3. INCOME FROM HOUSE PROPERTY

ASSIGNMENT SOLUTIONS

PROBLEM NO.1

In this case, Nisha has more than one house property for self-occupation. As per section 23(4), Nisha can avail the benefit of self-occupation (i.e., benefit of "Nil" Annual Value) only in respect of one of the house properties, at her option. The other house property would be treated as "deemed let-out" property, in respect of which the expected rent would be the gross annual value. Nisha should, therefore, consider the most beneficial option while deciding which house property should be treated by her as self-occupied.

OPTION 1 [House I - Self-occupied and House II - Deemed to be let out]

If House I is opted to be self-occupied, Nisha's income from house property for A.Y.2019-20 would be

Particulars	Amount (Rs.)
House I (Self-occupied) [Annual value is Nil]	Nil
House II (Deemed to be let-out) ***[See Working Note below]***	54,060
Income from house property	**54,060**

OPTION 2 [House I - Deemed to be let out and House II - Self-occupied]

If House II is opted to be self-occupied, Nisha's income from house property for A.Y.2019-20 would be

Particulars	Amount (Rs.)
House I (Deemed to be let-out) **[See Working Note below]**	70,000
House II (Self-occupied) [Annual value is Nil, but interest deduction would be available, subject to a maximum of Rs. 30,000. In case of money borrowed for **repair of self-occupied property**, the interest deduction would be restricted to Rs.30,000, irrespective of the date of borrowal].	(30,000)
Income from house property	**40,000**

Since Option 2 is more beneficial, Nisha should opt to treat House - II as Self occupied and House I as Deemed to be let out, in which case, her income from house property would be Rs.40,000 for the A.Y. 2019-20.

WORKING NOTE:

Computation of income from House I and House II assuming that both are deemed to be let out

Particulars	Amount in Rupees	
	House I	House II
Gross Annual Value (GAV) Annual Letting Value (ALV) is the GAV of house property ALV = Higher of Municipal Value and Fair Rent but restricted to Standard Rent	1,00,000	1,65,000
Less: Municipal taxes (paid by the owner during the previous year)	Nil	9,200
Net Annual Value (NAV)	**1,00,000**	**1,55,800**
Less: Deductions under section 24		
(a) 30% of NAV **(b)** Interest on borrowed capital (allowed in full incase of deemed let out property)	30,000 -	46,740 55,000
Income from deemed to be let-out house property	**70,000**	**54,060**

PROBLEM NO.2

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 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.2019-20

Particulars	Amount in Rs.	
Unit I (2/3rd area – self-occupied)		
Annual Value		Nil
Less: Deduction under section 24(b)		
2/3rd of Rs.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. However, in this case, SR of Rs.1,10,000 (1/3rd of Rs.3,30,000) is more than the higher of MV of Rs.1,00,000 (1/3rd of Rs.3,00,000) and FR of Rs.90,000 (1/3rd of Rs.2,70,000). Hence the higher of MV and FR is the ER. In this case, it is the MV.	1,00,000	
Step 2 – Compute actual rent received/ receivable Rs.8,000 x12 = Rs.96,000	96,000	
Step 3 – GAV is the higher of ER and actual rent received/receivable i.e. higher of Rs. 1,00,000 and Rs. 96,000	1,00,000	
Gross Annual Value (GAV) (A)		**1,00,000**
Less: Municipal taxes paid by the owner during the previous year relating to let-out portion 1/3rd of (10% of Rs.3,00,000) = Rs.30,000/3 = Rs.10,000		10,000
Net Annual Value (NAV)		**90,000**
Less: Deductions under section 24 (a) 30% of NAV = 30% of Rs. 90,000	27,000	
(b) Interest paid on borrowed capital (relating to let out portion) 1/3rd of Rs.1,20,000 **(B)**	40,000	67,000
Income from Unit II (let-out) (A - B)		**23,000**
Loss under the head "Income from house property = Rs. (80,000) + Rs. 23,000 = (57,000)		

