

### 3.INCOME FROM HOUSE PROPERTY

#### CONCEPT WISE ANALYSIS OF PREVIOUS EXAMINATIONS OF IPCC AND CA INTER (THEORY)

NO.	CHAPTER / CONCEPT NAME	ABC	M-09 TO N-11	M-12	N-12 TO M-13	N-13	M14 TO N20 (N&O)
1.	CHARGING SECTION - 22	C	-	-	-	-	-
2.	EXCEPTIONS TO SEC.22	A	-	-	-	-	-
3.	DEEMED OWNER	A	-	-	-	-	-
4.	CALCULATION OF GAV & NAV	A	-	-	-	8	-
5.	DEDUCTION OF MUNICIPALITY TAXES	A	-	-	-	-	-
6.	TYPES OF HOUSE PROPERTIES	A	-	-	-	-	-
7.	SELF-OCCUPIED PROPERTY	A	-	-	-	-	-
8.	LET-OUT PROPERTY	A	-	-	-	-	-
9.	DEEMED LET OUT PROPERTY	A	-	-	-	-	-
10.	NEITHER SELF-OCCUPIED PROPERTY NOR LET OUT PROPERTY OR UNOCCUPIED	B	-	-	-	-	-
11.	PARTLY SELF-OCCUPIED PROPERTY & PARTLY LET-OUT PROPERTY	A	-	-	-	-	-
12.	TDS SEC - 25	C	-	-	-	-	-
13.	RECOVERY OF UNREALISED RENT	C	-	4	-	-	-
14.	ARREARS OF RENT RECEIVED	C	-	-	-	-	-
15.	DEDUCTIONS U/S - 24	A	-	-	-	-	-
16.	CO-OWNERSHIP SEC. - 26	B	-	-	-	-	-

#### CONCEPT WISE ANALYSIS OF PREVIOUS EXAMINATIONS OF IPCC AND CA INTER (PROBLEMS)

NO.	CHAPTER/CONCEPT NAME	ABC	M-13	N-13	M-14	N-14	M-15	N-15	M-16	N-16	M-17	N-17	M-18 (O)	M-18 (N)	N-18 (O)	N-18 (N)	N-19 (O)	N-19 (N)	N-20 (O)	N-20 (N)
1.	DEEMED OWNER	A	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.	DEDUCTIONS UNDER SECTION-24	A	-	-	-	-	-	-	-	-	4	-	-	-	-	-	-	-	-	-
3.	CALCULATION OF GAV & NAV	A	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4.	SELF-OCCUPIED PROPERTY (SOP)	A	-	-	-	-	-	-	-	-	-	5	-	-	-	-	-	-	-	-
5.	LET-OUT PROPERTY (LOP)	A	4	8	-	-	-	-	-	-	-	-	-	-	-	7	-	-	-	-
6.	DEEMED LET-OUT PROPERTY (DLOP)	A	-	-	-	-	-	-	-	-	-	-	-	-	5	-	-	-	-	-
7.	NEITHER SELF-OCCUPIED PROPERTY OR LET-OUT PROPERTY OR UNOCCUPIED	B	-	-	-	-	-	-	-	-	-	-	5	-	-	-	-	-	-	-
8.	PARTLY SELF-OCCUPIED PROPERTY & PARTLY LET-OUT PROPERTY	A	-	-	8	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
9.	CO-OWNERSHIP	B	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
10.	CALCULATION OF PCPI & CURRENT YEAR INT.	B	-	-	-	-	-	8	-	-	-	-	-	-	-	-	-	-	-	-

### SIGNIFICANCE OF EACH PROBLEM COVERED IN THIS MATERIAL

PROBLEM NO. IN THIS MATERIAL	PROBLEM NO. IN NEW SM	PROBLEM NO. IN OLD SM	PROBLEM NO. IN OLD PM	RTP	MTP	PREVIOUS EXAMS	REMARKS
CR 1	-	-	-	-	-	-	
CR 2	-	-	-	-	-	-	
CR 3	ILL 5	ILL 6	-	-	-	-	
CR 4	ILL 7	ILL 8	-	-	-	-	
CR 5	ILL 4	ILL 5	-	-	-	-	
CR 6	ILL 6	ILL 7	-	-	-	N18(N)-7M (80%)	
CR 7	-	-	-	-	-	-	
CR 8	PQ 3	-	PQ 7	N18 (N&O)	M17	-	
CR 9	-	-	-	-	-	-	
CR 10	TYK 11	-	PQ 4	-	-	N13 -8M	
CR 11	PQ 5	-	PQ 2	-	-	-	
CR 12	-	-	PQ 6	-	-	-	
CR 13	PQ 4	-	PQ 5	-	-	-	
CR 14	-	-	PQ 11	-	-	M17- 5M	
ASG 1	TYK 12	-	PQ 10	N17, M16	N16	N18 (O) - 5M (80%)	
ASG 2	ILL 8	ILL 9	-	N15	-	-	
ASG 3	PQ 2	-	PQ 8	-	-	N08 - 6M	
ASG 4	PQ 1	-	PQ 3	-	N16	-	
ASG 5	-	-	PQ 9	N16	-	-	
ASG 6	-	-	-	-	-	M18 (O) - 5M	
ASG 7	ILL 1	-	-	-	-	-	
ASG 8	ILL 3	-	-	-	-	-	
ASG 9	PQ 13	-	-	-	-	-	

### CHAPTER OVERVIEW

SECTION	TOPIC	STARTING PAGE NO.
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### SECTION 1: THEORY FOR CLASSROOM DISCUSSION

#### SEC.'S TO BE REMEMBERED:

Sec.24	Deductions (Int., Repairs)
Sec.27	Deemed Owner

**1. CHARGING SEC.22**

The annual value of any property comprising of building or land appurtenant thereto(Attached to building)for which the assessee is the owner (Owner may be any person, whether an individual, HUF, firm, or company), is chargeable to tax under the head Income from House Property.

**CONDITIONS FOR CHARGEABILITY:**

**1) BUILDING OR LAND APPURTENANT THERETO:**

- a) Section 22 is not confined only to the house property, but extended to all buildings whether used as dwelling house or for any other purposes.
- b) The manner in which the building is used by the assessee is not relevant.
- c) Building may take any form E.g., Cinema hall, an auditorium, Godown
- d) Land Appurtenant there to a building consists of such portions of land that are taken to be part and parcel of the building in order to enable the enjoyment of the possession of such building. Therefore, garden attached to the building, approaches road etc. forms part of the building. Hence its rental income will be taxable under income from house property.
- e) If a land is nowhere connected with the building, it would be taxable under the head PGBP or IOS as the case may be.

**TIT BIT 1:** State whether vacant site lease rent is taxable under the head Income from House Property?

***No. it is taxable under IOS***

**NOTE:**

- a) Residential Building - 4 walls having a roof
- b) Commercial Building - with or without roof

**Examples:**

Example	Answer
Hut	House (reason: mud wall is sufficient wall)
Godown	House
Residential house	House
Incomplete house	not a house
Ruined house	not a house

**2) OWNERSHIP:**

- a) Owner is the person who is entitled to receive income from the property in his own right.
- b) The requirement of registration of the sale deed is not warranted.
- c) Ownership includes both free-hold and lease-hold rights.
- d) The person who owns the building need not also be the owner of the land upon which it stands.
- e) The assessee must be the owner of the house property during the previous year. It is not material whether he is the owner in the assessment year.
- f) If the title of the ownership of the property is under dispute in a court of law, the decision as to who will be the owner chargeable to income-tax under section 22 will be of the Income-tax Department till the court gives its decision to the suit filed in respect of such property.
- g) Ownership includes deemed ownership

**DEEMED OWNERSHIP (Sec.27)**

- a) Individual, who transfers otherwise than for adequate consideration, any house property -
  - i) To his or her spouse, not being a transfer in connection with an agreement to live apart or
  - ii) To a minor child not being a married daughter.

