not warranted.

- (c) Ownership includes both free-hold and lease-hold rights.
- (d) Ownership includes deemed ownership (discussed later in point 2.11)
- (e) The person who owns the building need not also be the owner of the land upon which it stands.
- (f) The assessee must be the owner of the house property during the previous year. It is not material whether he is the owner in the assessment year.
- (g) If the title of the ownership of the property is under dispute in a court of law, the decision as to who will be the owner chargeable to income-tax under section 22 will be of the Income-tax Department till the court gives its decision to the suit filed in respect of such property.



In case of recovery of unrealized rent and arrears of rent, ownership of that property is not relevant. (discussed later in point 2.9)

(iii) Use of property

The property may be used for any purpose i.e., commercial or residential purpose, but it should not be used by the owner for the purpose of any business or profession carried on by him, the profit of which is chargeable to tax.

The income earned by an assessee engaged in the business of letting out of properties on rent would be taxable as business income¹.

(iv) Property held as stock-in-trade etc.

Annual value of house property will be charged under the head "Income from house property", where it is held by the assessee as stock-in-trade of a business also.

However, the annual value of property being held as stock in trade would be treated as NIL for a period of **two** years from the end of the financial year in which certificate of completion of construction of the property is obtained from the competent authority, if such property is not let-out during such period [Section 23(5)].



Where the assessee is a builder/construction company, the house property would be its stock-in-trade and rental income therefrom would be assessable under the head "Income from House

¹Supreme Court ruling in *Rayala Corporation (P) Ltd. v. Asstt. CIT* (2016) 386 ITR 500

Property". However, where the assessee is engaged in the business of letting out of properties, income therefrom would be assessable under the head "Profits and gains of business or profession".



2.3 COMPOSITE RENT

(i) **Meaning of composite rent:** The owner of a property may sometimes receive rent in respect of building as well as –

- (1) other assets like say, furniture, plant and machinery.
- (2) for different services provided in the building, for e.g., –
 - (a) Lifts;
 - (b) Security;
 - (c) Power backup;

The amount so received is known as “**composite rent**”.

(ii) **Tax treatment of composite rent**

Where composite rent includes rent of building and charges for different services (lifts, security etc.), the composite rent is has to be split up in the following manner-

- (a) the sum attributable to use of property is to be assessed under section 22 as income from house property;
- (b) the sum attributable to use of services is to be charged to tax under the head “Profits and gains of business or profession” or under the head “Income from other sources”, as the case may be.

(iii) **Manner of splitting up**

If let out building and other assets are inseparable

Where composite rent is received from letting out of building and other assets (like furniture) and the two lettings are not separable i.e. the other party does not accept letting out of building without other assets, then the rent is taxable either as business income or income from other sources, the case may be.

This is applicable even if sum receivable for the two lettings is fixed separately.

If let out building and other assets are separable

Where composite rent is received from letting out of building and other assets and the two lettings are separable i.e. letting out of one is acceptable to the other party without letting out of the other, then

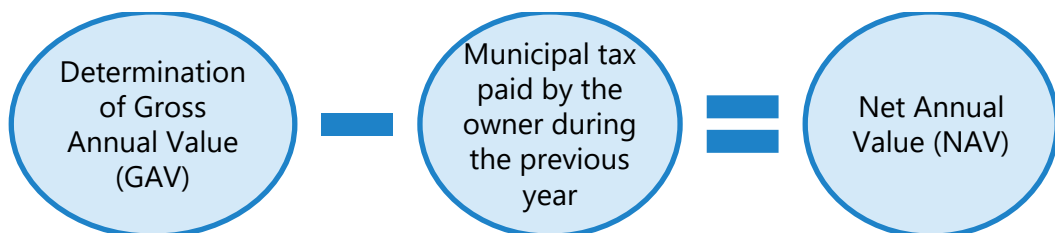
- (a) income from letting out of building is taxable under "Income from house property";
- (b) Income from letting out of other assets is taxable under "Profits and gains of business or profession" or "Income from other sources", as the case may be.

This is applicable even if a composite rent is received by the assessee from his tenant for the two lettings.

2.4 INCOME FROM HOUSE PROPERTY SITUATED OUTSIDE INDIA

- (i) In case of a resident in India (resident and ordinarily resident in case of individuals and HUF), income from house property situated outside India is taxable, whether such income is brought into India or not.
- (ii) In case of a non-resident or resident but not ordinarily resident in India, income from a property situated outside India is taxable only if it is received in India.

2.5 DETERMINATION OF ANNUAL VALUE [SECTION 23]



(i) Determination of annual value for different types of house properties

(1) Where the property is let out throughout the previous year [Section 23(1)(a)/(b)]

Where the property is let out for the whole year, then the GAV would be the higher of –

- (a) Expected Rent (ER) and
- (b) Actual rent received or receivable during the year

- ◆ The Expected Rent (ER) is the higher of fair rent (FR) and municipal value (MV), but restricted to standard rent (SR).
- ◆ For example, let us say the higher of FR and MV is X. Then $ER = SR$, if $X > SR$. However, if $X < SR$, $ER = X$.
- ◆ Expected Rent (ER) as per section 23(1)(a) cannot exceed standard rent (SR) but it can be lower than standard rent, in a case where standard rent is more than the higher of MV and FR.
- ◆ Municipal value is the value determined by the municipal authorities for levying municipal taxes on house property.
- ◆ Fair rent means rent which similar property in the same locality would fetch.
- ◆ The standard rent (SR) is fixed by the Rent Control Act.

From the GAV computed above, municipal taxes paid by the owner during the previous year are to be deducted to arrive at the NAV.

ILLUSTRATION 1

Jayashree owns five houses in India, all of which are let-out. Compute the GAV of each house from the information given below –

Particulars	House I (₹)	House II (₹)	House III (₹)	House IV (₹)	House V (₹)
<i>Municipal Value</i>	80,000	55,000	65,000	24,000	80,000
<i>Fair Rent</i>	90,000	60,000	65,000	25,000	75,000
<i>Standard Rent</i>	N.A.	75,000	58,000	N.A.	78,000
<i>Actual rent received/ receivable</i>	72,000	72,000	60,000	30,000	72,000

SOLUTION

As per section 23(1), Gross Annual Value (GAV) is the higher of Expected rent and actual rent received. Expected rent is higher of municipal value and fair rent but restricted to standard rent.

Computation of GAV of each house owned by Jayashree

	Particulars	House I (₹)	House II (₹)	House III (₹)	House IV (₹)	House V (₹)
(i)	Municipal value	80,000	55,000	65,000	24,000	80,000
(ii)	Fair rent	90,000	60,000	65,000	25,000	75,000
(iii)	Higher of (i) & (ii)	90,000	60,000	65,000	25,000	80,000
(iv)	Standard rent	N.A.	75,000	58,000	N.A.	78,000
(v)	Expected rent [Lower of (iii) & (iv)]	90,000	60,000	58,000	25,000	78,000
(vi)	Actual rent received/receivable	72,000	72,000	60,000	30,000	72,000
	GAV [Higher of (v) & (vi)]	90,000	72,000	60,000	30,000	78,000

**(2) Where let out property is vacant for part of the year
[Section 23(1)(c)]**

Where let out property is vacant for part of the year and owing to vacancy, the actual rent is lower than the ER, then the actual rent received or receivable will be the GAV of the property.

**(3) In case of self-occupied property or unoccupied property
[Section 23(2)]**

- (a) Where the property is self-occupied for **own residence** or **unoccupied** throughout the previous year, its Annual Value will be Nil, provided no other benefit is derived by the owner from such property.

The expression **“Unoccupied property”** refers to a property which cannot be occupied by the owner by reason of his employment, business or profession at a different place and he resides at such other place in a building not belonging to him.

- (b) The benefit of “Nil” Annual Value is available only for upto two self-occupied or unoccupied house properties i.e., for either one house property or two house properties.
- (c) The benefit of “Nil” Annual Value in respect of upto **two** self-occupied house properties is available only to an individual/HUF.
- (d) No deduction for municipal taxes is allowed in respect of such

property/ properties as annual value means value determined after deduction of municipal taxes.

(4) Where a house property is let-out for part of the year and self-occupied for part of the year [Section 23(3)]

- (a) If a single unit of a property is self-occupied for part of the year and let-out for the remaining part of the year, then the ER for the whole year shall be taken into account for determining the GAV.
- (b) The ER for the whole year shall be compared with the **actual rent for the let out period** and whichever is higher shall be adopted as the GAV.
- (c) However, municipal tax for the whole year is allowed as deduction provided it is paid by the owner during the previous year.

(5) In case of deemed to be let out property [Section 23(4)]

- (a) Where the assessee owns more than **two** properties for self-occupation, then the income from any **two** properties, at the option of the assessee, shall be computed under the self-occupied property category and their annual value will be nil.
- (b) The other self-occupied/ unoccupied properties shall be treated as "deemed let out properties".
- (c) This option can be changed year after year in a manner beneficial to the assessee.
- (d) In case of deemed let-out property, the ER shall be taken as the GAV.
- (e) The question of considering actual rent received/ receivable does not arise. Consequently, no adjustment is necessary on account of property remaining vacant or unrealized rent.
- (f) Municipal taxes actually paid by the owner during the previous year, in respect of the deemed let out properties, can be claimed as deduction.

(6) In case of a house property held as stock-in-trade [Section 23(5)]

- (a) In some cases, property consisting of any buildings or lands appurtenant thereto may be held as stock-in-trade, and the whole or any part of the property may not be let out during the whole or any part of the previous year.

- (b) In such cases, the annual value of such property or part of the property shall be Nil.
- (c) This benefit would be available for the period upto **two** years from the end of the financial year in which certificate of completion of construction of the property is obtained from the competent authority.