PROBLEM NO.3

Computation of Income from house property of Mr. X for A.Y. 2019-20

Particulars	Rs.	Rs.
A. Rented unit (50% of total area - See Note 1 below)		
Step I - Computation of Expected Rent		
Municipal valuation (Rs.1,90,000 x ½)	95,000	
Fair rent (Rs.1,85,000 x ½)	92,500	
Standard rent (Rs.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 receivable for the whole year (Rs. 8,000 x 12)	96,000	
Step III – Computation of Gross Annual Value		
Actual rent received owing to vacancy (Rs. 96,000 - Rs. 16,000)	80,000	
Since, owing to vacancy the actual rent received is lower than the Expected Rent, the actual rent received is the Gross Annual Value		
Gross Annual Value		**80,000**

Less: Municipal taxes (15% of Rs. 95,000)		14,250
Net Annual value		**65,750**
Less: Deductions under section 24 -		
i) 30% of net annual value	19,725	
ii) Interest on borrowed capital (Rs.750 x 12)	9,000	28,725
Taxable income from let out portion		**37,025**
B. Self occupied unit (50% of total area - See Note 1 below)		
Annual value	Nil	
Less: Deduction under section 24		
Interest on borrowed capital (Rs. 750 x 12)	9,000	9,000
Income from house property		**28,025**

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

PROBLEM NO.4

Computation of income from house property of Shri Raman for A.Y. 2019-20

Particulars	Rs.	Rs.
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 Shri Raman (See Note3 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	Rs.	Rs.	Rs.	Rs.
i) Municipal value of property	1,60,000			
ii) Fair rent	1,50,000			
iii) Higher of (a) and (b)		1,60,000		
iv) Standard rent		1,70,000		
v) Expected rent [lower of (c) and (d)]			1,60,000	
vi) Actual rent [15,000 x 12]			1,80,000	
vii) 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.

PROBLEM NO.5

Computation of Income from House Property of Mrs. Indu for the A.Y. 2019-20

Particulars	Rs.	Rs.
House property in USA		
GAV - Rent received {treated as fair rent} ($2,000 p.m. x Rs. 60 per USD x 12 months)	14,40,000	
Less: Municipal taxes paid ($1,500 x Rs. 60 per USD)	90,000	
Net Annual Value (NAV)	**13,50,000**	
Less: Deduction under section 24		
30% of NAV	4,05,000	9,45,000
House property in Mumbai (Let-out portion - First Floor)		
Expected rent (lower of standard rent and fair rent)		
Standard Rent (Rs. 11,000 x 12) Rs. 1,32,000		
Fair rent (Rs. 10,000 x 12) Rs. 1,20,000	1,20,000	
Actual rent received (10,000 × 12)	1,20,000	
Gross Annual Value (higher of Expected rent and actual rent)	1,20,000	
Less: Municipal taxes paid (50% of Rs. 7,500)	3,750	
Net Annual Value (NAV)	**1,16,250**	
Less: Deduction under section 24		
30% of NAV Rs. 34,875		
Interest on housing loan (50% of Rs. 24,000) Rs. 12,000	46,875	**69,375**
Income from House property in Mumbai (Self-occupied portion-Ground Floor)	-	
Gross annual value	-	
Net Annual Value (NAV)	-	
Less: Deduction under section 24		
30% of NAV	-	
Interest on housing loan (50% of Rs. 24,000)	12,000	(12,000)
Income from house property		**10,02,375**

PROBLEM NO.6

1. Since Mr. Rohan has two properties for self-occupation in respect of which he does not derive any benefit, the income from any one such property, at his option, shall be computed under the self-occupied property category and its annual value will be Nil. This option can be changed year after year in a manner beneficial to Mr. Rohan. No deduction towards municipal tax paid is allowable on such self-occupied property. However, interest on moneys borrowed is allowable subject to conditions specified in section 24. (i.e. one-fifth of pre-construction interest, if any, and interest accrued during the year together subject to monetary limit of Rs. 2,00,000 or Rs. 30,000, as the case may be).
2. The other self-occupied property would be treated as “deemed let out property”.
3. The annual value of vacant property would also be treated as ‘Nil’ if the property was not 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.