**NOTE:**

- i) The property being transferred must be a house property.
- ii) Marriage must subsist as on the day of transfer of property as well as on the day of accrual of income.
- iii) If the property is transferred for adequate consideration, then Sec.27 is not applicable.

**EXAMPLES:**

- i) Mr. A transferred his house property to his spouse worth Rs.20 lakhs out of love and affection. But after few days of transferring property they got divorced. In such a case, property shall be taxed in the hands of Mr. A before the Divorce and after that it shall be taxed in the hands of his spouse.
- ii) Mr. P gave Rs.10 lakhs in cash to his spouse on their anniversary and she purchased a house property from the given cash. Then such transfer of cash and the subsequent purchase of house property shall not be covered by the provisions of Sec.27. But the income from such property shall get clubbed in the hands of Mr. P as per the provisions of Sec.64 (1) (iv).

- b) HOLDER OF AN IMPARTIBLE ESTATE:** A person who claims or exercises the managing rights over such property shall be deemed to be the owner and any income arises out of such property shall be taxed in his/her hands.

*E.g.:* X is one of the Ex-Rulers. He has divided all his properties amongst his three sons. However, he could not transfer a building, which is occupied by a temple and which is given, as per family convention, to his eldest son (all the three brothers along with other family members have right to enjoy the benefit of the property; the eldest son holds the property as a trustee). The eldest son, as holder of "impartible estate", is deemed as owner of the property.

- c) MEMBERS:** of a co-operative society, company or other AOP to whom a building or a part thereof, is allotted or leased under a house building scheme.

Even though the ownership is with the society, still such rental income can be taxed in the hands of the member, to whom it was allotted.

- d)** A person acquiring any rights of a building, in relation to part performance of a contract, under Sec. 53A of the Transfer of Property Act (\*\*)

**\*\* Section 53A of the Transfer of Property Act requires the following conditions:**

- a) There is an agreement in writing between purchaser and seller.
- b) The purchaser has paid the consideration or he is ready to pay the consideration.
- c) The purchaser has taken the possession of the property.

*E.g.:* X enters into a written agreement to purchase a property from Y for Rs.25,00,000. He has paid the consideration and taken possession of property. The sale deed is yet to be registered. He becomes deemed owner for the purpose of paying tax on rental income although he is not the registered owner of the property.

- e)** A person who acquires any right in respect of any building, by way of **lease for at-least 12 years** shall be deemed to be the owner of that building. (This does not cover any right by way of a lease from month to month or for a period not exceeding 1 year).

**Example:** A transferred his property to B, under a lease agreement for a period of 8 years together with renewal right for a further period of 4 years. Hence, in such a case B shall be treated as the Deemed owner for the purpose of Sec.27. However, if such right of renewal is for a further period of 2 years, then A shall be the owner and liable to tax u/s.22.

**TIT BIT 2** Legal Ownership itself is the criteria for assessment under the head income from house property. **(True/False) – False**

**TIT BIT 3:** X let out his property to Y. Y sublets it. How is sub-letting receipt to be assessed in the hands of Y? **(Ans. IOS)**

**3) BUILDING SHOULD NOT BE USED FOR OWN BUSINESS OR PROFESSION**

- a) Building used for assessee’s own business / profession.
- b) If an assessee is running a business with main object of letting out of house properties on rent (*Rayala Corporation (P) Ltd. v. Asstt. CIT (2016)(SC)*)
- c) **Where letting out is incidental / ancillary to the business: For example -** If the assessee makes available to the Government its accommodation for locating a branch of bank, post office, police station, central excise office, staff quarters etc. for carrying on its business efficiently and smoothly, rent collected, being incidental to the assessee’s business, is not taxable as “Income from house property” but taxable as business income.

**Income earned from properties referred to in (ii) and (iii) has to be treated as business income, hence chargeable to tax under the head PGBP.**

- d) **Property held as stock-in-trade etc.** Annual value of house property will be charged under the head “Income from house property”, where it is held by the assessee as stock-in-trade of a business also.

The annual value of House property being held as stock in trade would be treated as NIL under IFHP for a period of **two** year from the end of the financial year in which certificate of completion of construction of the property is obtained from the competent authority, if such property is not let-out during such period. [Section 23(5)]

However, profit on sale of such stock in trade shall be taxable under the head PGBP.

**TIT BIT 5:** Z uses his property for his own business. Would the annual value be subject to tax under the head “Income from house property”?

**2. EXEMPTED PROPERTIES**

**1) Some special Cases where income from house property is exempt from tax.**

No.	Section	Particulars
1)	10(1)	Income from any farm house forming part of agricultural income.
2)	10(19A)	Annual value of any one palace in the occupation of an ex-ruler.
3)	10(20)	Income from house property of a local authority.
4)	10(21)	Income from house property of an approved scientific research association.
5)	10(23C)	Property income of universities, educational institutions, etc.
6)	10(24)	Property income of any registered trade union.
7)	11	Income from house property held for charitable or religious purpose.
8)	13A	Property income of any political party.
9)	22	Property used for own business or profession
10)	23(2)	Up to two self-occupied properties of an individual/HUF

**(TEACH PROBLEM NO.1 OF CLASSROOM DISCUSSION)**

**3. COMPUTATION OF GROSS & NET ANNUAL VALUE**

**COMPUTATION OF GROSS ANNUAL VALUE (GAV):** The gross annual value of a house property will be calculated as per the following three steps

**STEP 1: EXPECTED RENT (ER) [SEC. 23(1)(A)]:**

- 1) Compare Fair Rent and Municipal Valuation and select the Higher.
- 2) Compare the rent so selected with the standard rent and the lower of the two shall be considered to be Expected rent. (It is also called as Annual Letting Value)

**NOTE:**

- 1) Even if the property is vacant for a part of year, M.V/ F.R is to be computed for full year.
- 2) Where the house property came into existence only during the previous year, the annual value shall be computed only for the period for which the house was existed.

**TIT BIT 6: FIND OUT EXPECTED RENT FOR THE FOLLOWING:**

Particulars	Case 1	Case 2	Case 3	Case 4	Case 5	Case 6
M.V	45	60	75	88	52	40
F.R	36	55	70	93	64	30
S.R	NA	53	94	96	44	29
<b>Ans</b>						

**SOME GLOSSARY:** M.V - Municipal Value is the Value assessed by the local municipal authorities for property taxes computation.

F.R - Fair Rent is the rent fetched by a similar property in the same locality or any other locality with same facilities.

S.R - Standard Rent is the maximum rent that can be recovered from the tenant under the Rent Control Act.

**STEP 2: IF ACTUAL RENT RECEIVED OR RECEIVABLE (ARR) EXCEEDS EXPECTED RENT (ER) [SEC. 23(1)(B)]:**

Compare Expected rent with Rent received or Receivable and the Higher shall be considered to be Gross Annual Value

**NOTES:**

1) This step is applicable only when the property or any of its part has been let out during any part of the previous year.

**2) Actual rent receivable/received (ARR):**

Actual Rent = Rent Receivable - Unrealised Rent

3) **Unrealised Rent:** Unrealised rent refers to the rent payable but not paid by the tenant and which the owner is also not able to realize from the tenant.

As per Rule 4 the unrealised rent can be reduced from the actual rent if:

**(M12 - 4M)**

- The tenancy is bona fide;
- The defaulting tenant has vacated or steps for the same are taken;
- He is not in occupation of assessee's any other property; and
- The assessee has taken steps for the recovery of the unpaid rent.

**STEP3: ACTUAL RENT RECEIVED/RECEIVABLE (ARR) IS LESS THAN EXPECTED RENT (ER) [SEC. 23(1)(C)]:**

Gross Annual Value (GAV) = Actual Rent Received/Receivable.

- The above Clause shall apply only when the actual rent received or receivable is less than the Expected rent due to vacancy but not for any other reason.
- If property is ready to be let, but could not actually be let throughout the previous year, this clause is applicable and GAV in such a case is NIL.