(7) In case of a house property, a portion let out and a portion self-occupied

- (a) Income from any portion or part of a property which is let out shall be computed separately under the "let out property" category and the other portion or part which is self-occupied shall be computed under the "self-occupied property" category.
- (b) There is no need to treat the whole property as a single unit for computation of income from house property.
- (c) Municipal valuation/fair rent/standard rent, if not given separately, shall be apportioned between the let-out portion and self-occupied portion either on plinth area or built-up floor space or on such other reasonable basis.
- (d) Property taxes, if given on a consolidated basis, can be bifurcated as attributable to each portion or floor or on a reasonable basis.



The following are the circumstances where notional income is charged to tax instead of real income:

- *Where the assessee owns more than two house properties for the purpose of self-occupation, the annual value of any two of those properties, at the option of the assessee, will be nil and the other properties are deemed to be let-out and income has to be computed on a notional basis by taking the Expected Rent (ER) as the GAV.*
- *In the case of property let-out throughout the previous year, if the Expected Rent (ER) exceeds the actual rent received or receivable, then ER is taken as the GAV.*
- *In the case of let-out property which is vacant for part of the year, if the actual rent received or receivable for let out period is less than the Expected Rent (ER) for whole year not owing to vacancy, then ER for whole year is taken as the GAV.*

- *In case of a house property held as stock-in-trade by assessee (which is not let out), income has to be computed on a notional basis by taking the Expected Rent (ER) as the GAV after **2 years** from the end of the financial year in which certificate of completion of construction of the property is obtained from the competent authority.*

(ii) Treatment of unrealised rent [Explanation below section 23(1)]

- (1) The Actual rent received/receivable should not include any amount of rent which is not capable of being realised.
- (2) However, the conditions prescribed in Rule 4 should be satisfied. They are –
 - (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 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.

(iii) Property taxes (Municipal taxes)

- (1) Property taxes are allowable as deduction from the GAV subject to the following two conditions:
 - (a) It should be borne by the assessee (owner); and
 - (b) It should be actually paid during the previous year.
- (2) If property taxes levied by a local authority for a particular previous year are not paid during that year, no deduction shall be allowed in the computation of income from house property for that year.
- (3) However, if in any subsequent year, the arrears are paid, then, the amount so paid is allowed as deduction in computation of income from house property for that year.
- (4) Thus, we find that irrespective of the previous year in which the liability to pay such taxes arises according to the method of

accounting regularly employed by the owner, the deduction in respect of such taxes will be allowed only in the year of actual payment by the owner.

- (5) In case of property situated outside India, taxes levied by local authority of the country in which the property is situated is deductible².
- (6) In respect of self-occupied/unoccupied house property/properties for which "Nil" Annual Value benefit is claimed, deduction of municipal taxes paid is not allowable.

ILLUSTRATION 2

Rajesh, a British national, is a resident and ordinarily resident in India during the P.Y.2023-24. He owns a house in London, which he has let out at £ 10,000 p.m. The municipal taxes paid to the Municipal Corporation of London is £ 8,000 during the P.Y.2023-24. The value of one £ in Indian rupee to be taken at ₹ 95. Compute Rajesh's Net Annual Value of the property for the A.Y. 2024-25.

SOLUTION

For the P.Y.2023-24, Mr. Rajesh, a British national, is resident and ordinarily resident in India. Therefore, income received by him by way of rent of the house property located in London is to be included in the total income in India. Municipal taxes paid in London is to be allowed as deduction from the gross annual value.

Computation of Net Annual Value of the property of Mr. Rajesh for A.Y.2024-25

Particulars	₹
Gross Annual Value (£ 10,000 × 12 × 95)	1,14,00,000
Less: Municipal taxes paid (£ 8,000 × 95)	7,60,000
Net Annual Value (NAV)	1,06,40,000

²CIT v. R. Venugopala Reddiar (1965) 58 ITR 439 (Mad)



2.6 DEDUCTIONS FROM ANNUAL VALUE [SECTION 24]

(i) **There are two deductions from annual value. They are –**

- (1) 30% of NAV; and
- (2) Interest on borrowed capital

Deductions provided under section 24 are exhaustive.

(1) 30% of NAV is allowed as deduction under section 24(a)

- (a) This is a flat deduction and is allowed irrespective of the actual expenditure incurred.
- (b) The assessee will not be entitled to deduction of 30%, in the following cases, as the annual value itself is nil.
 - (i) In case of self-occupied properties or
 - (ii) In case of property held as stock-in-trade and the whole or any part of the property is not let out during the whole or any part of the previous year, upto **2 years** from the end of the financial year in which certificate of completion of construction of the property is obtained from the competent authority.

(2) Interest on borrowed capital is allowed as deduction u/s 24(b)

Interest payable on loans borrowed for the purpose of acquisition, construction, repairs, renewal or reconstruction can be claimed as deduction.

Interest payable on a fresh loan taken to repay the original loan raised earlier for the aforesaid purposes is also admissible as a deduction.

Interest for pre-construction period:

Pre-construction period is the period prior to the previous year in which property is acquired or construction is completed.

Interest payable on borrowed capital for the period prior to the previous year in which the property has been acquired or constructed (Pre-construction interest) as reduced by any part thereof allowed as deduction under any other provision of the Act, can be claimed as deduction over a period of 5 years in equal annual installments commencing from the year of acquisition or completion of construction.

Interest for the year in which construction is completed/ property is acquired:

Interest relating to the year of completion of construction/ acquisition of property can be **fully claimed** in that year irrespective of the date of completion/ acquisition.

(ii) Deduction in respect of self-occupied or unoccupied property where annual value is nil

(1) Under default tax regime under section 115BAC

There would be **no deduction** on account of interest on loan under section 24(b) under default tax regime under section 115BAC in respect of the property referred to in section 23(2) i.e., self-occupied or unoccupied property.

(2) Under optional tax regime (normal provisions of the Act)

- (1) In case assessee has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A), the assessee will be allowed a deduction on account of interest **(including 1/5th of the accumulated interest of pre-construction period)** as under –

Conditions	Amount of Deduction
(i) Where the property is acquired or constructed with capital borrowed on or after 1.4.1999 and such acquisition or construction is completed within 5 years from the end of the financial year in which the capital was borrowed.	Actual interest payable in aggregate for one or two self-occupied properties , subject to maximum of ₹ 2,00,000 , if certificate mentioned in (2) below is obtained.
(ii) Where the property is repaired, renewed or reconstructed with capital borrowed on or after 1.4.1999.	Actual interest payable in aggregate for one or two self-occupied properties , subject to a maximum of ₹ 30,000 .

ILLUSTRATION 3

Mr. Manas owns two house properties one at Bombay, wherein his family resides and the other at Delhi, which is unoccupied. He lives in Chandigarh for his employment purposes in a rented house. For acquisition of house property at Bombay, he has taken a loan of ₹ 30 lakh@10% p.a. on 1.4.2022. He has not repaid any amount so far. In respect of house property at Delhi, he has taken a loan of ₹ 5 lakh@11% p.a. on 1.10.2022 towards repairs. Compute the deduction which would be available to him under section 24(b) for A.Y.2024-25 in respect of interest payable on such loan if he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

SOLUTION

Mr. Manas can claim benefit of Nil Annual Value in respect of his house property at Bombay and Delhi, since no benefit is derived by him from such properties, and he cannot occupy such properties due to reason of his employment at Chandigarh, where he lives in a rented house.

He is eligible for deduction under section 24(b) since he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

Computation of deduction u/s 24(b) for A.Y.2024-25

Particulars	₹
I Interest on loan taken for acquisition of residential house property at Bombay	
30,00,000 × 10% = ₹ 3,00,000	
Restricted to ₹ 2,00,000	2,00,000
II Interest on loan taken for repair of residential house property at Delhi	
₹ 5,00,000 × 11% = ₹ 55,000	
Restricted to ₹ 30,000	30,000
Total interest	2,30,000
Deduction under section 24(b) in respect of (I) and (II) above to be restricted to	2,00,000

- (2) **Certificate to be furnished:** For the purpose of claiming deduction of ₹ 2,00,000 as per (b)(i) in the table given above, the assessee should furnish a certificate from the person to whom any interest is payable on the capital borrowed, specifying the amount of interest payable by the assessee for the purpose of such acquisition or construction of the property or conversion of the whole or any part of the capital borrowed which remains to be repaid as a new loan.



- **The ceiling limit would not apply to let-out/deemed let-out property:** *The ceiling limit prescribed for self-occupied property as above in respect of interest on loan borrowed does not apply to a let out/ deemed let-out property irrespective of the regime under which he pays tax.*

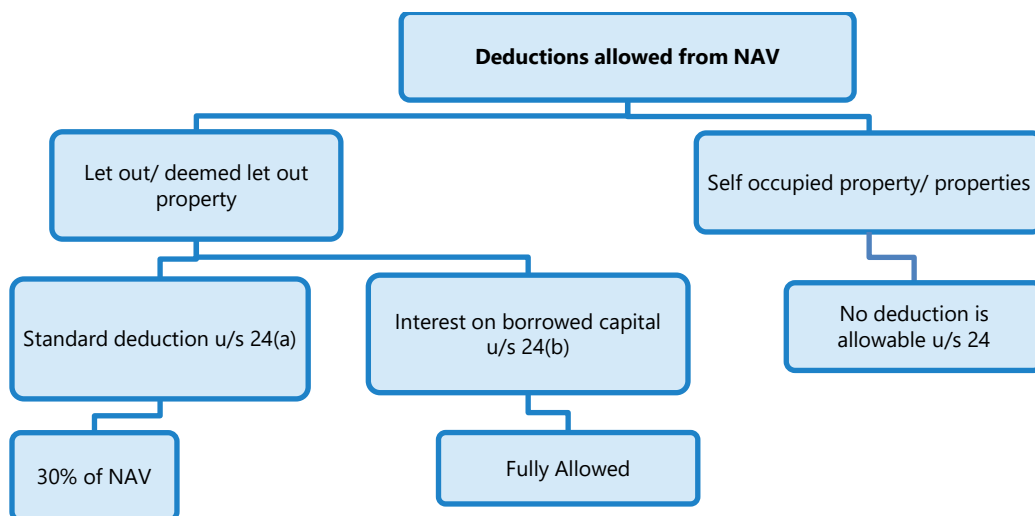
- **Interest allowable on accrual basis:** *Deduction under section 24(b) for interest is available on accrual basis. Therefore interest accrued but not paid during the year can also be claimed as deduction.*

In case of let out/ deemed let out property, interest accrued is allowable as deduction without ceiling limit under both the tax regimes. However, in case of default tax regime u/s 115BAC, the resultant loss from house property cannot be set off against income under any other head, whereas, under the normal provisions of the Act, the resultant loss from house property can be set off against income from any other head to the extent of ₹ 2 lakhs.