   As Mr. Rohan does not satisfy the condition mentioned above, the vacant property would be treated as deemed let out property.
4. In case of deemed let-out property:

   The expected rent (higher of municipal value and fair rent, but restricted to standard rent) shall be taken as the Gross Annual Value.

   Municipal taxes paid by Mr. Rohan during the year would be allowed as deduction from gross annual value to arrive at the net annual value.

In computing the income from such deemed let out house properties, deduction@30% of net annual value and actual interest payable (plus one-fifth of pre-construction period interest, if any) would be allowable as deduction from net annual value.

The question of considering actual rent received/receivable does not arise in case of deemed let out property. Consequently, no adjustment is necessary on account of property remaining vacant for part of the year or unrealized rent.

PROBLEM NO.7

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 (Rs.)	House II (Rs.)	House III (Rs.)	House IV (Rs.)	House V (Rs.)
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**

PROBLEM NO.8

Computation of Income from house property of Mr. Anirudh for A.Y.2019-20

Particulars		Amount in Rs.	
Computation of GAV			
Step 1	Compute ER		
	ER = Higher of MV of Rs. 1,30,000 p.a. and FR of Rs. 1,10,000 p.a., but restricted to SR of Rs. 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 = Rs. 1,32,000 - Rs. 11,000	1,21,000	
Step 3	Compare ER of Rs. 1,20,000 and Actual rent received/receivable of Rs. 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 Rs. 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**

PROBLEM NO.9

Computation of Income from house property of Mr. Rajesh for A.Y.2019-20

Particulars	Amount (Rs.)	Amount (Rs.)
GAV (Note - II)	2,00,000	
Less: Municipal Taxes	Nil	
Net Annual Value		**2,00,000**

Less: Deduction U/s 24		
a) 30% of NAV	(60,000)	
b) Interest on borrowed capital (Actual without any ceiling limit)	(40,000)	1,00,000
Income from House Property		**1,00,000**

Note:

1. A property is treated as Deemed Let out, Even if part of the year Property used for self-occupation.

2.

i) Municipal Value (12 months) = -

ii) Fair Rent (12 months) $\left(1{,}50{,}000 \times \frac{12}{9}\right)$ = 2,00,000

iii) Higher of (i) and (ii) = 2,00,000

iv) Standard Rent = -

v) Expected Rent (Lower of (iii) & (iv))* = 2,00,000

vi) Actual Rent Received / Receivable (15,000 x 12) = 1,80,000

GAV (v) or (vi) whichever is higher = 2,00,000

3. Interest on Borrowed Capital can be claimed without any ceiling limit for Deemed Let out Property

* If Standard Rent is Nil, then Higher value of Municipal Value and Fair Rental Value will be treated as Expected Rent.

SOLUTIONS TO ADDITIONAL PROBLEMS FOR SELF PRACTICE

PROBLEM NO.1

As per section 24, only two deductions are allowable from the net annual value, statutory deduction of 30% and deduction for interest on borrowed capital. Besides these two no other deductions are permissible.

PROBLEM NO.2

Let out unit (50% of floor area)	Rs.	Rs.
Gross annual value municipal value or actual rent received or receivable exclusive of vacancy (Rs.6,400 x 11)	70,400	
Less: Municipal taxes	12,000	
Net annual value		58,400
Less: Deduction u/s 24		
(i) Standard deduction @ 30%	17,520	
(ii) Interest on loan (50%)	28,000	45,520
		12,880
Self-occupied portion (25%)		
Annual value	Nil	
Less: Deduction u/s 24		
Interest on loan (25%)	14,000	(14,000)
Income from House Property		(1,120)

PROBLEM NO.3

Computation of income of R Ltd. for the assessment year 2019-20

Income from house Property:	**Amount (Rs.)**	**Amount (Rs.)**
Gross annual value (see note 1) (Actual rent received or receivable is less owning to vacancy)	4,38,400	
Less: Municipal taxes (borne by the company)	23,573	