**ILLUSTRATION 1:** Computation of Gross Annual Value: Determine Gross Annual Value in following cases-

Particulars	House 1 (Rs.)	House 2 (Rs.)	House 3 (Rs.)	House 4 (Rs.)	House 5 (Rs.)	House 6 (Rs.)
Fair Rent (FR)	1,00,000	1,50,000	4,00,000	6,00,000	4,00,000	2,70,000
Municipal Value (MV)	2,00,000	3,00,000	5,04,000	3,00,000	6,00,000	3,00,000
Standard Rent (SR)	1,50,000	4,00,000	-	2,00,000	-	-
House Rentals (P.m.)	20,000	30,000	50,000	15,000	60,000	25,000
Let out period (in months)	12	5	6	7	10	9
Unrealised Rent (Rule 4)	NIL	NIL	54,000	NIL	90,000	-

**SOLUTION:** Computation of Gross Annual Value

Particulars	House 1	House 2	House 3	House 4	House 5	House 6
Actual Rent Received/Receivable (ARR)[Actual Rent - Unrealised Rent]	2,40,000	1,50,000	2,46,000	1,05,000	5,10,000	2,25,000
<b>Step I:</b> Expected Rent = Higher of FR or MV subject to maximum of SR	1,50,000	3,00,000	5,04,000	2,00,000	6,00,000	3,00,000
<b>Step II:</b> If ARR exceeds ER, GAV = ARR	2,40,000	NA	NA	NA	NA	NA
<b>Step III:</b> If ARR is less than ER due to vacancy, GAV = ARR (See Note below)	NA	1,50,000	2,46,000	NA	510,000	2,25,000
Gross Annual Value	2,40,000	1,50,000	2,46,000	2,00,000	5,10,000	2,25,000

**NOTE: TEST FOR APPLICABILITY OF SEC. 23(1)(C):**

Particulars	House 2	House 3	House 4	House 5	House 6
Actual Rent Received / Receivable (ARR)	1,50,000	2,46,000	1,05,000	5,10,000	2,25,000
<b>Add:</b> Rent for vacancy period	2,10,000 (7x30,000)	3,00,000 (6x50,000)	75,000 (5x15,000)	1,20,000 (2x60,000)	75,000
ARR (If there is no Vacancy)	3,60,000	5,46,000	1,80,000	6,30,000	3,00,000
Expected Rent	3,00,000	5,04,000	2,00,000	6,00,000	3,00,000
If ARR (if there is no Vacancy) <b>greater than or equal to</b> ER, then it is due to vacancy, Otherwise (ARR(if there is no vacancy) <b>is less than</b> ER) then it is not due to vacancy	Due to vacancy	Due to vacancy	Not due to vacancy	Due to vacancy	Due to vacancy

**4. COMPUTATION OF NAV**

- Deduction is given in respect of Municipal taxes (Like property taxes, water taxes etc.) subject to the following 2 conditions:
  - It should be borne by the assessee.
  - It should be actually paid during the previous year (i.e. allowed on cash basis).
- If property taxes for a particular previous year are not paid during that year, no deduction shall be allowed for that year. However, if in a later year if they are paid, then it shall be allowed as deduction for that later year i.e. municipal taxes, etc paid during the previous year are allowable even if they relate to past years or future years.
- In case municipal taxes paid are more than GAV, NAV, could be negative.

<b>NAV = GAV - Municipal Taxes paid</b>
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- Even where the property is situated outside the country, taxes levied by local authority in that country are deductible.

**ILLUSTRATION 2:** Rajesh, a British national, is a resident and ordinarily resident in India during the P.Y.2019-20. He owns a house in London, which he has let out at £ 10,000 p.m. The municipal taxes paid to the Municipal Corporation of London are £ 8,000 during the P.Y.2020-21. The value of one £ in Indian rupee to be taken at Rs.82.50. Compute Rajesh’s taxable income for the A.Y. 2021-22.

(NEW SM) (ANS.: IFHP: RS. 64,68,000)

**SOLUTION:**

**Computation of Income from house property of Mr. Rajesh for A.Y.2021-22**

Particulars	Amount (Rs.)
Gross Annual Value (£ 10,000 × 12 × 82.50)	99,00,000

<b>Less:</b> Municipal taxes paid (£ 8,000 × 82.50)	6,60,000
<b>Net Annual Value (NAV)</b>	<b>92,40,000</b>
<b>Less:</b> Deduction under section 24	
a) 30% of NAV = 30% of Rs. 92,40,000	27,72,000
<b>Income from house property</b>	<b>64,68,000</b>

## **5. DEDUCTIONS U/S 24**

Only 2 deductions (as given in Sec.24) are available in computation of income under this head. Therefore, no deduction can be claimed in respect of expenses which are not specified in Sec.24.

### **1) REPAIRS & COLLECTION CHARGES: [Sec. 24(a)]**

- a) **30% of NAV** is allowed as deduction to cover repairs and collection charges, irrespective of the actual expenditure spend by the assessee.
- b) This deduction is allowed even if no expenditure is incurred by the assessee.
- c) Assessee can avail this deduction even if tenant undertakes to do the repairs.

### **2) INTEREST ON LOANS: [Sec. 24(b)]**

- a) This deduction is available on "accrual" basis.

#### **b) Purpose of borrowing:**

Interest payable on loan borrowed for the purpose of

- i) Purchase,
  - ii) Construction,
  - iii) Renovation,
  - iv) Repairing and Reconstruction can be claimed as deduction.
- c) Deduction for interest is given in two parts, Current year interest & Pre - Construction period interest.

#### **PRE-CONSTRUCTION PERIOD INTEREST:**

- i) Pre-construction period shall start from the date of borrowing and shall end on 31<sup>st</sup> march of the year preceeding to the year in which the building comes into existence. However, if the loan is repaid before the Building comes into existence, then pre construction period shall end on the date of repayment of loan.
- ii) The deduction of pre-construction period interest is allowed in 5 Equal Installments from the previous year in which Building comes into existence.
- iii) If the Building comes into existence in the year of availing the loan, then there is no pre construction period interest.

#### **POST- CONSTRUCTION PERIOD INTEREST**

- i) The post construction period always starts from the previous year in which building comes into existence. Where the loan is repaid before the building comes into existence, post construction period does not exist.
- ii) The deduction is allowed every financial year from the year the building comes into existence.
- iii) Interest related to year of completion of construction can be fully claimed irrespective of completion date.

**ILLUSTRATION 3:** The assessee took a loan of Rs.1,00,000 on 01.04.2018 from a bank for construction of a house on a piece of land he owns in Delhi. The loan carries an interest @ 20% per annum. The construction is completed in 15.06.2020. The entire loan is still outstanding as on 31.03.2021. Compute the interest allowable for the A.Y. 2021-22. (ANS.: TOTAL INTEREST: RS. 28,000)

**Solution:** Interest for the year (01.04.2020 to 31.03.2021) = 20% of Rs.1,00,000 = Rs. 20,000

Pre-construction interest is 20% of Rs.1,00,000 for 2 years (from 01.04.2018 to 31.03.2019) amounts to Rs. 40,000. Pre-construction interest to be allowed in 5 equal annual installments of Rs. 8,000 from the year of completion of construction i.e. in this case, P.Y.2020-21. Therefore, total interest deduction under section 24 is Rs. 28,000 (Rs. 20,000+Rs.8000).

