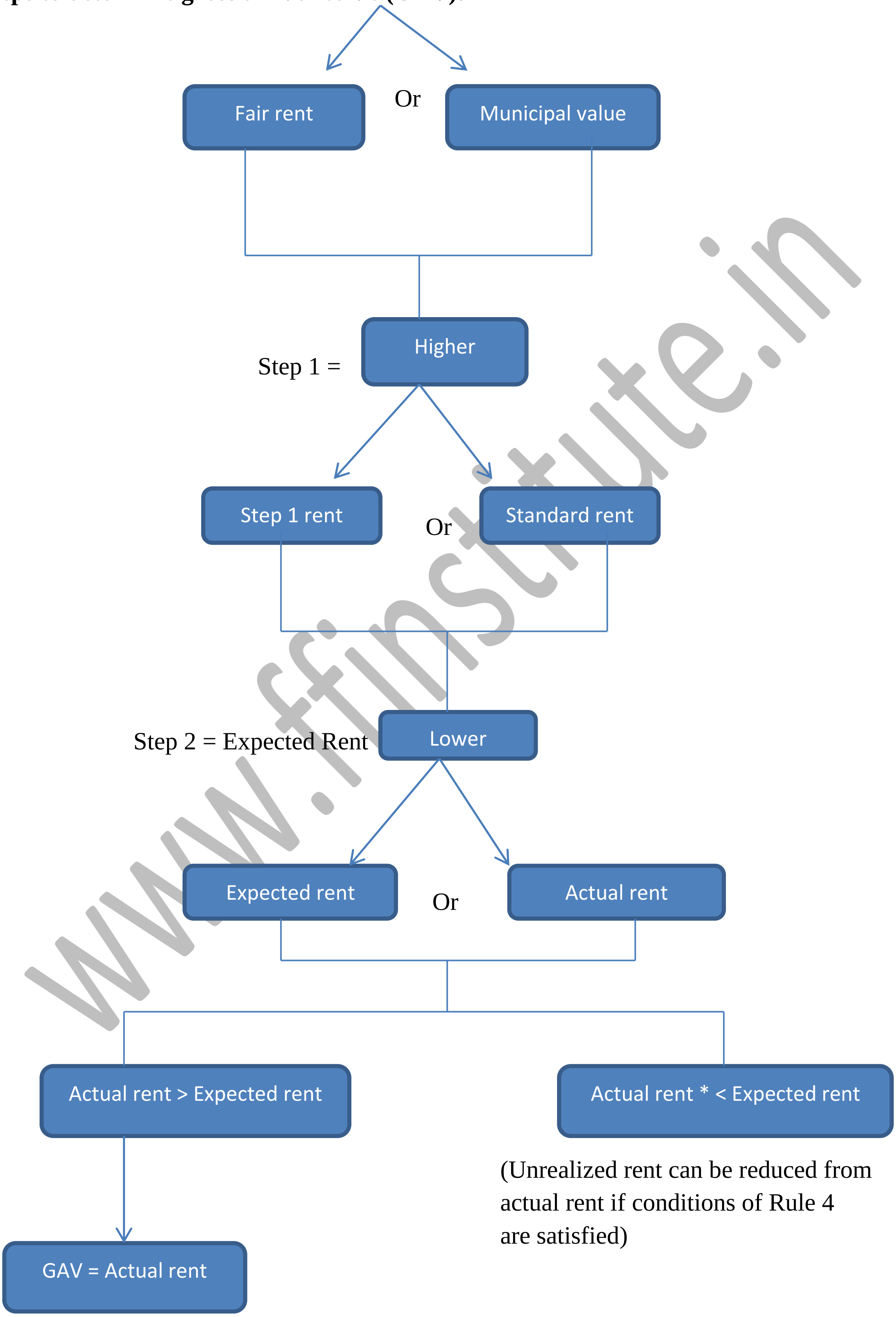
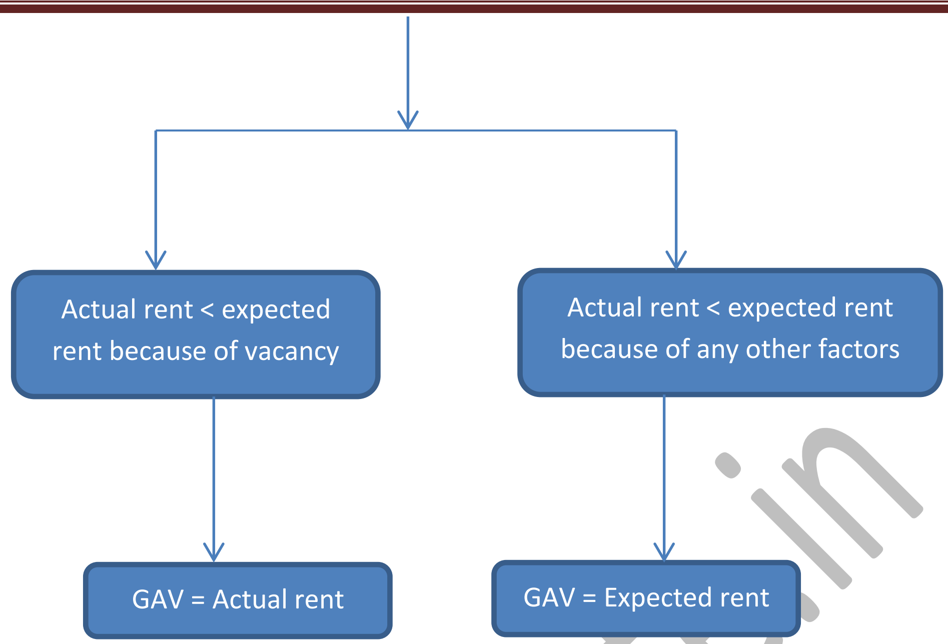
ANNUAL VALUE

