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B.Com Honours

Semester V

Calicut University

INCOME TAX LAW AND ACCOUNTS

Course Code: COM5CJ301 • Module 3 Notes

Module III: Income from House Property (Section 22 to Section 27)

Governs taxability of annual value of buildings and land appurtenant thereto owned by the assessee, rules for Gross Annual Value (GAV) determination, and Section 24 statutory deductions.

Unit 15: Introduction to House Property & Exempted Properties

1. Chargeability (Sec 22): Annual value of property consisting of buildings or lands appurtenant thereto of which assessee is the owner (except property used for business/profession).
2. Exempted House Properties: Farmhouses, local authority property, registered trade union property, self-occupied property up to 2 units (NAV taken as Nil).

Unit 16: Calculation of Gross Annual Value (GAV)

Steps for Let-Out Property (LOP):
Step 1: Expected Rent (ER) = Higher of Municipal Value (MV) & Fair Rent (FR), restricted to Standard Rent (SR) under Rent Control Act.
Step 2: Actual Rent Received / Receivable (ARR) minus unrealized rent.
Step 3: GAV = Higher of ER and ARR. (If ARR is lower due to vacancy, GAV = ARR).

Unit 17: Calculation of Net Annual Value (NAV)

Net Annual Value (NAV) = Gross Annual Value (GAV) - Municipal Taxes paid by Owner during PY

Note: Municipal taxes deductible only if paid by owner during previous year (not due/unpaid).

Unit 18: Statutory Deductions under Section 24

1. Standard Deduction (Sec 24(a)): Flat 30% of Net Annual Value (NAV).
2. Interest on Borrowed Capital (Sec 24(b)):
Self-Occupied Property (SOP): Max Rs. 2,00,000 p.a. for capital borrowed on/after 01-04-1999 for acquisition/construction completed within 5 years. Max Rs. 30,000 for repair/renovation.
Let-Out Property (LOP): Unlimited interest allowed.

Unit 19: Comprehensive Computation of Income from House Property

Income from House Property = NAV minus Sec 24(a) 30% Deduction minus Sec 24(b) Interest on Housing Loan.

Practical Problem 1 (Comprehensive Solved Income from House Property Statement): An assessee owns a house property let out for residential purposes:
Municipal Value (MV) = Rs. 2,40,000 p.a.; Fair Rent (FR) = Rs. 2,70,000 p.a.; Standard Rent (SR) = Rs. 2,50,000 p.a.; Actual Rent Received (ARR) = Rs. 25,000/mo (Rs. 3,00,000 p.a.); Municipal Taxes levied by local body = Rs. 24,000

(Owner paid Rs. 18,000, Tenant paid Rs. 6,00,000); Interest on Housing Loan paid during PY = Rs. 80,000. Calculate (a) Expected Rent (ER), (b) Gross Annual Value (GAV), (c) Net Annual Value (NAV), and (d) Net Taxable Income from House Property.

Step-by-Step Solved House Property Computations:

- **1. Expected Rent (ER):**
  Higher of MV (2,40,000) and FR (2,70,000) = Rs. 2,70,000.
  Subject to Standard Rent limit (2,50,000). So Expected Rent ER = **Rs. 2,50,000**.
- **2. Gross Annual Value (GAV):**
  Higher of ER (2,50,000) and Actual Rent ARR (3,00,000). GAV = **Rs. 3,00,000**.
- **3. Net Annual Value (NAV):**
  Municipal Taxes paid by owner = Rs. 18,000 (Tenant portion Rs. 6,000 disallowed).
  NAV = GAV (3,00,000) - Municipal Taxes (18,000) = **Rs. 2,82,000**.

Comprehensive Statement of Income from House Property:

House Property Computation Item	Amount (Rs.)
Gross Annual Value (GAV)	3,00,000
Less: Municipal Taxes paid by Owner	(18,000)
NET ANNUAL VALUE (NAV)	**2,82,000**
Less: Statutory Standard Deduction under Sec 24(a) (30% of NAV = 30% of 2,82,000)	(84,600)
Less: Interest on Borrowed Capital under Sec 24(b)	(80,000)
NET TAXABLE INCOME FROM HOUSE PROPERTY	**1,17,400**