**1) LIMITS APPLICABLE IN RESPECT OF DEDUCTION - SELF OCCUPIED/UNOCCUPIED PROPERTIES:**

a).Where the property has been acquired, constructed, repaired, renewed or reconstructed with borrowed capital before 01.04.1999	Actual Interest payable in aggregate for one or two self-occupied properties, subject to maximum of Rs. 30,000.
b).Where the property is acquired or constructed with capital borrowed on or after 01.04.1999 and such acquisition or construction is completed within 5 years from the end of the financial year in which the capital was borrowed.	Actual interest payable in aggregate for one or two self-occupied properties, subject to maximum of Rs.2,00,000, if certificate mentioned below is obtained. **
c).Where the property is repaired, renewed or reconstructed with capital borrowed on or after 01.04.1999	Actual interest payable in aggregate for one or two self-occupied properties, subject to a maximum of Rs. 30,000.
<b>However, the total interest deduction under (a),(b) and (c) cannot exceed Rs. 2,00,000.</b>	

**NOTE: Deductions of Interest up to 2,00,000 is not available in case of Assesse opts for the provision of sec 115BAC.**

**NOTE:** The assessee shall obtain a certificate from the lender that the Loan amount has been utilized for the specified purpose (as mentioned in the Loan Agreement)

- 2) **LIMITS NOT APPLICABLE FOR LET OUT PROPERTY/ DEEMED LET OUT PROPERTY:** Any amount of interest is allowable as deduction in respect of such house properties.
- 3) If a **fresh loan** has been raised to repay the original loan, the interest payable in respect of the second loan would also be admissible.
- 4) **Interest on interest** is not deductible. Any interest paid on outstanding amount of interest, will not be allowed as deduction. (Generally Penal Interest)
- 5) This deduction is subject to Sec.25 in some cases. (Refer Page No: 4.11)
- 6) No deduction is allowed for any brokerage or commission for arranging the loan.
- 7) Interest includes commitment charges [CC].
- 8) For principle repayment of loan, deduction U/S 80C is available.
  - a) This deduction is available on payment basis only
  - b) This deduction is available only if construction of property was completed and income of that property is chargeable under I.F.H.P. **(to be Discussed at Chapter VIA- deductions)**

**ISSUE:** Mr. A purchases a house property from Mr. B for Rs. 10,00,000. Mr. A has paid only 50 % of the purchase price to Mr. B. Mr. B agreed for treating the balance purchase price as loan to Mr. A. Can Mr. A claim the interest paid to B as deduction?

**SOLUTION:** Yes, he can claim and it qualifies for deduction in the computation of Income from such property. [CIT vs. R.P. GOENKA & J.P. GOENKA]

**TIT BIT 7: Assessee owns two house properties, loans was taken for the following purposes calculate deduction that can be claimed u/s 24(b), Assume both of the houses are self occupied properties.**

		Loan 1 (House 1)	Loan 2 (House 2)
Purpose of loan		Construction	Renovation / Repairs
Date of borrowing		01.06.2014	01.06.2014
Date of completion		09.01.2017	NA
Situation 1	Interest on borrowed capital	Nil	40,000

Situation 2	Interest on borrowed capital	2,30,000	Nil
Situation 3	Interest on borrowed capital	70,000	35,000
Situation 4	Interest on borrowed capital	2,05,000	45,000

(ANS.: 30,000; 2,00,000; 1,00,000; 2,00,000.)

## **6. ANNUAL VALUE OF A SELF-OCCUPIED HOUSE PROPERTY [Section 23(2) To 23(4)]**

### **1) SELF - OCCUPIED PROPERTY [SEC. 23(2)]: IN THE FOLLOWING CASES, THE NET ANNUAL VALUE IS TAKEN TO BE NIL**

- Where the property is self-occupied; or
- Such property cannot be self-occupied because of assessee's business or profession or employment, he stays in another place in a rented premises.

### **2) In case of self-occupied property or unoccupied property [Section 23(2)]**

- Where the property is self-occupied for own residence or unoccupied throughout the previous year, its Annual Value will be Nil, provided no other benefit is derived by the owner from such property.
- The benefit of "Nil" Annual Value is available only for up to two self-occupied or unoccupied house properties i.e. for either one house property or two house properties.
- The benefit of "Nil" Annual Value in respect of up to two self-occupied house properties is available only to an individual/ HUF.
- No deduction for municipal taxes is allowed in respect of such property/properties as annual value means value determined after deduction of municipal taxes.

### **3) Where a house property is let-out for part of the year and self-occupied for part of the year [Section 23(3)]**

- If a single unit of a property is self-occupied for part of the year and let-out for the remaining part of the year, then the ER for the whole year shall be taken into account for determining the GAV.
- The ER for the whole year shall be compared with the actual rent for the let out period and whichever is higher shall be adopted as the GAV.
- However, municipal tax for the whole year is allowed as deduction provided it is paid by the owner during the previous year.

### **4) In case of deemed to be let out property [Section 23(4)]**

- Where the assessee owns more than two properties for self-occupation, then the income from any two properties, at the option of the assessee, shall be computed under the self-occupied property category and their annual value will be nil.
- The other self-occupied/unoccupied properties shall be treated as "deemed let out properties".
- This option can be changed year after year in a manner beneficial to the assessee.
- In case of deemed let-out property, the ER shall be taken as the GAV.
- The question of considering actual rent received/receivable does not arise. Consequently, no adjustment is necessary on account of property remaining vacant or unrealized rent.
- Municipal taxes actually paid by the owner during the previous year, in respect of the deemed let out properties, can be claimed as deduction.

## **7. TYPES OF HOUSE PROPERTIES**

### **1) SELF OCCUPIED PROPERTY (In brief): \*\*\***

Particulars	Amount
Net Annual Value	Nil
<b>Less:</b> Interest on borrowed capital u/s.24(b) (To the maximum of Rs.30,000 or Rs.2,00,000 as the case may be)	XXX
Income from house property	(XXX)



**Case 2: House property - let out for part of a year & self-occupied for part of a year:**

- a) If a single unit of a property is self-occupied for part of the year and let-out for the remaining part of the year, then the ER for the whole year shall be taken into account for determining the GAV.
- b) The ER for the whole year shall be compared with the **actual rent for the let out period** and whichever is higher shall be adopted as the GAV. In this case, the actual rent shall be the rent for the period of for which the property was let out during the previous year
- c) However, municipal tax for the whole year is allowed as deduction provided it is paid by the owner during the previous year and interest on loan for the whole year shall be allowed as deduction on accrual basis.  
**(Teach problem No.5, 6, 7, 8, 9 &10 of Classroom discussion)**

**5) HOUSE PROPERTY HELD AS STOCK-IN-TRADE [SECTION 23(5)]:**

- a) In some cases, property consisting of any building or land appurtenant thereto may be held as stock-in-trade, and the whole or any part of the property may not be let out during the whole or any part of the previous year.
- b) In such cases, the annual value of such property or part of the property shall be NIL.
- c) This benefit would be available for the period of two years from the end of the financial year in which certificate of completion of construction of the property is obtained from the competent authority. If such property is not let out during such period.

**EXAMPLE:** Mr. Paramesh is a dealer of Building. He has one apartment as stock which is constructed and obtained completion certificate from competent authority in the P.Y 2018-19.the apartment consists of 5 floors. 2 floors are sold on completion. Still 3 floors are not sold. The income from other 3 floors is regarded as "Nil" until P.Y 2020-21.

**8. TAX DEDUCTED AT SOURCE - SEC.25**

According to Sec. 25, Interest on loan payable outside India shall not be allowed as deduction, unless T.D.S. is made or tax is duly paid.

**9. TAXABILITY OF RECOVERY OF UNREALISED RENT & ARREARS OF RENT RECEIVED U/S 25A****(M12- 4M)**

- 1) **Unrealised** Rent means the amount of rent received in arrears from a tenant or the amount of unrealised rent realised subsequently from a tenant.
- 2) Unrealised rent is deducted from actual rent in determination of annual value U/S.23, subject to fulfillment of conditions under Rule 4. Subsequently, when the amount is realized, it gets taxed under section 25A (1) in the year of receipt.
- 3) If the assessee has increased the rent payable by the tenant and the same has been in dispute and later on the assessee receives the increase in rent as arrears, such arrears is assessable under section 25A (1)
- 4) As per new section 25A (1), the amount of rent received in arrears from a tenant or the amount of unrealised rent realised subsequently from a tenant by an assessee shall be deemed to be income from house property in the financial year in which such rent is received or realised, and shall be included in the total income of the assessee under the head "Income from house property", whether the assessee is the owner of the property or not in that financial year.
- 5) New section 25A (2) provides a deduction of 30% of arrears of rent or unrealised rent realised subsequently by the assessee.