Net annual value		4,14,827
Less: Deduction under section 24		
Standard deduction @ 30%	1,24,448	
Interest on capital	48,000	1,72,448
Income from house property		2,42,379
Income from other sources:		
Amount collected from the tenants for providing Different amenities (i.e. Rs.9,000 + Rs.12,000 + Rs.6.000 + Rs.5,000 + Rs.40,000)	72,000	
Less: Expenses incurred (i.e. Rs.6,000 + Rs.8,000 + Rs.10,000 + Rs.12,000 + Rs.25,000)	61,000	11,000
Gross total income		2,53,379
Less: Deduction under Chapter VIA		Nil
Net income (rounded off)		2,53,380

Note 1		**Rs.**	**Rs.**	**Rs.**
Computation of de facto rent				
Rent received 6,40,000 - 1,29,600 (See note 2)			5,10,400	
Less: Amount charged from tenants for Providing different amenities				
Maintenance of lift		9,000		
Water supply		12,000		
Maintenance of swimming pool		6,000		
Lighting		5,000		
Extension of water connection				
De facto rent		40,000	72,000	4,38,400
Municipal valuation (i.e.Rs.70,720 x 100/13)				5,44,000
Gross annual value (being greater of rent or Municipal valuation)				5,44,000
Note 2:				
Rent not received owing to vacancy				
Actual Rent of flats which were vacant				
3 Flats	3,000 x 3 x 6	=	54,000	
6 Flats	1,800 x 6 x 7	=	75,600	
			1,29,600	

Note: As per section 23(1)(c) where the property is let and remained vacant for the whole or any part of the previous year and owing to such vacancy the actual rent is less than the expected rent then the expected rent will not be taken into account for determining the annual value.

PROBLEM NO.4

Particulars	**Amount (Rs.)**	**Amount (Rs.)**
Annual value		Nil
Less: Deductions u/s 24		
Statutory deduction	Nil	
Interest on Rs.3,00,000		
for 2018-19	Nil	
For pre-construction period (i.e. 30.09.2006 to 11.03.2011) deductible in 5 years. (i.e., 2011-12 to 2015-16)	Nil	
Interest on Rs.2,40,000 (15% of Rs.2,40,000; subject to maximum of	30,000	30,000

Rs.30,000)		
Income from House Property		(30,000)
Business Income:		
Business A	4,50,000	
Business B	(1,20,000)	3,30,000
Income from other sources		65,000
Gross total income		3,65,000
Less: Deduction u/s 80C (contribution to ULIP)		24,000
Net income		3,41,000
Tax on Rs.3,41,000		4,550
Less: Rebate u/s 87A		**2,500**
		2,050
Add: Health and education cess @ 4%		82
Tax payable (rounded off)		2,130

PROBLEM NO.5

Particulars	**If rent is Rs.14,000 per month (Rs.)**	**If Rent is Rs.19,000 per month (Rs.)**
Municipal valuation (MV)	1,64,000	1,64,000
Fair rent (FR)	2,16,000	2,16,000
Standard rent (SR)	1,80,000	1,80,000
Annual rent	1,40,000	1,90,000
Gross annual value		
Step I: Reasonable expected rent of the property [MV or FR, whichever is higher, but subject to maximum of SR]	1,80,000	1,80,000
Step II: Rent received/receivable after deducting unrealized rent but before adjusting loss due to vacancy	1,40,000	1,90,000
Step III: Amount computed in Step I or Step II, whichever is higher	1,80,000	1,90,000
Step IV: Loss due to vacancy	Nil	Nil
Step V: Gross annual value is Step III minus Step IV	1,80,000	1,90,000
Less: Municipal tax	6,000	6,000
Net annual value	1,74,000	1,84,000
Less: Deduction under section 24		
Standard deduction (30% of Rs. 1,74,000 or Rs. 1,84,000)	(52,200)	(55,200)
Interest on borrowed capital	(1,23,000)	(1,23,000)
Income from property	(1,200)	5,800
Other income	1,86,000	1,86,000
Net income	1,84,800	1,91,800

THE END