Topic: Income from House Property

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Second head of Income, Income from house property

LET OUT PROPERTY [Sec. 23(1)] Computation at a glance

Computation of Income from house property of …………. for the Assessment Year ……….

Particulars	**Details**	**Amount**
Gross Annual Value (GAV)		xxxxxxxx
Less: Municipal tax		xxxxxxxx
Net Annual Value (NAV)		xxxxxxxx
Less: Deductions u/s 24(a) Standard deduction [30% of NAV]	xxxxxxxxx	
24(b) Interest on borrowed capital	xxxxxxxxx	xxxxxxx
Income from house property		xxxxxxx

Gross Annual Value (GAV)

Normally, income tax is charged on income, but under the head ‘Income from house property’, tax is not charged on the rent earned from house property but on the inherent earning capacity of the house property. Such earning capacity is termed as Annual Value. Annual value is determined considering the following factors:

A) Actual Rent Receivable [ARR]

Any sum receivable as rent of the house property for the previous year is an evidence for determining the earning capacity of the building. Such actual rent receivable is to be computed on accrual basis. However, where tenant pays rent, which is influenced by benefits provided by the owner of the property, such rent must be disintegrated to determine actual rent i.e. De-facto rent of the property.

De facto rent = ARR – Cost of amenities.

Tax point: While computing actual rent receivable, outstanding rent shall be considered but advance rent received during the financial year is not to be considered.

B) Gross Municipal Value

It means the annual value of the property decided by municipality on which they charge municipal tax. Such valuation may also be taken as evidence of earning capacity of a property. In metro cities (i.e. Chennai, Delhi, Kolkata, Mumbai), municipal authorities charge tax on Net Municipal Value after giving a deduction for repairs (being 10% of Gross Municipal value) and an allowance for service taxes (like sewerage tax, water tax etc. as a % of Net Municipal value). Hence, the relation between Gross Municipal Value and Net Municipal Value can be concluded as under –

In metro cities NMV = GMV – 10% of GMV – Sewerage/Water Tax etc. (as a % of NMV)

In non-metro cities GMV = NMV

C) Fair or Notional rent of the property

Fair or notional rent of a property means rent fetched by a similar property in the same or similar locality. Though two properties might not be exactly similar still it is an indicator of rent reasonably expected from the property. An inflated or deflated rent due to emergency, relationship and such other conditions need to be adjusted to determine fair rent.

For instance, a property was let out to a friend for a monthly rent of ₹ 2,000 which might be let out to another person at the rate of ₹ 2,500 p.m. In such case, fair rent of the property shall be ₹2,500 p.m.

D) Standard rent under the Rent Control Act

Standard rent is the maximum rent, which a person can legally recover from his tenant under the Rent Control Act prevailing in the State in which the property is situated. A landlord cannot reasonably expect to receive from a tenant any amount more than Standard Rent. Accordingly, it can be concluded that if the property is covered by the Rent Control Act then Reasonable Expected Rent (RER) cannot exceed Standard Rent.

Tax point: Reasonable Expected Rent cannot exceed Standard Rent but can be lower than Standard Rent.

Computation of Gross Annual Value

Step 1: Calculate reasonable expected rent (RER) of the property being higher of the following:

a) Gross Municipal Value.
b) Fair Rent of the property.

Note: RER cannot exceed Standard Rent.

Step 2: Calculate Actual Rent Received or Receivable (ARR) for the year less current year unrealised rent (UR) subject to certain conditions

Unrealised Rent [Rule 4]: Unrealised Rent of current year shall be deducted in full from Actual Rent Receivable, provided the following conditions are satisfied:

(i) The tenancy is bona fide; Direct Taxation 126 The Institute of Cost Accountants of India
(ii) The defaulting tenant has vacated the property or steps have been taken to compel him to vacate the property;
(iii) The defaulting tenant is not in occupation of any other property of the assessee;
(iv) The assessee has taken all reasonable steps to institute legal proceeding for the recovery of the unpaid rent or has satisfied the Assessing Officer that legal proceedings would be worthless.

Step 3: Compare the values calculated in step 1 and step 2 and take the higher one.

Step 4: Where there is vacancy and owing to such vacancy the 'ARR – UR' is less than the RER, then 'ARR - UR' computed in step 2 will be treated as GAV.

In nutshell, GAV shall be computed as under

Step	Particulars	Amount
Ist	Compute Reasonable Expected Rent [RER]	xxxxxxxxxx
	Gross Municipal Value (a)	xxxxxxxxxxx
	Fair Rent (b)	xxxxxxxxxxx
	Higher of the (a) and (b) [A]	xxxxxxxxxxxx
	Standard Rent B	xxxxxxxxxxxxx
	Reasonable Expected Rent [Lower of (A and B)]	xxxxxxxxxxxxxx

	[C]	
2nd step	Actual Rent Received or Receivable (ARR) – Unrealised Rent of the current year (UR) [D]	xxxxxxxxxxxxxxx
3rd	Gross Annual Value	xxxxxxxxxxxxxx
	Higher of C and D shall be considered as GAV	xxxxxxxxxxxxxxx
4th	However, where 'ARR – UR' is lower due to vacancy, then 'ARR - UR' computed in step 2 will be treated as GAV.	xxxxxxxxxxxxxx

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