**SUMMARY OF NEW SECTION 25A**

<b>Arrears of Rent / Unrealised Rent</b>	
<b>i)</b>	Taxable in the year of receipt/realisation
<b>ii)</b>	Deduction@30% of rent received/realised
<b>iii)</b>	Taxable even if assessee is not the owner of the property in the financial year of receipt/realisation.

**NOTE:** Any expenditure incurred for the recovery of unrealized rent shall be ignored. The only deduction available from unrealized rent is deduction u/s 25A(2) i.e. 30%

**TIT BIT 8:** Ms. Lena received Rs. 30,000 as arrears of rent during the P.Y. 2020-21. How much amount would be Taxable u/s.25A? (Ans. 21,000)

**TIT BIT 9:** Unrealized rent for the P.Y 10-11 = 60,000

Allowed by the assessing officer = 35,000

Recovery during the 3 P.Y 20 - 21 = 52,000

Calculate the amount taxable u/s 25A

**ILLUSTRATION 4:** Mr. Anand sold his residential house property in March, 2020.

In June, 2020, he recovered rent of Rs. 10,000 from Mr. Gaurav, to whom he had let out his house for two years from April 2014 to March 2016. He could not realise two months rent of Rs. 20,000 from him and to that extent his actual rent was reduced while computing income from house property for A.Y.2016-17.

Further, he had let out his property from April, 2016 to February, 2020 to Mr. Satish. In April, 2018, he had increased the rent from Rs. 12,000 to Rs. 15,000 per month and the same was a subject matter of dispute. In September, 2019, the matter was finally settled and Mr. Anand received Rs. 69,000 as arrears of rent for the period April 2017 to February, 2020.

Would the recovery of unrealised rent and arrears of rent be taxable in the hands of Mr. Anand, if so in which year?  
(RTP M17) (ANS.: IFHP FOR AY 20-21: RS. 55,300)

**SOLUTION:** Since the unrealised rent was recovered in the P.Y.2020-21, the same would be taxable in the A.Y.2021-22 under section 25A, irrespective of the fact that Mr. Anand was not the owner of the house in that year. Further, the arrears of rent were also received in the P.Y.2020-21, and hence the same would be taxable in the A.Y.2021-22 under section 25A, even though Mr. Anand was not the owner of the house in that year. A deduction of 30% of unrealised rent recovered and arrears of rent would be allowed while computing income from house property of Mr. Anand for A.Y.2021-22.

**Computation of income from house property of Mr. Anand for A.Y.2021-22**

Particulars		Amount (Rs.)
i)	Unrealised rent recovered	10,000
ii)	Arrears of rent received	69,000
		79,000
<b>Less:</b>	Deduction @ 30%	23,700
<b>Income from house property</b>		<b>55,300</b>

**10. CO-OWNERSHIP - SEC.26**

If two or more persons own a house property jointly, then they are known as co-owners. If individual share of each co-owner is definite and ascertainable then the share of each such person shall be taxable as his income from house property.

TAX TREATMENT OF CO-OWNED PROPERTY	
Self-occupied property	Let out property
The annual value of the property of each co-owner will be Nil and each co-owner shall be entitled to a deduction of Rs. 30,000/ Rs. 2,00,000, as the case may be, on account of interest on borrowed capital. However, if the co-owner owns another self-occupied / unoccupied property, the aggregate interest from the co-owned property and the other self-occupied property cannot exceed Rs. 30,000/ Rs.2,00,000, as the case may be.	The income from such property shall be computed as if the property is owned by one owner and thereafter the income so computed shall be apportioned amongst each co-owner as per their specific share.

(TEACH PROBLEM NO.11,12 OF CLASSROOM DISCUSSION)

(SOLVE PROBLEM NO.2 OF TEST YOUR KNOWLEDGE)

**TIT BIT 10:** Ganesh and Rajesh are co-owners of a self-occupied property. They own 50% share each. The interest paid by each co-owner during the previous year on loan (taken for acquisition of property during the year 2004) is Rs.2,05,000. What is the amount of allowable deduction in respect of each co-owner?  
(SM) (ANS.: RS. 2,00,000)

## 11. COMPOSITE RENT

If the owner of the property gets charges for other facilities (Lift, Gardening, garden facility, Lighting facility, etc) or other assets (Furniture, Machinery etc) provided in the building, together with rent of the building, such amount received is termed as Composite Rent.

**TAX TREATMENT OF COMPOSITE RENT IS AS FOLLOWS:** If the owner of house property gets composite rent for both property as well as for services rendered or other separable asset, such composite rent shall be treated as under if segregation of composite rent is possible:

Particulars	Taxable under the head
Sum received for the use of building.	'Income from house property'.
Sum received for other amenities or other separable assets.	'Profits & gains of business or profession'; or 'Income from other sources'

However, if segregation of composite rent is not possible, then the whole amount will be taxed either under the head 'Profits & gains of business or profession' or 'Income from other sources'.

**LETTING OF BUILDING WITH OTHER INSEPARABLE ASSETS (LIKE MACHINERY, PLANT, FURNITURE):** If letting of only building is not possible or not acceptable to the other party, then sum received as rent from the properties is chargeable as business income or income from other sources even if the composite rent can be segregated. E.g., letting out of hotel rooms, auditoriums, etc.

## 12. PROPERTIES WHICH ARE USED FOR AGRICULTURAL PURPOSES

(FOR STUDENTS SELF STUDY)

If the property is used for agricultural purposes, the annual value of such property would be treated as "Agricultural Income" and it is exempt under section 10(1) of the Act. However, if the house property is used for purpose other than agriculture the annual value of such property cannot be treated as agricultural income.

### PROFORMA OF COMPUTATION OF INCOME FROM HOUSE PROPERTY

Particulars		Amount (Rs.)
<b>Computation of GAV:</b>		
<b>Step 1</b>	Compute ER	
	ER = Higher of MV and FR, but restricted to SR	
<b>Step 2</b>	Compute Actual rent received/receivable	
	Actual rent received/receivable Less unrealized rent as per Rule 4	
<b>Step 3</b>	Compare ER and Actual rent received/receivable	
<b>Step 4</b>	GAV is the higher of ER and Actual rent received/receivable	
<b>Gross Annual Value (GAV)</b>		A
<b>Less:</b>	Municipal taxes (paid by the owner during the previous year)	B
<b>Net Annual Value (NAV) = (A-B)</b>		C
<b>Less:</b>	Deductions u/s 24	
	a) 30% of NAV	D
	b) Interest on borrowed capital (actual without any ceiling limit)	E
Income from house property (C - D - E)		F

## **SECTION 2: PROBLEMS FOR CLASSROOM DISCUSSION**

**PROBLEM NO.1:** Mr. Rahul Jadav furnishes the following particulars relating to his house properties and other incomes and expenditure for the year 2020-21

**A) First house:** This house is taken by him on lease for 10 years which is let to a tenant, for his residence, at a monthly rent of Rs. 2,400.