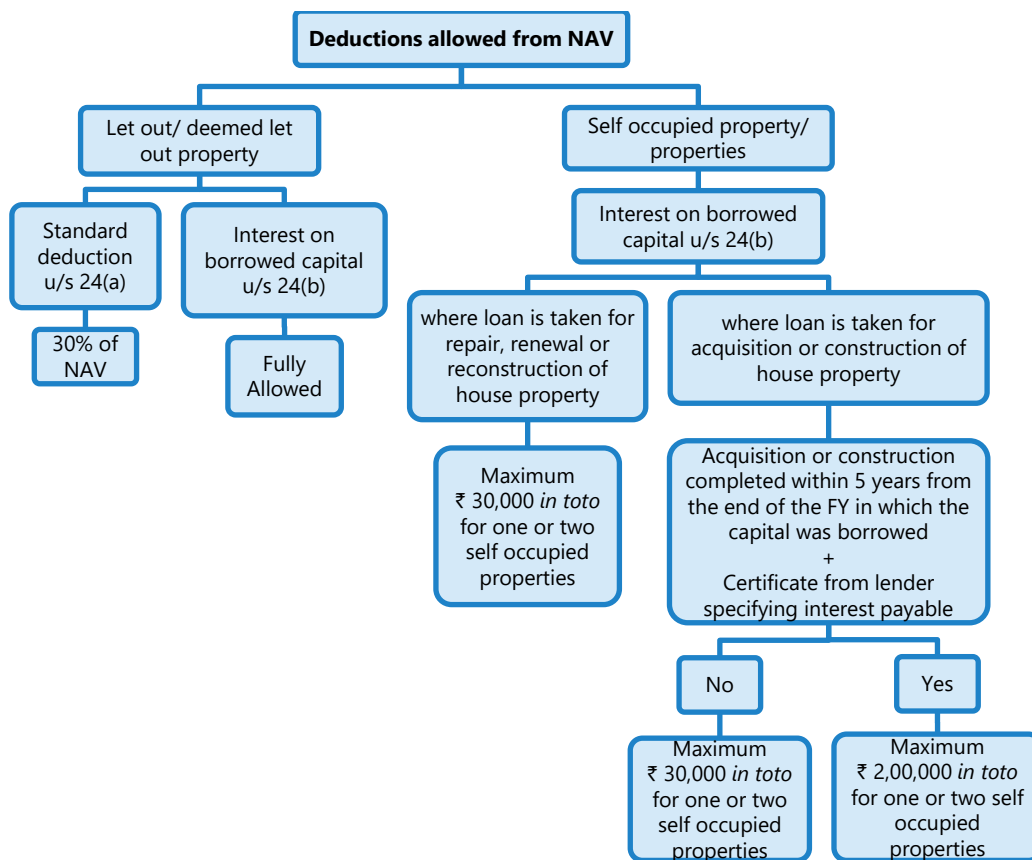
- **Unpaid purchase price would be considered as capital borrowed:** *Where a buyer enters into an arrangement with a seller to pay the sale price in installments along with interest due thereon, the seller becomes the lender in relation to the unpaid purchase price and the buyer becomes the borrower. In such a case, unpaid purchase price can be treated as capital borrowed for acquiring property and interest paid thereon can be allowed as deduction under section 24.*

- **Interest on unpaid interest is not deductible.**

Deductions from Net Annual Value under default tax regime under section 115BAC



Deductions from Net Annual Value under optional tax regime (normal provisions of the Act)





2.7 COMPUTATION OF “INCOME FROM HOUSE PROPERTY” FOR DIFFERENT CATEGORIES OF PROPERTY

(I) PROPERTY LET OUT THROUGHOUT THE PREVIOUS YEAR

Particulars	Amount
Computation of GAV	
Step 1 Compute ER ER = Higher of MV and FR, but restricted to SR	
Step 2 Compute Actual rent received/receivable Actual rent received/receivable less unrealized rent as per Rule 4 [See Note below for alternate view]	
Step 3 Compare ER and Actual rent received/receivable	
Step 4 GAV is the higher of ER and Actual rent received/receivable	
Gross Annual Value (GAV)	A
Less: Municipal taxes (paid by the owner during the previous year)	B
Net Annual Value (NAV) = (A-B)	C
Less: Deductions u/s 24	
(a) 30% of NAV	D
(b) Interest on borrowed capital (actual without any ceiling limit)	E
Income from house property (C-F)	G

Note - The income-tax returns, however, permit deduction of unrealized rent from gross annual value. If this view is taken, the unrealized rent should be deducted only after computing gross annual value.

ILLUSTRATION 4

Anirudh has a property whose municipal valuation is ₹ 1,30,000 p.a. The fair rent is ₹ 1,10,000 p.a. and the standard rent fixed by the Rent Control Act is ₹ 1,20,000 p.a. The property was let out for a rent of ₹ 11,000 p.m. throughout the previous year. Unrealised rent was ₹ 11,000 and all conditions prescribed by Rule 4 are satisfied. He

paid municipal taxes @10% of municipal valuation. Interest on borrowed capital was ₹40,000 for the year. Compute his income from house property for A.Y.2024-25.

SOLUTION

Computation of Income from house property of Mr. Anirudh for A.Y.2024-25

Particulars	Amount in ₹	
Computation of GAV		
Step 1 Compute ER ER = Higher of MV of ₹ 1,30,000 p.a. and FR of ₹ 1,10,000 p.a., but restricted to SR of ₹ 1,20,000 p.a.	1,20,000	
Step 2 Compute actual rent received/receivable Actual rent received/receivable less unrealized rent as per Rule 4 = ₹ 1,32,000 - ₹ 11,000	1,21,000	
Step 3 Compare ER of ₹ 1,20,000 and Actual rent received/receivable of ₹ 1,21,000		
Step 4 GAV is the higher of ER and Actual rent received/receivable	1,21,000	
Gross Annual Value (GAV)		1,21,000
Less: Municipal taxes (paid by the owner during the previous year) = 10% of ₹ 1,30,000		13,000
Net Annual Value (NAV)		1,08,000
Less: Deductions under section 24		
(a) 30% of NAV	32,400	
(b) Interest on borrowed capital (actual without any ceiling limit)	40,000	72,400
Income from house property		35,600

Note – Alternatively, if as per income-tax returns, unrealized rent is deducted from GAV, then GAV would be ₹ 1,32,000, being higher of expected rent of ₹ 1,20,000 and actual rent of ₹ 1,32,000. Thereafter, unrealized rent of ₹ 11,000 and municipal taxes of ₹ 13,000 would be deducted from GAV of ₹ 1,32,000 to arrive at the NAV of ₹ 1,08,000.

(II) LET OUT PROPERTY VACANT FOR PART OF THE YEAR

Particulars	Amount
Computation of GAV	
Step 1 Compute ER ER = Higher of MV and FR, but restricted to SR	
Step 2 Compute Actual rent received/receivable Actual rent received/receivable for let out period less unrealized rent as per Rule 4 [See Note below for alternate view]	
Step 3 Compare ER and Actual rent received/receivable computed for the let-out period	
Step 4 If Actual rent is lower than ER owing to vacancy, then Actual rent is the GAV. If Actual rent is lower than ER due to other reasons, then ER is the GAV. However, in spite of vacancy, if the actual rent is higher than the ER, then Actual rent is the GAV.	
Gross Annual Value (GAV)	A
Less: Municipal taxes (paid by the owner during the previous year)	B
Net Annual Value (NAV) = (A-B)	C
Less: Deductions under section 24	
(a) 30% of NAV D	
(b) Interest on borrowed capital (actual without any ceiling limit) E	F
Income from house property (C-F)	G

Note - The income-tax returns, however, permit deduction of unrealized rent from gross annual value. If this view is taken, the unrealized rent should be deducted only after computing gross annual value.

ILLUSTRATION 5

Ganesh has a property whose municipal valuation is ₹ 2,50,000 p.a. The fair rent is ₹ 2,00,000 p.a. and the standard rent fixed by the Rent Control Act is ₹ 2,10,000 p.a. The property was let out for a rent of ₹ 20,000 p.m. However, the tenant vacated the property on 31.1.2024. Unrealised rent was ₹ 20,000 and all conditions prescribed by Rule 4 are satisfied. He paid municipal taxes @8% of municipal

valuation. Interest on borrowed capital was ₹ 65,000 for the year. Compute the income from house property of Ganesh for A.Y.2024-25.

