

UCCC&SPBCBA&SDHGBCA&IT,UDHNA

SYBCOM SEM-IV

Advanced Accounting & Auditing-IV

(ACCOUNTANCY & TAXATION)

Unit 3 Computation of 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	—
Less: Municipal Taxes	—
Net Annual Value	****

Less: Standard deduction at 30% NAV[Section 24(a)]	—
Less: 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:

	<p>a) Taxes are borne by the owner; and</p> <p>b) Taxes are actually paid by him during the year.</p>
<p>Standard Deduction[Section 24(a)]</p>	<p>30% of net annual value of the house property is allowed as deduction if property is let-out during the previous year.</p>
<p>Interest on Borrowed Capital * [Section 24(b)]</p>	<p>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.</p> <p>b) Prior Period Interest: Interest paid/payable for the period prior to the previous year in which the property is acquired or constructed will be aggregated and allowed in 5 successive financial year starting from the year in which the acquisition/construction was completed.</p> <p>Interest will be aggregated from the date of borrowing till the end of the previous year prior to the previous year in which the house is completed and not till the date of completion of construction.</p>

Under new tax regime (section 115BAC) no deduction is allowed for self occupied property.

5. Computation of Income from House Property

S. No.	Property Type	Gross Annual Value of the property	Deduction for municipal taxes	Net Annual Value of the property	Standard Deduction	Interest on borrowed capital
1.	Self-occupied house property/ properties	Nil	Nil	Nil	Nil	Nil (U/S 115BAC)
2.	House property could not be occupied by the owner due to employment or business carried on at any other place	Nil	Nil	Nil	Nil	NIL
3.	Let out property	To be computed as per provisions of Section 23(1)	Allowed on actual payment basis	Gross annual value less Municipal taxes	30% of Net Annual Value	Entire amount of interest paid or payable on 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.

Return of Income Tax:

For quantification of tax liability, every person whose total income exceeds the exemption limit is required to file a statement of his total income technically called 'Return of Income' within the prescribed time to the prescribed income tax authority.

This return forms the basis for determining the total income and arriving at the tax payable or refundable to the assessee. After receipt of the return, the tax authorities may decide to accept the information furnished therein as true and calculate the tax liability based on such information only. In other cases, they may call upon the tax-payer to substantiate the information and evidence to satisfy the authorities about the correctness and completeness of the information supplied in the return. They may themselves make independent enquiries, ask questions from the tax-payer and seek such further information as may be considered necessary for determination of correct assessable income. The total income is then determined after making such modification in the income stated in the return as may be warranted by the evidence furnished by the tax-payer and enquiries made by the tax authorities.

- **Submission of Return of Income [Section 139(1)]**

Under Section 139(1), every person having total income in excess of minimum taxable limit is under the obligation to furnish his return of income.

If the person is liable to pay the income tax on the income of other person, he has to furnish the return of income.

- **Due Dates for Filing the Return**

The last dates for filing the return of income with the tax authority having jurisdiction over an assessee case are laid down in Section 139(1)

omission to disclose any material information may entail penal consequences and may even subject the tax-payer to the risk of criminal prosecution. It is, therefore, necessary to know about it in some details.

- **Belated Return [Section 139(4)]**

If the assessee does not submit the return within the time allowed to him, he may furnish the return for any previous year at any time before December 31 of relevant assessment year or the completion of assessment (whichever is earlier). The assessee shall be liable to pay interest (Section 234 A) on late submission and also for late filing u/s 234 F.

- **Revised Return of Income [Section 139(5)]**

If any person after furnishing a return discovers any omission, he may furnish revised return at any time before the assessment is completed or before December 31 of relevant assessment year, whichever is earlier, once a revised return is filed, the original return filed is considered as withdrawn and substituted by revised return.

- **Defective Return [Section 139(9)]**

If officer feels that the return of income furnished by assessee is defective, he may intimate the defect to the assessee and provide him an opportunity to rectify the defect within a period of 15 days from the date of such intimation.

If the assessee submits the return after the date, the submitted return will be treated invalid and it will be presumed that the assessee has failed to furnish the return. However, if the assessee submits return after 15 days so allowed but before the assessment is

made, the assessing officer may condone the delay and treat the return as valid return.

- **Return of Losses [Section 139(3)]**

Under Section 139(3) of Income Tax Act, it is not mandatory to file return in case of loss. But, if the return of loss is not filed up to due date, the loss (business loss, capital loss, loss from the activity of owning and maintaining race horses) cannot be carried forward.