He has incurred the following expenses during this year:

Lease rent	Rs. 1,000 per month
Salary of Durban:	Rs. 200 per month
Interest on loan taken to pay for the acquisition of the lease	Rs. 200 per month

- B) Second house:** This house was constructed by him in 1990, but was transferred to his wife in 1995 out of love and affection. He, however, continues to stay in this house with his wife till date, he has taken a loan for the construction of this house for which interest of Rs.6,000 becomes due for the year, but had not been paid by him. He has paid repair expenses of Rs.1,000 during the year.
- C) Taxable income from business for this year amounts to Rs. 64,000. Compute gross total income of Mr. Rahul jadv for the assessment year 2021-22. (Assessee has not opted Optional tax rates u/s 115BAC)**  
*(ANS: GROSS TOTAL INCOME: RS.70,000)*

**Note:** \_\_\_\_\_

**PROBLEM NO.2:** R borrowed a sum of Rs.3,00,000 on 01-06-2011 on interest @ 12% p.a. to construct house property in Delhi. As the house property was still under construction, he borrowed another sum of Rs.2,00,000 on 01-04-2012 @ 12% p.a. The property was completed on 31-08-2012 and it was self-occupied w.e.f. 01-09-2012. The fair rent of the house is Rs. 10,000 p.m. R paid Rs. 2,000 as insurance premium for insuring the house property. Compute the income under the head income from house property for the A.Y.2021-22. (Assessee has not opted Optional tax rates u/s 115BAC)  
*(ANS.: LOAN 1 - PCPI IS 0 AND CURRENT YEAR INTEREST IS 36,000 AND LOAN 2 - PCPI IS 0 AND CURRENT YEAR INTEREST IS 24,000. TOTAL INTEREST IS 60,000 AND IFHP = (60,000))*

**Note:** \_\_\_\_\_

**PROBLEM NO.3:** Poorna has one house property at Indra Nagar in Bangalore. She stays with her family in the house. The rent of similar property in the neighbourhood is Rs 25,000 p.m. The municipal valuation is Rs. 23,000 p.m. Municipal taxes paid is Rs. 8,000. The house was constructed in the year 2014 with a loan of Rs. 20,00,000 taken from SBI Housing Finance Ltd @9% p.a. on 1.4.2014. The construction was completed on 30.11.2016. The accumulated interest up to 31.3.2016 is Rs. 1,50,000. During the previous year 2020-21, Poorna paid Rs. 2,40,000, which included Rs. 1,80,000 as interest. Compute Poorna's income from house property for A.Y. 2021-22. (Assessee has not opted Optional tax rates u/s 115BAC)  
*(NEW SM, OLD SM, M19 (N) - 8M) (ANS: IFHP = (2,00,000))*

**Note:** \_\_\_\_\_

**PROBLEM NO.4:** Ganesh has three houses, all of which are self-occupied. The particulars of the houses for the P.Y. 2020-21 are as under:

Particulars	House I	House II	House III
Municipal valuation p.a.	3,00,000	3,60,000	3,30,000
Fair rent p.a.	3,75,000	2,75,000	3,80,000
Standard rent p.a.	3,50,000	3,70,000	3,75,000
Date of completion	31-03-1999	31-03-2001	01-04-2014
Municipal taxes paid during the year	12%	8%	6%
Interest on money borrowed for repair of property during the current year	-	55,000	-
Interest for current year on money borrowed in July 2013 for purchase of property	-		1,75,000

Compute Ganesh's income from house property for A.Y.2021-22 and suggest which houses should be opted by Ganesh to be assessed as self-occupied so that his tax liability is minimum. (Assessee has not opted Optional tax rates u/s 115BAC)

(NEW SM, OLD SM) (ANS.: OPTION 1- HOUSE 1,2 IS SOP HOUSE 3 IS DLOP, IFHP = 43,640, AND OPTION 2 - HOUSE 2 IS DLOP, HOUSE 1,3 IS SOP, IFHP = 1,840. OPTION 3 - HOUSE 1 IS DLOP, HOUSE 2,3 IS SOP, IFHP = 19,800. IFHP IN OPTION 2(1,840) IS LOW WHEN COMPARED TO OPTION 1 (43,640) And Option 3 (19,800) I.E. HOUSE 2 = DLOP AND HOUSE 1,3 = SOP)

(SOLVE PROBLEM NO.1 OF ASSIGNMENT PROBLEM AS REWORK)

**PROBLEM NO.5:** Ganesh has a property whose municipal valuation is Rs.2,50,000 p.a. The fair rent is Rs.2,00,000 p.a. and the standard rent fixed by the Rent Control Act is Rs.2,10,000 p.a. The property was let out for a rent of Rs. 20,000 p.m. However, the tenant vacated the property on 31.01.2021. Unrealised rent was Rs. 20,000 and all conditions prescribed by Rule 4 are satisfied.

He paid municipal taxes @ 8% of municipal valuation. Interest on borrowed capital was Rs. 65,000 for the year. Compute the income from house property of Ganesh for A.Y.2021-22.

(NEW SM, OLD SM) (ANS.: IFHP = 47,000)

Note: \_\_\_\_\_

**PROBLEM NO.6:** Smt. Rajyalakshmi owns a house property at Adyar in Chennai. The municipal value of the property is Rs. 5,00,000, fair rent is Rs. 4,20,000 and standard rent is Rs. 4,80,000. The property was let-out for Rs. 50,000 p.m. up to December 2020. Thereafter, the tenant vacated the property and Smt. Rajyalakshmi used the house for self-occupation. Rent of the months of November and December 2020 could not be realized in spite of the owner's efforts. All the conditions prescribed under rule 4 are satisfied. She paid municipal taxes @ 12% during the year. She had paid interest of Rs. 25,000 during the year for amount borrowed for repairs for the house property. Compute her income from house property for the A.Y. 2021-22.

(NEW SM, OLD SM, SIMILAR: N18 (N) - 7M) (ANS.: GAV = 4,80,000, INTEREST ON LOAN = 25,000 AND IFHP = 2,69,000)

Note: \_\_\_\_\_

**PROBLEM NO.7:** Rajender has a house property situated in Delhi which consists of two units. Unit A has 60% floor area, where as Unit B has 40% floor area. Unit A was self occupied by R for 8 months and w.e.f. 01-12-2020, it was let out for Rs. 10,000 p.m. Unit B was also meant for self-occupation but it was also let out w.e.f.01-10-2020 for Rs. 8,000 p.m. Other particulars

Municipal taxes paid	40,000
Insurance premium	4,000
Interest on money borrowed	20,000

Compute income from house property for the assessment year 2021-22. (Assessee has not opted Optional tax rates u/s 115BAC)

(ANS: UNIT A - GAV = 1,20,000, INTEREST ON LOAN = 12,000 AND IFHP = 55,200 AND UNIT B - GAV = 96,000, INTEREST ON LOAN = 8,000 AND IFHP = 48,000)

**PROBLEM NO.8:** Mr. Vikas owns a house property whose Municipal Value, Fair Rent and Standard Rent are Rs. 96,000, Rs. 1,26,000 and Rs. 1,08,000 (per annum), respectively. From 01.04.2020, one-third of the portion of the house was let out for residential purpose at a monthly rent of Rs. 5,000. The remaining two-third portion was self occupied by him. Municipal tax @ 11 % of municipal value was paid during the year. The construction of the house began in June, 2013 and was completed on 31-05-2016. Vikas took a loan of Rs. 1,00,000 on 01-07-2013 for the construction of building. He paid interest on loan @ 12% per annum and every month such interest was paid.