SOLUTION

Computation of income from house property of Ganesh for A.Y.2024-25

Particulars	Amount in ₹	
Computation of GAV		
Step 1 Compute ER Higher of MV of ₹ 2,50,000 p.a. & FR of ₹ 2,00,000 p.a., but restricted to SR of ₹ 2,10,000 p.a.	2,10,000	
Step 2 Compute Actual rent received/receivable Actual rent received/receivable for let out period less unrealized rent as per Rule 4 = ₹ 2,00,000 – ₹ 20,000	1,80,000	
Step 3 Compare ER & Actual rent received/receivable		
Step 4 In this case the actual rent of ₹ 1,80,000 is lower than ER of ₹ 2,10,000 owing to vacancy, since, had the property not been vacant the actual rent would have been ₹ 2,20,000 (₹ 1,80,000 + ₹ 40,000, being notional rent for February and March 2023). Therefore, actual rent is the GAV.	1,80,000	
Gross Annual Value (GAV)		1,80,000
Less: Municipal taxes (paid by the owner during the previous year) = 8% of ₹ 2,50,000		20,000
Net Annual Value (NAV)		1,60,000
Less: Deductions under section 24		
(a) 30% of NAV = 30% of ₹ 1,60,000	48,000	
(b) Interest on borrowed capital (actual without any ceiling limit)	65,000	1,13,000
Income from house property		47,000

Note – Alternatively, if as per income-tax returns, unrealized rent is deducted from GAV, then GAV would be ₹ 2,00,000, being the actual rent, since the actual rent is lower than the expected rent of ₹ 2,10,000 owing to vacancy. Thereafter, unrealized rent of ₹ 20,000 and municipal taxes of ₹ 20,000 would be deducted from GAV of ₹ 2,00,000 to arrive at the NAV of ₹ 1,60,000.

(III) SELF-OCCUPIED PROPERTIES OR UNOCCUPIED PROPERTIES

Particulars	Amount
Annual value under section 23(2)	Nil
Less: Deduction under section 24	
Interest on borrowed capital [Allowable only in case the assessee exercises the option of shifting out of the default tax regime provided under section 115BAC(1A)]	E
(i) Interest on loan taken for acquisition or construction of house on or after 1.4.99 and same was completed within 5 years from the end of the financial year in which capital was borrowed, interest paid or payable <i>in toto</i> for one or two self-occupied properties subject to a maximum of ₹ 2,00,000 (including apportioned pre-construction interest).	
(ii) Interest on loan taken for repair, renovation or reconstruction on or after 1.4.99, interest paid or payable <i>in toto</i> for one or two self-occupied properties subject to a maximum of ₹ 30,000.	
Income from house property	-E
However, aggregate interest on borrowed capital allowable under (i) and (ii) cannot exceed ₹ 2,00,000	

ILLUSTRATION 6

Poorna has one house property at Indira Nagar in Bangalore. She stays with her family in the house. The rent of similar property in the neighbourhood is ₹ 25,000 p.m. The municipal valuation is ₹ 2,80,000 p.a.. Municipal taxes paid is ₹ 8,000. The house construction began in April 2017 with a loan of ₹ 20,00,000 taken from SBI Housing Finance Ltd. @9% p.a. on 1.4.2017. The construction was completed on 30.11.2019. The accumulated interest up to 31.3.2019 is ₹ 3,60,000. On 31.3.2024, Poorna paid ₹ 2,40,000 which included ₹ 1,80,000 as interest. There was no principal repayment prior to this date. Compute Poorna's income from house property for A.Y. 2024-25 assuming that she has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

SOLUTION

**Computation of income from house property
of Smt. Poorna for A.Y.2024-25**

Particulars	Amount ₹
Annual Value of house used for self-occupation under section 23(2)	Nil
Less: Deduction under section 24	
Interest on borrowed capital	
Interest on loan was taken for construction of house on or after 1.4.99 and same was completed within the prescribed time - interest paid or payable subject to a maximum of ₹ 2,00,000 (including apportioned pre-construction interest) will be allowed as deduction.	
In this case the total interest is ₹ 1,80,000 + ₹ 72,000 (Being 1/5 th of ₹ 3,60,000) = ₹ 2,52,000. However, the interest deduction is restricted to ₹ 2,00,000.	2,00,000
Loss from house property	(2,00,000)

(IV) HOUSE PROPERTY LET-OUT FOR PART OF THE YEAR AND SELF-OCCUPIED FOR PART OF THE YEAR

Particulars	Amount
Computation of GAV	
Step 1 Compute ER for the whole year ER = Higher of MV and FR, but restricted to SR	
Step 2 Compute Actual rent received/receivable Actual rent received/receivable for the period let out <i>less</i> unrealized rent as per Rule 4 [See Note below for alternate view]	
Step 3 Compare ER for the whole year with the actual rent received/receivable for the let out period	
Step 4 GAV is the higher of ER computed for the whole year and Actual rent received/receivable computed for the let-out period	
Gross Annual Value (GAV)	A

Less: Municipal taxes (paid by the owner during the previous year)	B
Net Annual Value (NAV) = (A-B)	C
Less: Deductions under section 24	
(a) 30% of NAV	D
(b) Interest on borrowed capital (actual without any ceiling limit)	E
Income from house property (C-F)	F
	G

Note - The income-tax returns, however, permit deduction of unrealized rent from gross annual value. If this view is taken, the unrealized rent should be deducted only after computing gross annual value.

ILLUSTRATION 7

Smt. Rajalakshmi owns a house property at Adyar in Chennai. The municipal value of the property is ₹ 5,00,000, fair rent is ₹ 4,20,000 and standard rent is ₹ 4,80,000. The property was let-out for ₹ 50,000 p.m. up to December 2023. Thereafter, the tenant vacated the property and Smt. Rajalakshmi used the house for self-occupation. Rent for the months of November and December 2023 could not be realised in spite of the owner's efforts. All the conditions prescribed under Rule 4 are satisfied. She paid municipal taxes @12% during the year. She had paid interest of ₹ 25,000 during the year for amount borrowed for repairs for the house property. Compute her income from house property for the A.Y. 2024-25.

SOLUTION

Computation of income from house property of Smt. Rajalakshmi for A.Y.2024-25

Particulars	Amount in ₹	
Computation of GAV		
Step 1 Compute ER for the whole year		
ER = Higher of MV of ₹ 5,00,000 and FR of ₹ 4,20,000, but restricted to SR of ₹ 4,80,000	4,80,000	
Step 2 Compute Actual rent received/receivable		
Actual rent received/receivable for the period let out less unrealized rent as per Rule 4 = (₹ 50,000 × 9) - (₹ 50,000 × 2) = ₹ 4,50,000 - ₹ 1,00,000	3,50,000	

Step 3	Compare ER for the whole year with the actual rent received/receivable for the let out period i.e. ₹ 4,80,000 and ₹ 3,50,000		
Step 4	GAV is the higher of ER computed for the whole year and Actual rent received/receivable computed for the let-out period	4,80,000	
Gross Annual Value (GAV)			4,80,000
Less:	Municipal taxes (paid by the owner during the previous year) = 12% of ₹ 5,00,000		60,000
Net Annual Value (NAV)			4,20,000
Less:	Deductions under section 24		
	(a) 30% of NAV = 30% of ₹ 4,20,000	1,26,000	
	(b) Interest on borrowed capital	25,000	1,51,000
Income from house property			2,69,000

Note – Alternatively, if as per income-tax returns, unrealized rent is deducted from GAV then, GAV would be ₹ 4,80,000, being higher of expected rent of ₹ 4,80,000 and actual rent of ₹ 4,50,000. Thereafter, unrealized rent of ₹ 1,00,000 and municipal taxes of ₹ 60,000 would be deducted from GAV of ₹ 4,80,000 to arrive at the NAV of ₹ 3,20,000. The deduction u/s 24(a) would be ₹ 96,000, being 30% of ₹ 3,20,000. The income from house property would, therefore, be ₹ 1,99,000.



In this case, it may be noted that GAV is the higher of Expected rent and Actual rent, since the Actual rent is lower than the Expected rent due to self-occupation and not vacancy.

(V) DEEMED TO BE LET OUT PROPERTY

Particulars	Amount
Gross Annual Value (GAV)	A
ER is the GAV of house property	
ER = Higher of MV and FR, but restricted to SR	
Less: Municipal taxes (paid by the owner during the previous year)	B
Net Annual Value (NAV) = (A-B)	C
Less: Deductions under section 24	
(a) 30% of NAV	D

(b) Interest on borrowed capital (actual without any ceiling limit)	E	F
Income from house property (C-F)		G

ILLUSTRATION 8

Ganesh has three houses, all of which are self-occupied. The particulars of the houses for the P.Y.2023-24 are as under:

Particulars	House I	House II	House III
Municipal valuation p.a.	₹ 3,00,000	₹ 3,60,000	₹ 3,30,000
Fair rent p.a.	₹ 3,75,000	₹ 2,75,000	₹ 3,80,000
Standard rent p.a.	₹ 3,50,000	₹ 3,70,000	₹ 3,75,000
Date of completion/purchase	31.3.2000	31.3.2002	01.4.2016
Municipal taxes paid during the year	12%	8%	6%
Interest on money borrowed for repair of property during the current year	-	₹ 55,000	
Interest for current year on money borrowed in April, 2016 for purchase of property			₹ 1,75,000

Compute Ganesh's income from house property for A.Y.2024-25 and suggest which houses should be opted by Ganesh to be assessed as self-occupied so that his tax liability is minimum.

SOLUTION

Let us first calculate the income from each house property assuming that they are deemed to be let out.

Computation of income from house property of Ganesh for the A.Y. 2024-25

Particulars	Amount in ₹		
	House I	House II	House III
Gross Annual Value (GAV)			
ER is the GAV of house property			
ER = Higher of MV and FR, but restricted to SR	3,50,000	3,60,000	3,75,000

Less: Municipal taxes (paid by the owner during the previous year)	36,000	28,800	19,800
Net Annual Value (NAV)	3,14,000	3,31,200	3,55,200
Less: Deductions under section 24			
(a) 30% of NAV	94,200	99,360	1,06,560
(b) Interest on borrowed capital	-	55,000	1,75,000
Income from house property	2,19,800	1,76,840	73,640

Ganesh can opt to treat any two of the above house properties as self-occupied.