- **Permanent Account Number [Section 139 (a)]**

An assessee is identified in the Income Tax Department by the Permanent Account Number (PAN) allotted to him. Under Section 139 (a), if the total income of an assessee exceeds the exemption limit and he has not already been allotted a PAN, he should apply to his assessing officer for allotment of PAN.

This number should be clearly mentioned in the Return form and all correspondence with the department. Earlier the Tax-payers were identified by the General Index Register Number (GIR No.) and in the transitional period both the numbers are in use till GIR is completely replaced by PAN.

The Income Tax Department issues a permanent account number to every tax-payer. PAN is compulsorily mentioned in return of income. PAN is meant to identify the returns, tax payment and the correspondence received from the assessee and link these to their assessment records to facilitate quick disposal of their claim of refund. PAN includes new types of series having 10 alphanumeric characters.

PAN is compulsory to mention in all documents pertaining to the transactions specified in Rule 114 B. Some of such mentions are as under.

- i) Deposit of Rs. 50,000 or more in Savings A/c of Bank/Post Office;
- ii) Payment of Hotel/Restaurant bills of more than Rs. 50,000/- at any one time;
- iii) Sale and purchase of immovable property worth Rs. 10,00,000/- or more;
- iv) Opening of a DEMAT Account;
- v) For opening an account in any bank;
- vi) Term deposit of Rs. 50,000/- or more in any bank.
- vii) Sale or purchase of motor vehicle.
- viii) Transaction of more than Rs. 2, 00,000/- by way of sale as purchase of goods or service by any person and of any nature other than those specified.

- **Quoting of Aadhar Number [Section 139(aa)]**

Under Section 139 (aa), every person who is eligible to obtain Aadhar Number shall (on or after 1/07/2018) quote Aadhar Number:

- i) In the application for the allotment of PAN
- ii) In the Income Tax Return.

However, where the person does not possess Aadhar Number, the Enrolment

ID of Aadhar application form issued to him at the time of enrolment, shall be quoted in the application for PAN or in the return of income.

Every person who has been allotted PAN and who is eligible to obtain Aadhar Number, shall intimate his Aadhar number to such authority in such form and manner, notified by the Central Government.

However, in case of failure to intimate the Aadhar Number, the PAN allotted

to the person shall be deemed to be invalid and the other provisions of the Act shall apply, as if the person had not applied for allotment of PAN.

The provision of Section 139 (aa) shall not apply to such person or class or classes of persons or any state or part of any state, as may be notified by the central government.

- **Self-Assessment(Section 140 A)**

Although the income of the financial year (technically called ‘Previous Year’) is finally assessable for the next financial year (technically called ‘Assessment Year’), the Income Tax Act contains provisions for collection of tax in the previous year itself. Such collection is provisional in nature in the sense that the same is considered to have been paid towards the final liability to be determined on the basis of return or on completion of assessment for the relevant assessment year. Accordingly, whatever taxes are paid by the assessee under these provisions are adjusted against the tax finally determined and the balance amount is payable by or refundable to the tax payer.

Tax is collected in the previous year itself by either or both of the following

methods:

i) **Tax deducted at Source (T.D.S.) [Section 190]** - TDS means the system which requires the person making payment for salaries, interest on securities, interest other than interest on securities, insurance commission, dividend, winnings from lotteries or horse races etc. or those making payments to contractors for work executed by them or to non-residents, to deduct tax at prescribed rates and to pay the net amount only.

ii) **Advance Tax:** If an assessee derives income from source in respect of which there is no system of deduction of tax at source, he is required to make an estimate of total income which he will earn in the previous year. Such income is technically called income of the 'Current Year'. On such estimated income he is required to work out the tax at the rates prescribed in the Finance Act,

- **Types of IRT Forms**

ITR Forms	Subject
ITR-1 (i.e., SAHAJ)	For individual having income from salary/one house property (not being brought forward loss from previous years)/income from other sources (not being loss and not being winning from lottery/income from racehorses).
ITR-2	For individuals and HUFs not having business/professional income. But, their income can be from the head 'Income from Other Sources'.
ITR-4 (i.e., Sugam)	For individuals/HUFs/firms (other than LLP) deriving business income and such income is computed in accordance with special provisions referred to in Sections 44AD and 44AE.
ITR-5	For firms, AOPs andBOIs or any other person (not being individual or HUF or company or to whom ITR-7 is applicable)
ITR-7	For persons including companies required to furnish return under Section 139 (4 A)/ (4 B)/ (4C)/(4D)/(4E)/(4F).
ITR-V	Where the data of the return of income in Forms ITR-1, ITR-2, ITR-3, ITR-4 and ITR-5 transmitted electronically without digital signature.

All the above-mentioned forms are available free of cost from income tax department or can be downloaded from their website.