Compute income from house property of Mr. Vikas for the Assessment Year 2021-22. (Assessee has not opted Optional tax rates u/s 115BAC)

(NEW SM, OLD PM, MTP M17, SIMILAR: RTP N18 (N&O)) (ANS.: IFHP: RS. 20,936)

(SOLVE PROBLEM NO. 8, 9 OF ASSIGNMENT PROBLEM AS REWORK)

Note: \_\_\_\_\_

**PROBLEM NO.9:** Mr. Vamsi owns a house in Delhi. During the previous year 2020-2021, 3/4<sup>th</sup> portion of the house was self-occupied for full year and 1/4<sup>th</sup> portion was let out for residential purposes from 01-04-2020 to 31-12-2021 on a rent of Rs.700 p.m. From 01-01-2021 this portion was also used for own residence. Municipal valuation of the house is Rs. 20,000. He incurred the following expenditure in respect

of the house property: Municipal taxes due Rs. 6,000; Repairs Rs. 2,000; Insurance Premium Rs. 3,500; Land Revenue Rs. 4,000; Ground Rent Rs.200 were paid during the year. A loan of Rs. 60,000 was taken on 01-04-2013 @ 15% p.a. for the construction of the house which was completed on 28-03-2014. Nothing was repaid so far. Find out house property income for the A.Y.2021-22. (Assessee has not opted Optional tax rates u/s 115BAC)

(ANS:  $\frac{3}{4}$ <sup>TH</sup> PORTION - NAV: 0, INTEREST ON LOAN: 6,750 AND IFHP: (6,750) AND REMAINING  $\frac{1}{4}$ <sup>TH</sup> PORTION- GAV: 8,400, INTEREST ON LOAN: 2,250 AND IFHP: 3,630. TOTAL IFHP: (3,120)) (SOLVE PROBLEM NO.2 OF ASSIGNMENT PROBLEM AS REWORK)

**PROBLEM NO.10:** Mr. Krishna owns a residential house in Delhi. The house is having two identical units. First unit of the house is self-occupied by Mr. Krishna and another unit is rented for Rs. 12,000 p.m. The rented unit was vacant for three months during the year. The particulars of the house for the previous year 2020-21 are as under:

Standard Rent	Rs. 2,20,000 p.a.
Municipal Valuation	Rs. 2,44,000 p.a.
Fair Rent	Rs. 2,35,000 p.a.
Municipal tax paid by Mr. Krishna	12% of the Municipal Valuation
Light and water charges	Rs. 800 p.m.
Interest on borrowed capital	Rs. 2,000 p.m.
Insurance charges	Rs. 3,500 p.a.
Painting expenses	Rs. 16,000 p.a.

Compute income from house property of Mr. Krishna for the A.Y.2021-22. (Assessee has not opted Optional tax rates u/s 115BAC)

(NEW SM, OLD PM, N13 - 8M) (ANS. IFHP 41,352) (SOLVE PROBLEM NO.3 OF ASSIGNMENT PROBLEM AS REWORK)

Note: \_\_\_\_\_

**PROBLEM NO.11:** Two brothers Arun and Bimal are co-owners of a house property with equal share. The property was constructed during the financial year 1998-1999. The property consists of eight identical units and is situated at Cochin.

During the financial year 2020-21, each co-owner occupied one unit for residence and the balance of six units were let out at a rent of Rs. 12,000 per month per unit. The municipal value of the house property is Rs. 9,00,000 and the municipal taxes are 20% of municipal value, which were paid during the year. The other expenses were as follows:

	Rs.
i) Repairs	40,000
ii) Insurance premium (paid)	15,000
iii) Interest payable on loan taken for construction of house	3,00,000

One of the let out units remained vacant for four months during the year.

Arun could not occupy his unit for six months as he was transferred to Chennai. He does not own any other house.

The other income of Mr. Arun and Mr. Bimal are Rs. 2,90,000 and Rs. 1,80,000 respectively, for the financial year 2020-21.

Compute the income under the head 'Income from House Property' and the total income of two brothers for the assessment year 2021-22. (Assessee has not opted Optional tax rates u/s 115BAC)

(NEW SM, OLD PM, MTP M15)

(ANS.: INCOME FROM LET OUT PORTION = 2,51,700, TOTAL INCOME OF MR. ARUN = 3,85,850, TOTAL INCOME OF MR. BIMAL IS 2,75,850) (SOLVE PROBLEM NO.4 OF ASSIGNMENT PROBLEM AS REWORK)

Note: \_\_\_\_\_

**PROBLEM NO.12:** Mr. A and Mr. B constructed their house on a piece of land purchased by them at New Delhi. The built up area of property was 1,000 sq. ft. ground floor and an equal area in the first floor. Mr. A started construction on 01.04.2019 and completed on 31.03.2020. Mr. B started the construction on

01.04.2019 and completed the construction on 30.06.2020. Mr. A occupied the entire house on 01.04.2020. Mr. B occupied the Ground Floor on 01.07.2020 and let out the first floor for a rent of Rs. 15,000 per month. However, the tenant vacated the house on 31.12.2020 and Mr. B occupied the entire house during the period 01.01.2021 to 31.03.2021.

Fair rental value of each unit (Ground floor/first floor)	1,00,000 p.a.
Municipal value of each unit (Ground floor/first floor)	72,000 p.a.
Municipal taxes paid by A	8,000
Municipal taxes paid by B	8,000
Repairs & Maintenance charges paid by A	28,000
Repairs & Maintenance charges paid by B	30,000

Mr. A has availed a housing loan of Rs.20 Lakhs @ 12% p.a. on 01.04.2019. Mr. B has availed a housing loan of Rs.12 Lakhs @ 10% p.a. on 01.07.2019. No repayment was made either of them till 31.03.2021. Compute income from house property for Mr. A and Mr. B. (Assessee has not opted Optional tax rates u/s 115BAC)

(OLD PM) (ANS.: MR. A: (2,00,000), MR.B: (77,800))

Note: \_\_\_\_\_

**PROBLEM NO.13:** Mrs. Rohini Ravi, a citizen of the U.S.A., is a resident and ordinarily resident in India during the financial year 2020-21. She owns a house property at Los Angeles, U.S.A., which is used as her residence. The annual value of the house is \$20,000. The value of one USD (\$) may be taken as Rs. 65. She took ownership and possession of a flat in Chennai on 01.07.2020, which is used for self occupation, while she is in India. The flat was used by her for 7 months only during the year ended 31.03.2021. The municipal valuation is Rs. 32,000 p.m. and the fair rent is Rs. 4,20,000 p.a. She paid the following to Corporation of Chennai:

Property Tax	Rs. 16,200
Sewerage Tax	Rs. 1,800

She had taken a loan from Standard Chartered Bank in June, 2017 for purchasing this flat. Interest on loan was as under:

	Rs.
Period prior to 01.04.2020	49,200
01.04.2020 to 30.06.2020	50,800
01.07.2020 to 31.03.2021	1,31,300

She had a house property in Bangalore, which was sold in March, 2017. In respect of this house, she received arrears of rent of Rs. 60,000 in March, 2021. This amount has not been charged to tax earlier.

Compute the income chargeable from house property of Mrs. Rohini Ravi for the assessment year 2021-22, exercising the most beneficial option available. (Assessee has not opted Optional tax rates u/s 115BAC)

(NEW SM, OLD PM) (ANS.: IFHP 57,960)

(SOLVE PROBLEM NO.5 OF ASSIGNMENT PROBLEM AS REWORK)

Note: \_\_\_\_\_

**PROBLEM NO.14:** Mr. Raphael constructed a shopping complex. He had taken a loan of Rs.25 lakhs for construction of the said property on 01-08-2017 from SBI @ 10% for 5 years. The construction was completed on 30-06-2018. Rental income received from shopping complex Rs. 30,000 per month-let out for the whole year. Municipal taxes paid for shopping complex Rs. 8,000.

Arrears of rent received from shopping complex Rs.1,20,000

Interest paid on loan taken from SBI for purchase of house for use as own residence for the period 2020-2021, Rs.3 lakhs.

You are required to compute income from house property of Mr. Raphael for AY 2021-2022 as per Income-tax Act, 1961. (Assessee has not opted Optional tax rates u/s 115BAC)

(OLD PM, M17-5M) (ANS.: IFHP: RS. (1,52,933))

**SECTION 3: PRINDED SOLUTIONS TO CLASSROOM DISCUSSION PROBLEMS**

**PROBLEM NO.1**

According to sec-27 (deemed ownership)

- 1) A person who acquires any right in or with respect to any building or part thereof, i.e. transfer by way of lease is more than 12 years, shall be deemed to be owner of that building or part thereof
- 2) In case of transfer of house property by an individual to his or her spouse otherwise than for adequate consideration, the transfer is deemed to be owner of the transferred property.