Under default tax regime under section 115BAC

OPTION 1 (House I and II– self-occupied and House III – deemed to be let out)

If House I and II are opted to be self-occupied, the income from house property shall be –

Particulars	Amount in ₹
House I (Self-occupied)	Nil
House II (Self-occupied) (No interest deduction)	Nil
House III (Deemed to be let-out)	73,640
Income from house property	73,640

OPTION 2 (House I and III – self-occupied and House II – deemed to be let out)

If House I and III are opted to be self-occupied, the income from house property shall be –

Particulars	Amount in ₹
House I (Self-occupied)	Nil
House II (Deemed to be let-out)	1,76,840
House III (Self-occupied) (No interest deduction)	Nil
Income from house property	1,76,840

OPTION 3 (House II and III –self-occupied and House I – deemed to be let out)

If House II and III are opted to be self-occupied, the income from house property shall be –

Particulars	Amount in ₹
House I (Deemed to be let-out)	2,19,800
House II (Self-occupied) (No interest deduction)	-
House III (Self-occupied) (No interest deduction)	-
Income from house property	2,19,800

Since Option 1 is most beneficial, Ganesh should opt to treat House I and II as self-occupied and House III as deemed to be let out. His income from house property would be ₹ 73,640 for the A.Y. 2024-25 under default tax regime under section 115BAC.

If Mr. Ganesh has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)

OPTION 1 (House I and II– self-occupied and House III – deemed to be let out)

If House I and II are opted to be self-occupied, the income from house property shall be –

Particulars	Amount in ₹
House I (Self-occupied)	Nil
House II (Self-occupied) (Interest deduction restricted to ₹ 30,000)	(30,000)
House III (Deemed to be let-out)	73,640
Income from house property	43,640

OPTION 2 (House I and III – self-occupied and House II – deemed to be let out)

If House I and III are opted to be self-occupied, the income from house property shall be –

Particulars	Amount in ₹
House I (Self-occupied)	Nil
House II (Deemed to be let-out)	1,76,840
House III (Self-occupied)	(1,75,000)
Income from house property	1,840

OPTION 3 (House II and III –self-occupied and House I – deemed to be let out)

If House II and III are opted to be self-occupied, the income from house property shall be –

Particulars	Amount in ₹
House I (Deemed to be let-out)	2,19,800
House II (Self-occupied) (Interest deduction (30,000) restricted to ₹ 30,000)	
House III (Self-occupied) (No interest deduction) (1,75,000)	
(Total interest deduction restricted to ₹ 2,00,000)	(2,00,000)
Income from house property	19,800

Since Option 2 is most beneficial in this case, Ganesh should opt to treat House I and III as self-occupied and House II as deemed to be let out. His income from house property would be ₹ 1,840 for the A.Y. 2024-25 under the optional tax regime i.e., the normal provisions of the Act.

(VI) HOUSE PROPERTY, A PORTION LET OUT AND A PORTION SELF-OCCUPIED

ILLUSTRATION 9

Prem owns a house in Madras. During the previous year 2023-24, 2/3rd portion of the house was self-occupied and 1/3rd portion was let out for residential purposes at a rent of ₹ 8,000 p.m. Municipal value of the property is ₹ 3,00,000 p.a., fair rent is ₹ 2,70,000 p.a. and standard rent is ₹ 3,30,000 p.a. He paid municipal taxes @10% of municipal value during the year. A loan of ₹ 25,00,000 was taken by him during the year 2019 for acquiring the property. Interest on loan paid during the previous year 2023-24 was ₹ 1,20,000. Compute Prem's income from house property for the A.Y.2024-25 assuming that he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

What would be Prem's income from house property under the default tax regime?

SOLUTION

There are two units of the house. Unit I with 2/3rd area is used by Prem for self-occupation throughout the year and no other benefit is derived from that unit, hence it will be treated as self-occupied and its annual value will be Nil. Unit 2 with 1/3rd area is let-out throughout the previous year and its annual value has to be determined as per section 23(1).

**Computation of income from house property of Mr. Prem for A.Y.2024-25
under the optional tax regime (i.e., the normal provisions of the Act)**

Particulars	Amount in ₹	
Unit I (2/3rd area – self-occupied)		
Annual Value		Nil
Less: Deduction under section 24(b)		
2/3 rd of ₹ 1,20,000		80,000
Income from Unit I (self-occupied)		(80,000)
Unit II (1/3rd area – let out)		
Computation of GAV		
Step I Compute ER		
ER = Higher of MV and FR, restricted to SR	1,00,000	
However, in this case, SR of ₹ 1,10,000 (1/3 rd of ₹ 3,30,000) is more than the higher of MV of ₹ 1,00,000 (1/3 rd of ₹ 3,00,000) and FR of ₹ 90,000 (1/3 rd of ₹ 2,70,000). Hence the higher of MV and FR is the ER. In this case, it is the MV.		
Step 2 Compute actual rent received/ receivable ₹ 8,000×12 = ₹ 96,000	96,000	
Step 3 Compare ER and Actual rent received/receivable		
Step 4 GAV is the higher of ER and actual rent received/receivable i.e. higher of ₹ 1,00,000 and ₹ 96,000	1,00,000	
Gross Annual Value(GAV)		1,00,000
Less: Municipal taxes paid by the owner during the previous year relating to let-out portion 1/3 rd of (10% of ₹ 3,00,000) = ₹ 30,000/3 = ₹ 10,000		10,000
Net Annual Value(NAV)		90,000
Less: Deductions under section 24		
(a) 30% of NAV = 30% of ₹ 90,000	27,000	
(b) Interest paid on borrowed capital (relating to let out portion) 1/3 rd of ₹ 1,20,000	40,000	67,000
Income from Unit II (let-out)		23,000
Loss under the head "Income from house property" = (₹ 80,000) + ₹ 23,000 = (₹ 57,000)		

Under the default tax regime, Prem would not be entitled to interest deduction of ₹ 80,000 under section 24(b) in respect of self-occupied portion (Unit 1). Hence, income from house property would be ₹ 23,000, being income from Unit II, which is let out.

2.8 INADMISSIBLE DEDUCTIONS [SECTION 25]

Interest chargeable under this Act which is payable outside India shall not be deducted if –

- (a) tax has not been paid or deducted from such interest and
- (b) in respect of which there is no person in India who may be treated as an agent³.

2.9 PROVISION FOR ARREARS OF RENT AND UNREALIZED RENT RECEIVED SUBSEQUENTLY [SECTION 25A]

- (i) As per section 25A(1), the amount of rent received in arrears from a tenant or the amount of unrealised rent realised subsequently from a tenant by an assessee shall be deemed to be income from house property in the financial year in which such rent is received or realised, and shall be included in the total income of the assessee under the head “Income from house property”, whether the assessee is the owner of the property or not in that financial year.
- (ii) Section 25A(2) provides a deduction of 30% of arrears of rent or unrealised rent realised subsequently by the assessee.

- (iii) **Summary:**

Section 25A	
Arrears of Rent / Unrealised Rent	
(i)	Taxable in the year of receipt/realisation
(ii)	Deduction@30% of rent received/realised
(iii)	Taxable even if assessee is not the owner of the property in the financial year of receipt/realisation.

³under section 163

ILLUSTRATION 10

Mr. Anand sold his residential house property in March, 2023.

In June, 2023, he recovered rent of ₹ 10,000 from Mr. Gaurav, to whom he had let out his house for two years from April 2017 to March 2019. He could not realise two months rent of ₹ 20,000 from him and to that extent his actual rent was reduced while computing income from house property for A.Y.2019-20.

Further, he had let out his property from April, 2019 to February, 2023 to Mr. Satish. In April, 2021, he had increased the rent from ₹ 12,000 to ₹ 15,000 per month and the same was a subject matter of dispute. In September, 2023, the matter was finally settled and Mr. Anand received ₹ 69,000 as arrears of rent for the period April 2021 to February, 2023.

Would the recovery of unrealised rent and arrears of rent be taxable in the hands of Mr. Anand, and if so in which year?

SOLUTION

Since the unrealised rent was recovered in the P.Y.2023-24, the same would be taxable in the A.Y.2024-25 under section 25A, irrespective of the fact that Mr. Anand was not the owner of the house in that year. Further, the arrears of rent was also received in the P.Y.2023-24, and hence the same would be taxable in the A.Y.2024-25 under section 25A, even though Mr. Anand was not the owner of the house in that year. A deduction of 30% of unrealised rent recovered and arrears of rent would be allowed while computing income from house property of Mr. Anand for A.Y.2024-25.

Computation of income from house property of Mr. Anand for A.Y.2024-25

Particulars	₹
(i) Unrealised rent recovered	10,000
(ii) Arrears of rent received	69,000
	79,000
Less: Deduction@30%	23,700
Income from house property	55,300



2.10 TREATMENT OF INCOME FROM CO-OWNED PROPERTY [SECTION 26]

- (i) Where property is owned by two or more persons, whose shares are definite and ascertainable, then the income from such property cannot be taxed as income of an AOP.
- (ii) The share income of each such co-owner should be determined in accordance with sections 22 to 25 and included in his individual assessment.
- (iii) Where the house property owned by co-owners is self occupied by each of the co-owners, the annual value of the property of each co-owner will be Nil and each co-owner shall be entitled to a deduction of ₹ 30,000 / ₹ 2,00,000, as the case may be, under section 24(b) on account of interest on borrowed capital if they exercise the option of shifting out of the default tax regime provided under section 115BAC(1A).