Steps to determine gross annual value (GAV):





NOTES:

1. Step 2 is relevant only if standard rent is fixed for the property. Otherwise, step – 1 will be expected rent and it will be followed by step 3.
2. *Rule 4: Unrealized rent can be reduced from actual rent if
   a. Tenancy is bonafide
   b. Defaulting tenant has vacated the property or steps for the same have been taken
   c. The tenant has not occupied assessee' any other property
   d. Assesse has taken steps for the recovery of the unpaid rent.

Determination of taxable income from house property

Particulars	**Self-occupied/unoccupied**	**Let out**	**Stop for part of the year and let out for the remaining part of the year (Note 3)**	**DLOP (note 5)**
Gross Annual Value (GAV)	Nil	Actual rent/Expected rent (chart 1)	Actual rent /Expected rent (chart 1)	Expected rent (chart 1)
Less: Property taxes paid by ONBER to local authority	Nil	XXX	XXX	XXX
Net Annual Value	Nil	NAV	NAV	XXX
Less: Deduction u/s 24 – 1. Standard deduction u/s	Nil	XXX	XXX	XXX

24 (a) (30% of NAV) 2. Interest on loan paid or payable u/s 24 (b) for a. Acquisition, construction b. Renovation, repairing or reconstruction	 Limited to Rs. 2,00,000 Limited to Rs. 30,000	 No limit No limit	 No limit No limit	 No limit No limit
Income from house property	XXX	XXX	XXX	XXX

Notes:

1. ***conditions to satisfied:**
   a. The property is acquired or constructed on or after 01-04-1999; and
   b. Such acquisition or construction is completed within 5 years from the end of the financial year in which the capital was borrowed. (Till A.Y. 2016-17, the time limit for acquisition or construction was 3 years)
   If the above conditions are not satisfied, then deduction shall be limited to Rs. 30,000

2. **Pre-construction period interest**
   a. Pre-construction beings on the date when loan is taken and either on the date on which the loan is repaid or 31st March immediately preceding the date of completion of construction, whichever is earlier.
   b. 1/5th of the interest paid / payable during pre-construction will be allowed to be deducted every year during the post-construction period for 5 years. In case of SQP, this interest is allowed as deduction subject to ceiling limit of Rs. 30,000 or Rs. 2,00,000 as the case may be.

A-2. HOUSE PROPERTY IS LET OUT AND THERE IS VACANCY

A. If house property was vacant for full year the ARV is taken as NIL.
B. If house property was vacant for part of the year.

1. **If rent actually received or receivable is more than ERV**

Step I. Compare MRV with FRV and whichever is higher is compared with standard rent and whichever is less is ERV.

Step II. If rent actually received or receivable **for full year** is more than ERV (Expected Rental Value) such rent received or receivable is annual rental value (ARV).

Step III. Such ARV is reduced by loss due to vacancy i.e. an amount of actual rent in proportion of vacancy.

2. **If rent actually received or receivable is less than ERV**

Step I. Compare MRV with FRV and whichever is higher is compared with standard rent and whichever is less is ERV.

Step II. If rent actually received or receivable for full year is less than ERV then ERV so calculated shall be treated as annual rental value (ARV).

Step III. Such ARV is reduced by loss due to vacancy i.e. an amount rent is proportion of vacancy.

A-3. HOUSE PROPERTY IS LET OUT AND THERE IS UNREALISED RENT

If rent actually received or receivable (after deducing unrealized rent as per conditions given below) is more than ERV:

Step I. Compare MRV with FRV and whichever is higher is compared with standard rent and whichever is less is ERV.

Step II. If rent actually received or receivable after deducting unrealized rent as per conditions given below) is more than ERV such rent received or receivable is annual value.