However, the aggregate deduction of interest to each co-owner in respect of interest payable on loan taken for co-owned house property and interest, if any, payable on loan taken for another self-occupied property owned by him cannot exceed ₹ 30,000/ ₹ 2,00,000, as the case may be.

- (iv) Where the house property owned by co-owners is let out, the income from such property shall be computed as if the property is owned by one owner and thereafter the income so computed shall be apportioned amongst each co-owner as per their specific share.
- (v) **Summary:**

Co-owned property [Section 26]	
Self-occupied property	Let-out property
<p>The annual value of the property of each co-owner will be Nil and each co-owner shall be entitled to a deduction of ₹ 30,000/ ₹ 2,00,000, as the case may be, on account of interest on borrowed capital if they exercise the option of shifting out of the default tax regime provided under section 115BAC(1A).</p> <p>However, if the co-owner owns another self-occupied/unoccupied property, the aggregate interest from the co-owned property and the</p>	<p>The income from such property shall be computed as if the property is owned by one owner and thereafter the income so computed shall be apportioned amongst each co-owner as per their specific share.</p>

other self-occupied property cannot exceed ₹ 30,000/₹ 2,00,000, as the case may be.

As mentioned earlier, no interest deduction in respect of self-occupied property would be allowable to the co-owners under the default tax regime.

ILLUSTRATION 11

Ms. Aparna co-owns a residential house property in Calcutta along with her sister Ms. Dimple, where her sister's family resides. Both of them have equal share in the property and the same is used by them for self-occupation. Interest is payable in respect of loan of ₹ 50,00,000@10% taken on 1.4.2022 for acquisition of such property. In addition, Ms. Aparna owns a flat in Pune in which she and her parents reside. She has taken a loan of ₹ 3,00,000@12% on 1.10.2022 for repairs of this flat. Compute the deduction which would be available to Ms. Aparna and Ms. Dimple under section 24(b) for A.Y.2024-25, if both exercise the option of shifting out of the default tax regime provided under section 115BAC(1A).

SOLUTION

Computation of deduction u/s 24(b) available to Ms. Aparna for A.Y.2024-25

Particulars		₹
I	Interest on loan taken for acquisition of residential house property at Calcutta ₹ 50,00,000 x 10% = ₹ 5,00,000 Ms. Aparna's share = 50% of ₹ 5,00,000 = ₹ 2,50,000 Restricted to ₹ 2,00,000	2,00,000
II	Interest on loan taken for repair of flat at Pune ₹ 3,00,000 x 12% = ₹ 36,000 Restricted to ₹ 30,000	30,000
Total interest		2,30,000
Deduction under section 24(b) in respect of (I) and (II) above to be restricted to		2,00,000

Computation of deduction u/s 24(b) available to Ms. Dimple for A.Y.2024-25

Particulars	₹
Interest on loan taken for acquisition of residential house property at Calcutta	
₹ 50,00,000 x 10% = ₹ 5,00,000	
Ms. Dimple's share = 50% of ₹ 5,00,000 = ₹ 2,50,000	
Restricted to ₹ 2,00,000	2,00,000
Deduction under section 24(b)	2,00,000

2.11 DEEMED OWNERSHIP [SECTION 27]

As per section 27, the following persons, though not legal owners of a property, are deemed to be the owners for the purposes of section 22 to 26.

- (i) **Transfer to a spouse [Section 27(i)]** – In case of transfer of house property by an individual to his or her spouse otherwise than for adequate consideration, the transferor is deemed to be the owner of the transferred property.

Exception – *In case of transfer to spouse in connection with an agreement to live apart, the transferor will not be deemed to be the owner. The transferee will be the owner of the house property.*

- (ii) **Transfer to a minor child [Section 27(ii)]** – In case of transfer of house property by an individual to his or her minor child otherwise than for adequate consideration, the transferor would be deemed to be owner of the house property transferred.

Exception – *In case of transfer to a minor married daughter, the transferor is not deemed to be the owner.*

Note - Where cash is transferred to spouse/minor child and the transferee acquires property out of such cash, then, the transferor shall not be treated as deemed owner of the property. However, clubbing provisions will be attracted.

- (iii) **Holder of an impartible estate [Section 27(ii)]** – The impartible estate is a property which is not legally divisible. The holder of an impartible estate shall be deemed to be the individual owner of all properties comprised in the estate.

After enactment of the Hindu Succession Act, 1956, all the properties comprised in an impartible estate by custom is to be assessed in the status

of a HUF. However, section 27(ii) will continue to be applicable in relation to impartible estates by grant or covenant.

- (iv) **Member of a co-operative society etc. [Section 27(iii)]** – 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 of a society/company/association, shall be deemed to be owner of that building or part thereof allotted to him although the co-operative society/company/ association is the legal owner of that building.
- (v) **Person in possession of a property [Section 27(iiia)]** – A person who is allowed to take or retain the 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 shall be the deemed owner of that house property. This would include cases where the –
- (1) possession of property has been handed over to the buyer
 - (2) sale consideration has been paid or promised to be paid to the seller by the buyer
 - (3) sale deed has not been executed in favour of the buyer, although certain other documents like power of attorney/agreement to sell/will etc. have been executed.

In all the above cases, the buyer would be deemed to be the owner of the property although it is not registered in his name.

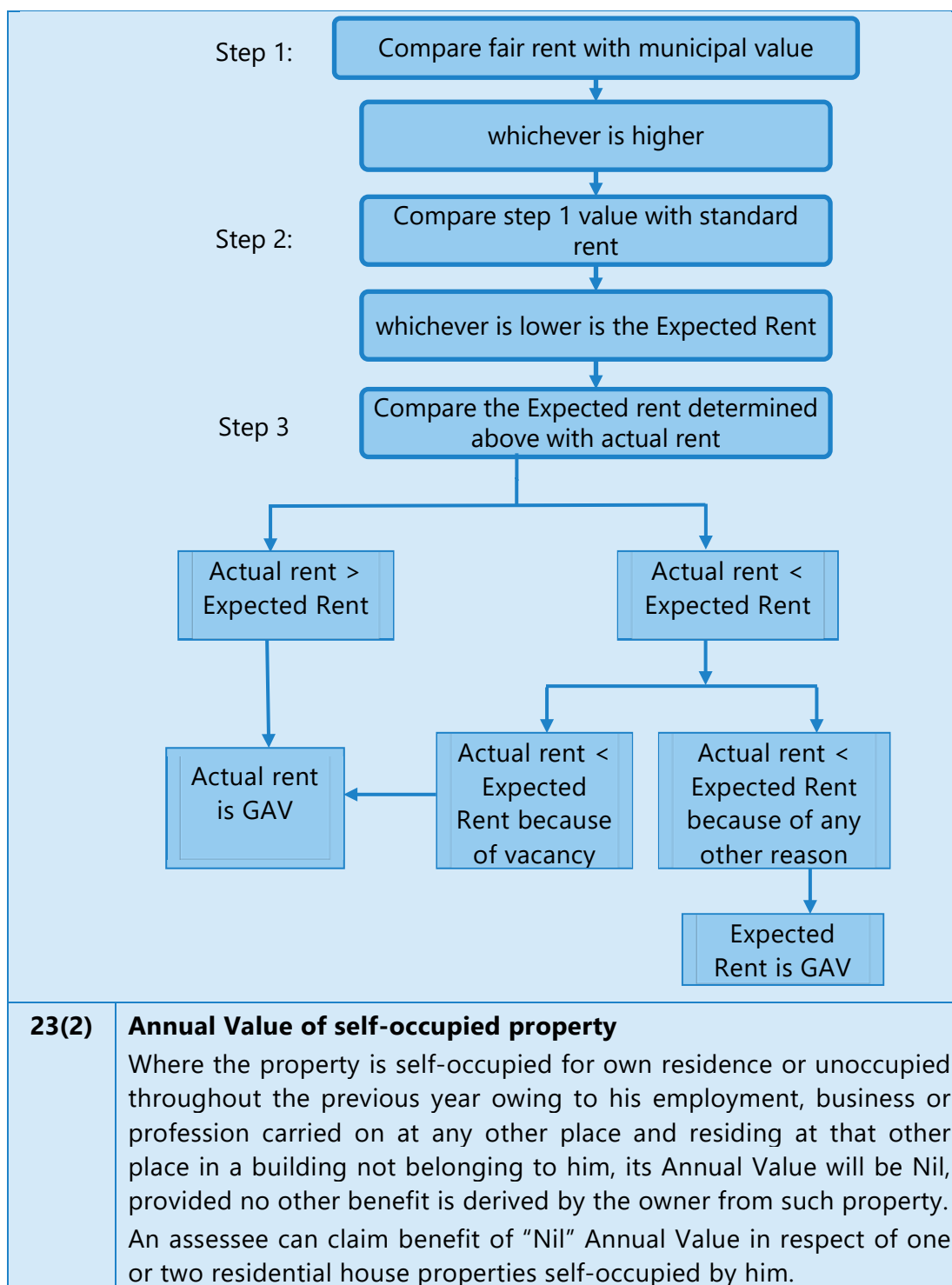
- (vi) **Person having right in a property for a period not less than 12 years [Section 27(iiib)]** – A person who acquires any rights in or with respect to any building or part thereof, by virtue of any transaction as is referred to in section 269UA(f) i.e. transfer by way of lease for not less than 12 years, shall be deemed to be the owner of that building or part thereof.

Exception – *In case the person acquiring any rights by way of lease from month to month or for a period not exceeding one year, such person will not be deemed to be the owner.*



LET US RECAPITULATE

Section	Contents
22	<p>Basis of Charge</p> <p>The annual value of any property comprising of buildings or lands appurtenant thereto, of which the assessee is the owner, is chargeable to tax under the head "Income from house property".</p> <ul style="list-style-type: none"> (i) Property should consist of any buildings or lands appurtenant thereto Income from letting out of vacant land is, however, taxable under the head "Income from other sources" or "Profits and gains from business or profession", as the case may be. (ii) Assessee must be the owner of the property (iii) The property may be used for any purpose, but it should not be used by the owner for the purpose of any business or profession carried on by him, the profit of which is chargeable to tax. Further, the income earned by an assessee engaged in the business of letting out of properties on rent would be taxable as business income. (iv) Property held as stock-in-trade etc. Annual value of house property will be charged under the head "Income from house property", where it is held by the assessee as stock-in-trade of a business also.
23(1)	<p>Annual Value of let-out property</p> <p>Annual value is the amount arrived after deducting the municipal taxes actually paid by the owner during the previous year from the Gross Annual Value (GAV). The GAV of let-out property would be determined in the following manner:</p>



23(4)	<p>Annual Value of deemed to be let-out property</p> <p>If more than two properties are so self-occupied/unoccupied, the assessee may claim benefit of Nil annual value in respect of any two properties at his option. The other property(s) would be deemed to be let out, in respect of which Expected Rent would be the GAV.</p>
23(5)	<p>Annual value where the property held as stock-in-trade etc.</p> <p>Where property consisting of any buildings or lands appurtenant thereto is held as stock-in-trade and the whole or any part of the property is not let out during the whole or any part of the previous year, the annual value of such property or part of the property for the period upto 2 years from the end of the financial year in which certificate of completion of construction of the property is obtained from the competent authority shall be taken as "Nil".</p>
24	<p>Deductions from Annual Value</p> <ol style="list-style-type: none"> 30% of Annual Value [Section 24(a)] Interest on borrowed capital [Section 24(b)]: Interest payable on loans borrowed for the purpose of acquisition, construction, repairs, renewal or reconstruction can be claimed as deduction. <p>Pre-construction interest: Interest for the period prior to the previous year in which property is acquired or construction is completed.</p> <p>Pre-construction interest is allowable as deduction in 5 equal installments from the previous year of completion of construction or acquisition.</p> <p>(a) Let out property: Whole of the amount of interest on borrowed capital payable during the previous year and apportioned pre-construction interest without any ceiling limit would be allowed as deduction.</p> <p>(b) Self-occupied property:</p> <ol style="list-style-type: none"> Interest on loan taken for acquisition or construction of house on or after 1.4.99, where such construction is completed within 5 years from the end of the financial year in which capital was borrowed, aggregate interest paid or payable for one or two self-occupied properties subject to a maximum of ₹ 2,00,000 (including apportioned pre-construction interest). In case of loan taken for repair, renovation or reconstruction at any point of time, aggregate interest paid

	<p>or payable for one or two self-occupied properties subject to a maximum of ₹ 30,000 (including apportioned pre-construction interest).</p> <p>Notes –</p> <p>(1) Total amount of interest deduction under (i) and (ii) in respect of one or two self-occupied properties owned by the assessee cannot exceed ₹ 2,00,000.</p> <p>(2) Interest deduction in respect of self occupied property(ies) would be available only if the assessee exercises the option of shifting out of the default tax regime provided under section 115BAC(1A). If the assessee pays tax under default tax regime under section 115BAC, deduction under section 24(b) in respect of interest on loan for self occupied property is not allowed.</p>
25	<p>Inadmissible deductions</p> <p>Interest chargeable under this Act which is payable outside India shall not be deducted if –</p> <p>(a) tax has not been paid or deducted from such interest and</p> <p>(b) in respect of which there is no person in India who may be treated as an agent</p>
25A	<p>Taxability of recovery of unrealised rent & arrears of rent received</p> <p>(i) Taxable in the year of receipt/ realisation</p> <p>(ii) Deduction@30% of rent received/ realised</p> <p>(iii) Taxable even if assessee is not the owner of the property in the financial year of receipt/ realization</p>
26	<p>Co-owned property</p> <p>(i) Self-occupied property: The annual value of the property of each co-owner will be Nil and each co-owner shall be entitled to a deduction of ₹ 30,000/ ₹ 2,00,000, as the case may be, on account of interest on borrowed capital if they exercise the option of shifting out of the default tax regime provided under section 115BAC(1A).</p> <p>However, aggregate deduction of interest to each co-owner in respect of co-owned self-occupied property and any other self-occupied house property, if any, cannot exceed ₹ 30,000/ ₹ 2,00,000, as the case may be.</p>

	<p>No deduction would be allowed in respect of interest on loan taken for purchase/construction/reconstruction/repairs of self occupied property where the assessee pays tax under the default tax regime.</p> <p>(ii) Let-out property: The income from such property shall be computed as if the property is owned by one owner and thereafter the income so computed shall be apportioned amongst each co-owner as per their specific share.</p>
27	<p>Deemed Ownership: The following persons, though not legal owners of a property, are deemed to be the owners:</p> <p>(i) Transferor of the property, where the property is transferred to the spouse or to minor child except minor married daughter, without adequate consideration</p> <p>(ii) Holder of an impartible estate</p> <p>(iii) Member of a co-operative society etc.</p> <p>(iv) Person in possession of a property</p> <p>(v) Person having right in a property for a period not less than 12 years</p>
Other important points	
(i)	<p>The Actual rent received/receivable should not include any amount of rent which is not capable of being realized i.e., unrealized rent while determining gross annual value in case let-out property, provided the conditions specified in Rule 4 are satisfied.</p> <p>Note - <i>The income-tax returns, however, permit deduction of unrealized rent from gross annual value. If this view is taken, the unrealized rent should be deducted only after computing gross annual value.</i></p>
(ii)	<p>If a portion of a property is let-out and a portion is self-occupied, then, the income will be computed separately for let out and self-occupied portion.</p>



TEST YOUR KNOWLEDGE

1. Mr. Raman is a co-owner of a house property along with his brother holding equal share in the property.

Particulars	₹
Municipal value of the property	1,60,000
Fair rent	1,50,000
Standard rent under the Rent Control Act	1,70,000
Rent received	15,000 p.m.

The loan for the construction of this property is jointly taken and the interest charged by the bank is ₹ 25,000, out of which ₹ 21,000 has been paid. Interest on the unpaid interest is ₹ 450. To repay this loan, Raman and his brother have taken a fresh loan and interest charged on this loan is ₹ 5,000.

The municipal taxes of ₹ 5,100 have been paid by the tenant.

Compute the income from this property chargeable in the hands of Mr. Raman for the A.Y. 2024-25.

2. Mr. X owns one residential house in Mumbai. The house is having two identical units. First unit of the house is self-occupied by Mr. X and another unit is rented for ₹ 8,000 p.m. The rented unit was vacant for 2 months during the year. The particulars of the house for the previous year 2023-24 are as under:

Standard rent	₹ 1,62,000 p.a.
Municipal valuation	₹ 1,90,000 p.a.
Fair rent	₹ 1,85,000 p. a
Municipal tax (Paid by Mr. X)	5% of municipal valuation
Light and water charges	₹ 500 p.m.
Interest on borrowed capital	₹ 1,500 p.m.
Lease money	₹ 1,200 p.a.
Insurance charges	₹ 3,000 p.a.
Repairs	₹ 12,000 p.a.

Compute income from house property of Mr. X for the A.Y. 2024-25 if he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

3. Mr. Vikas owns a house property whose Municipal Value, Fair Rent and Standard Rent are ₹ 96,000, ₹ 1,26,000 and ₹ 1,08,000 (per annum), respectively. During the F.Y. 2023-24, one-third of the portion of the house was let out for residential purpose at a monthly rent of ₹ 5,000. The remaining two-third portion was self-occupied by him. Municipal tax @11% of municipal value was paid during the year.

The construction of the house began in June, 2016 and was completed on 31-5-2019. Vikas took a loan of ₹ 1,00,000 on 1-7-2016 for the construction of building. He paid interest on loan @ 12% per annum and every month such interest was paid.

Compute income from house property of Mr. Vikas for the A.Y. 2024-25 if he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

4. Mrs. Rohini Ravi, a citizen of the U.S.A., is a resident and ordinarily resident in India during the financial year 2023-24. She owns a house property at Los Angeles, U.S.A., which is used as her residence. The annual value of the house is \$20,000. The value of one USD (\$) may be taken as ₹75.

She took ownership and possession of a flat in Chennai on 1.7.2023, which is used for self-occupation, while she is in India. The flat was used by her for 7 months only during the year ended 31.3.2024. The municipal valuation is ₹ 3,84,000 p.a. and the fair rent is ₹ 4,20,000 p.a. She paid the following to Corporation of Chennai:

Property Tax	₹ 16,200
Sewerage Tax	₹ 1,800

She had taken a loan from Standard Chartered Bank in June, 2021 for purchasing this flat. Interest on loan was as under:

Particulars	₹
Period prior to 1.4.2023	49,200
1.4.2023 to 30.6.2023	50,800
1.7.2023 to 31.3.2024	1,31,300

She had a house property in Bangalore, which was sold in March, 2020. In respect of this house, she received arrears of rent of ₹ 60,000 in March, 2024. This amount has not been charged to tax earlier.

Compute the income chargeable from house property of Mrs. Rohini Ravi for the A.Y. 2024-25 if she has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

Would your answer change if she pays tax under the default tax regime under section 115BAC?

5. *Two brothers Arun and Bimal are co-owners of a house property with equal share. The property was constructed during the financial year 2015-2016. The property consists of eight identical units and is situated at Cochin.*

During the financial year 2023-24, each co-owner occupied one unit for residence and the balance of six units were let out at a rent of ₹ 12,000 per month per unit. The municipal value of the house property is ₹ 9,00,000 and the municipal taxes are 20% of municipal value, which were paid during the year. The other expenses were as follows:

	₹
(i) Repairs	40,000
(ii) Insurance premium (paid)	15,000
(iii) Interest payable on loan taken for construction of house	3,00,000

One of the let out units remained vacant for four months during the year.