Important points:
If following conditions are fulfilled, the amount of unrealized rent shall be deduced out of actual rent received:

a. That the tenancy is bonafide;
b. That the tenant has vacated the house or steps have been taken to get the house vacated;
c. The tenant is not occupying any other house owned by the assesse; and
d. That all efforts to realise the rent have failed or the assessing officer is satisfied that there is no way to recover the rent;
e. Unrealized rent of earlier years is not deductible.

A-4 HOUSE PROPERTRY IS LET OUT, THERE IS BOTH VACANCY AND UNREALISED RENT

Step I. Compare MRV with FRV and whichever is higher is compared with standard rent and whichever is less is ERV.

Step II. If rent actually received or receivable for full year (after deducing unrealized rent as per conditions given) is more than ERV such rent received or receivable is annual rental value.

Step III. Such ARV is reduced by an amount of actual rent in proportion of vacancy. Firstly, deduct unrealized rent out of annual rent received / receivable and compare and take the higher one and then deduct the loss due to vacancy and the value so arrived at shall be the gross annual value.

Step IV. If rent actually received or receivable after deducing unrealized rent and vacancy as per conditions given is less than ERV, such ERV is ARV.

Take all the rental values only for that period for which house property is in existence or owned by assesse during the previous year. Compare them and select and select ARV accordingly.

DEDUCTIBILITY OF TAXES LEVIED BY LOCAL AUTHORITY (i.e. MUNICIPAL TAXES) WHILE COMPUTING ANNUAL VALUE {Provision to section 23(1)}

1. **Payer of local taxes.** The local taxes shall be allowed as deduction only if such taxes are paid and borne by the owner of the house property. Thus, where the land lord passes on the burden of payment of local taxes on tenant and the actually pays such taxes, there shall not be allowed as deduction while calculating annual value. Thus, where a part of such taxes is paid by owner the other part is paid by tenant, only taxes paid by owner shall be allowed as deduction.
2. **Various forms of local taxes.** Local taxes may include the following taxes:
   - **a.** House tax
   - **b.** Fire tax
   - **c.** Water tax
   - **d.** Conservancy tax
   - **e.** Education cess
   - **f.** Sanitation cess
   - **g.** Sewerage tax
   - **h.** Any other tax is levied by local authority in respect of house.

(B). SELECTION OF ANNUAL RENTAL VALUE FOR SELF-OCCUPIED HOUSE PROPERTY

B-1. Only one house under own occupation. Annual value is taken as nil.

B-2. More than one house under own occupation. Annual value of one house is taken as NIL and other house/houses are deemed to be let.

B-3. House property consists of various independent units and one is under own occupation and others are let out. Annual value of one unit is taken as Nil and other unit/units are treated as let out.

B-4. If house property is partly let out and partly self-occupied, it is to be treated as:

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a. If units are inseparable and it is treated as one house then no benefit of self-occupied shall be allowed.
b. If units are separable, each unit or part is to be treated as a separate house and it shall get respective treatment.

B-5. House property is let for part of the year and under own occupation for part of the year. Whole property is treated as let out house property and no benefit of self-occupancy shall be allowed. But actual rent is taken only for number of months house property is actually let out. As such it gets the same treatment as is for unrealized rent.

Note. 1. Actual expenses incurred by the owner of house property are not be considered. The standard deduction is available even if the owner has not incurred any expense for earning rental income.
2.No standard deduction is allowed in respect of self-occupied house property because net annual value of self-occupied house is taken as Nil. Thus,

Standard Deduction

In respect of Let out House
Or
Deemed to be let out house

S.D. = 30% of NAV

In case of self-occupied house

S.D. = NIL

Interest on Housing Loan

Let out/Deemed to be let out house
- No Limit

Purpose: Purchase / construction / repair

Self Occupied House

Loan taken before 1-4-1999
Purpose: Purchase/construction/repairs-, etc.
Max. Limit: Rs. 30,000
Condition : Certificate for lender

Loan taken on or after 1-4-1999

Purpose: Purchase / construction
Max. Limit: Rs. 2,00,000 p.a.
Conditions: a. completion within 5 years
b.Certificate from lender

Purpose: Repairs Etc.
Max. Limit: 30,000 p.a.
condition: Certificate from lender

- **DEEMED OWNER OF HOUSE PROPERTY (SECTION 27):-**

According to section 27 of Income tax act the assesse in the following cases is deemed to be the owner of the house property, though not owner of the 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 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 to whom a building or part thereof is allotted or leased under a house building scheme of the society, 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 contract of the nature refered to in section 53 A of the transfer of property act, 1882.
5. A person who acquires any rigfhts (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 a transfer by way of lease for a team of not less than 12 years as per section 269 UA (f) whether originally or by extension).