Arun could not occupy his unit for six months as he was transferred to Chennai. He does not own any other house.

The other income of Mr. Arun and Mr. Bimal are ₹ 2,90,000 and ₹ 1,80,000, respectively, for the financial year 2023-24.

Compute the income under the head 'Income from House Property' and the total income of two brothers for the A.Y. 2024-25 if they pay tax under the default tax regime under section 115BAC.

Also, show the computation of income under this head, if they both exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

ANSWERS

1. Computation of income from house property of Mr. Raman for A.Y. 2024-25

Particulars	₹	₹
Gross Annual Value (See Note 1 below)		1,80,000
Less: Municipal taxes – paid by the tenant, hence not deductible		Nil
Net Annual Value (NAV)		1,80,000
Less: Deductions under section 24		
(i) 30% of NAV	54,000	
(ii) Interest on housing loan (See Note 2 below)		
- Interest on loan taken from bank	25,000	
- Interest on fresh loan to repay old loan for this property	5,000	84,000
Income from house property		96,000
50% share taxable in the hands of Mr. Raman (See Note 3 below)		48,000

Notes:

1. Computation of Gross Annual Value (GAV)

GAV is the higher of Expected rent and actual rent received. Expected rent is the higher of municipal value and fair rent, but restricted to standard rent.

Particulars	₹	₹	₹	₹
(a) Municipal value	1,60,000			
(b) Fair rent	1,50,000			
(c) Higher of (a) and (b)		1,60,000		
(d) Standard rent		1,70,000		
(e) Expected rent [lower of (c) and (d)]			1,60,000	
(f) Actual rent [₹ 15,000 x 12]			1,80,000	
(g) Gross Annual Value [higher of (e) and (f)]				1,80,000

2. Interest on housing loan is allowable as a deduction under section 24 on accrual basis. Further, interest on fresh loan taken to repay old loan is also allowable as deduction. However, interest on unpaid interest is not allowable as deduction under section 24.
3. Section 26 provides that where a house property is owned by two or more persons whose shares are definite and ascertainable, the share of each such person in the income of house property, as computed in accordance with sections 22 to 25, shall be included in his respective total income. Therefore, 50% of the total income from the house property is taxable in the hands of Mr. Raman since he is an equal owner of the property.

2. Computation of Income from house property for A.Y. 2024-25

Particulars	₹	₹
(A) Rented unit (50% of total area – See Note below)		
Step I - Computation of Expected Rent		
Municipal valuation (₹ 1,90,000 x ½)	95,000	
Fair rent (₹ 1,85,000 x ½)	92,500	
Standard rent (₹ 1,62,000 x ½)	81,000	
Expected Rent is higher of municipal valuation and fair rent, but restricted to standard rent	81,000	
Step II - Actual Rent		
Rent received/receivable for the let out period (₹ 8,000 x 10)	80,000	
Step III – Computation of Gross Annual Value		
The actual rent of ₹ 80,000 is lower than ER of ₹ 81,000 owing to vacancy, since, had the property not been vacant the actual rent would have been ₹ 96,000 (₹ 80,000 + ₹ 16,000, being notional rent for two months. Therefore, actual rent is the GAV.	80,000	
Gross Annual Value		80,000
Less: Municipal taxes (5% of ₹ 95,000)		4,750
Net Annual value		75,250

Less : Deductions under section 24 -		
(i) 30% of net annual value	22,575	
(ii) Interest on borrowed capital (₹ 750 x 12)	9,000	31,575
Taxable income from let out portion		43,675
(B) Self occupied unit (50% of total area – See Note below)		
Annual value	Nil	
Less : Deduction under section 24 -		
Interest on borrowed capital (₹ 750 x 12)	9,000	9,000
Loss from self occupied portion		(9,000)
Income from house property		34,675

Note: No deduction will be allowed separately for light and water charges, lease money paid, insurance charges and repairs.

3. **Computation of income from house property of
Mr. Vikas for the A.Y. 2024-25**

Particulars	₹	₹
Income from house property		
I. Self-occupied portion (Two third)		
Net Annual value		Nil
Less: Deduction under section 24(b)		
Interest on loan (See Note below) (₹ 18,600 x 2/3) [Allowable since he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)]		12,400
Loss from self occupied property		(12,400)
II. Let-out portion (One third)		
Gross Annual Value		
(a) Actual rent received (₹ 5,000 x 12)	₹ 60,000	
(b) Expected rent	₹ 36,000	
[higher of municipal valuation (i.e., ₹ 96,000) and fair rent (i.e., ₹ 1,26,000) but restricted to standard rent (i.e., ₹ 1,08,000)] = ₹ 1,08,000 x 1/3		

Higher of (a) or (b)	60,000	
Less: Municipal taxes (₹ 96,000 x 11% x 1/3)	3,520	
Net Annual Value	56,480	
Less: Deductions under section 24		
(a) 30% of NAV	16,944	
(b) Interest on loan (See Note below) (₹ 18,600 x 1/3)	6,200	33,336
Income from house property		20,936

Note: Interest on loan taken for construction of building

Interest for the year (1.4.2023 to 31.3.2024) = 12% of ₹ 1,00,000 = ₹ 12,000

Pre-construction period interest = 12% of ₹ 1,00,000 for 33 months (from 1.07.2016 to 31.3.2019) = ₹ 33,000

Pre-construction period interest to be allowed in 5 equal annual installments of ₹ 6,600 from the year of completion of construction i.e., from F.Y. 2019-20 till F.Y. 2023-24.

Therefore, total interest deduction under section 24 = ₹ 12,000 + ₹ 6,600 = ₹ 18,600.

4. (i) Since the assessee is a resident and ordinarily resident in India, her global income would form part of her total income i.e., income earned in India as well as outside India will form part of her total income.

She possesses a self-occupied house at Los Angeles as well as at Chennai. She can take the benefit of "Nil" Annual Value in respect of both the house properties.

As regards the Bangalore house, arrears of rent will be chargeable to tax as income from house property in the year of receipt under section 25A. It is not essential that the assessee should continue to be the owner. 30% of the arrears of rent shall be allowed as deduction.

Accordingly, the income from house property of Mrs. Rohini Ravi for A.Y.2024-25 will be calculated as under:

Particulars	₹	₹
1. Self-occupied house at Los Angeles		
Annual value		Nil
Less: Deduction under section 24		Nil
Chargeable income from this house property		Nil
2. Self-occupied house property at Chennai		
Annual value		Nil
Less: Deduction under section 24		
Interest on borrowed capital (See Note below)		1,91,940
		(1,91,940)
3. Arrears in respect of Bangalore property (Section 25A)		
Arrears of rent received	60,000	
Less: Deduction @ 30% u/s 25A(2)	18,000	42,000
Loss under the head "Income from house property"		(1,49,940)

Note: Interest on borrowed capital

Particulars	₹
Interest for the current year (₹ 50,800 + ₹ 1,31,300)	1,82,100
Add: 1/5th of pre-construction interest (₹ 49,200 x 1/5)	9,840
Interest deduction allowable under section 24	1,91,940

Interest deduction under section 24(b) is allowable since she has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

- (ii) Yes, the answer would change if she pays tax under the default tax regime under section 115BAC. Under the default tax regime, deduction under section 24(b) for interest is not available. Hence, she cannot claim deduction of ₹ 1,91,940 in respect of the Chennai house. Accordingly, income from house property would be ₹ 42,000.

5. (i) If Arun and Bimal pay tax under the default tax regime under section 115BAC

Computation of total income for the A.Y. 2024-25

Particulars	Arun (₹)	Bimal(₹)
Income from house property		
I. Self-occupied portion (25%)		
Annual value	Nil	Nil
Less: Deduction under section 24(b)	Nil	Nil
Loss from self occupied property	Nil	Nil
II. Let-out portion (75%) – See Working Note below	1,25,850	1,25,850
Income from house property	1,25,850	1,25,850
Other Income	2,90,000	1,80,000
Total Income	4,15,850	3,05,850

Working Note – Computation of Income from Let-Out Portion of House Property

Particulars	₹	₹
Let-out portion (75%)		
Gross Annual Value		
(a) Municipal value (75% of ₹ 9 lakh)	6,75,000	
(b) Actual rent [(₹ 12000 x 6 x 12) – (₹ 12,000 x 1 x 4)] = ₹ 8,64,000 - ₹ 48,000 - whichever is higher	8,16,000	8,16,000
Less: Municipal taxes 75% of ₹ 1,80,000 (20% of ₹ 9 lakh)		1,35,000
Net Annual Value (NAV)		6,81,000
Less: Deduction under section 24		
(a) 30% of NAV	2,04,300	
(b) Interest on loan taken for the house [75% of ₹ 3 lakh]	2,25,000	4,29,300
Income from let-out portion of house property		2,51,700
Share of each co-owner (50%)		1,25,850

- (ii) If Arun and Bimal have exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)

Computation of total income for the A.Y. 2024-25

Particulars	Arun (₹)	Bimal(₹)
Income from house property		
I. Self-occupied portion (25%)		
Annual value	Nil	Nil
Less: Deduction under section 24(b)		
Interest on loan taken for construction ₹ 37,500 (being 25% of ₹ 1.5 lakh) [Allowable since they have exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)]	37,500	37,500
Loss from self occupied property	(37,500)	(37,500)
II. Let-out portion (75%) – See Working Note above	1,25,850	1,25,850
Income from house property	88,350	88,350
Other Income	2,90,000	1,80,000
Total Income	3,78,350	2,68,350