According to above provisions Mr. Rahul Jadav will not be deemed as owner of his first house (as the period of lease is less than 12 years) he is deemed owner of the second house.

**Computation of total income of Mr. Rahul Jadav for the A.Y- 2021-22**

Particulars	Amt. (Rs.)	Amt. (Rs.)
Income from house property (WN :1)		Nil
Income from business	64,000	
<b>Less:</b> Adjustment for setoff with H.P loss (sec.71)	(6,000)	58,000
Income from other sources (WN :2)		12,000
<b>Gross Total Income</b>		<b>70,000</b>

**W.N: 1: Computation of income from house property (self-occupied)**

Particulars	Amt. (Rs.)	Amt. (Rs.)
Net annual value		Nil
<b>Less:</b> Deduction u/s 24		
a) Standard deduction @ 30%	Nil	
b) Interest on loan	6,000	(6,000)
<b>Income from house property</b>		<b>(6,000)</b>

**W.N: 2: Computation of Income from other sources**

Particulars	Amt. (Rs.)	Amt. (Rs.)
Lease rent (2,400 x 12)		28,800
<b>Less:</b> Expenses		
Lease rent (1,000 x 12)	12,000	
Salary of Durban (200 x 12)	2,400	
Interest on loan (200 x 12)	2,400	(16,800)
<b>Income from other sources</b>		<b>12,000</b>

**PROBLEM NO.2**

**Computation of income from house property of Mr. R for the A.Y.2021-22**

Particulars	Amount
Net annual value	0
<b>Less: Deduction under section 24</b>	
Interest on loan (WN)	(60,000)
<b>Income from house property</b>	<b>(60,000)</b>

**Working Notes: Calculation of interest u/s 24:**

**Loan 1:**

- a) Pre-construction period interest = Nil  
(Because the five equal installment have been exhausted) (From 2012-13 to 2016-17)
- b) Current year interest = 3, 00,000x12% = 36,000
- c) Total interest = Pre construction period interest + Current year interest = 0 + 36,000 = 36,000

**Loan 2:**

- a) Pre-construction period interest = Nil  
(No pre construction period, Because the loan was taken in the year of construction completion)
- b) Current year interest  
Current year interest = Rs.2,00,000 x 12% = 24,000
- c) Total interest = Pre construction period interest + Current year interest = 0 + 24,000 = 24,000

**PROBLEM NO.3****Computation of Income from House Property of Smt. Poorna for A.Y.2021-22**

Particulars	Rs.
Annual Value of one house used for self-occupation under section 23(2)	Nil
Less: Deduction under section 24	
Interest on borrowed capital	2,00,000
Interest on loan was taken for construction of house on or after 01.04.1999 and same was completed within 5 years - interest paid or payable subject to a maximum of Rs.2,00,000 (including apportioned preconstruction interest) will be allowed as deduction.	
In this case the total interest is Rs. 1,80,000 + Rs. 30,000 (Being 1/5th of Rs. 1,50,000) = Rs. 2,10,000. However, the interest deduction is restricted to Rs. 2,00,000	
Loss from house property	(2,00,000)

**PROBLEM NO.4**

Let us first calculate the income from each house property assuming that they are deemed to be let out.

**Computation of income from house property of Ganesh for the A.Y.2021-22**

Particulars	Amount in Rs.		
	House I	House II	House III
<b>Gross Annual Value (GAV)</b> ER is the GAV of house property ER = Higher of MV and FR, but restricted to SR	3,50,000	3,60,000	3,75,000
Less: Municipal taxes (paid by the owner during the previous year)	36,000	28,800	19,800
<b>Net Annual Value (NAV)</b>	3,14,000	3,31,200	3,55,200
Less: Deductions under section 24			
a) 30% of NAV	94,200	99,360	1,06,560
b) Interest on borrowed capital		55,000	1,75,000
<b>Income from house property</b>	<b>2,19,800</b>	<b>1,76,840</b>	<b>73,640</b>

Ganesh can opt to treat any two of the above house properties as self-occupied .

**OPTION 1 (House I and II- self-occupied and House III - deemed to be let out):** If House I and II is opted to be self-occupied, the income from house property shall be

Particulars	Amount (Rs)
House I (Self-occupied)	Nil
House II (Self-occupied)(interest deduction restricted to Rs.30,000)	(30,000)
House III(Deemed to be let-out)	73,640
<b>Income from house property</b>	<b>43,640</b>

**OPTION 2 (House I and III – self-occupied and House II – deemed to be let out):** If House I and III is opted to be self-occupied, the income from house property shall be

Particulars	Amount (Rs)
House I (Self-occupied)	Nil
House II (Deemed to be let-out) (Interest deduction restricted to Rs. 30,000)	1,76,840
House III(Self-occupied)	(1,75,000)
<b>Income from house property</b>	<b>1,840</b>

**OPTION 3 (House II and III – self-occupied and House I – deemed to be let out):** If House II and III is opted to be self-occupied, the income from house property shall be

Particulars	Amount in Rs.	Amount in Rs.
House I (Deemed to be let-out)		2,19,800
House II (Self-occupied) (Interest deduction restricted to Rs. 30,000)	(30,000)	
House III(Self-occupied)	(1,75,000)	
(Total interest deduction restricted to Rs. 2,00,000)		(2,00,000)
<b>Income from house property</b>		<b>19,800</b>

Since Option 2 is most beneficial, Ganesh should opt to treat House I and III as self-occupied and House II as deemed to be let out. His income from house property would be Rs.1,840 for the A.Y. 2021-22.

**PROBLEM NO.5**

**Computation of Income from House Property of Ganesh for A.Y.2021-22**

S.No.	Particulars	Amount (Rs.)	
<b>Computation of GAV:</b>			
<b>Step 1</b>	Compute ER ER = Higher of MV of Rs. 2,50,000 p.a. and FR of Rs. 2,00,000 p.a., but restricted to SR of Rs. 2,10,000 p.a.	2,10,000	
<b>Step 2</b>	Compute Actual rent received/receivable Actual rent received/receivable for let out period <b>Less:</b> Unrealized rent as per Rule 4 = Rs. 2,00,000 - Rs. 20,000	1,80,000	
<b>Step 3</b>	Compare ER and Actual rent received/receivable		
<b>Step 4</b>	In this case the actual rent of Rs. 1,80,000 is lower than ER of Rs. 2,10,000 owing to vacancy, since, had the property not been vacant the actual rent would have been Rs. 2,20,000 (Rs.1,80,000 + Rs.40,000), being the <u>notional rent</u> for Feb and Mar 2021. Therefore, actual rent is the GAV.	1,80,000	
<b>Gross Annual Value (GAV)</b>			<b>1,80,000</b>
<b>Less:</b>	Municipal taxes (paid by the owner during the previous year) = 8% of Rs. 2,50,000		20,000
<b>Net Annual Value (NAV)</b>			<b>1,60,000</b>
<b>Less:</b>	<b>Deductions under section 24</b>	48,000	
	a) 30% of NAV = 30% of Rs. 1,60,000		
	b) Interest on borrowed capital (actual without any ceiling limit)	65,000	1,13,000
<b>Income from House Property</b>			<b>47,000</b>

**PROBLEM NO.6**

Computation of Income from House Property of Smt. Rajya Lakshmi for the A.Y.2021-22

Particulars		Amount in Rs.	
<b>Computation of GAV:</b>			
<b>Step 1</b>	Compute ER for the whole year ER = Higher of MV of Rs. 5,00,000 and FR of Rs. 4,20,000, but restricted to SR of Rs. 4,80,000	4,80,000	
<b>Step 2</b>	Compute Actual rent received / receivable Actual rent received/receivable for the period let out less unrealized rent as per Rule 4 = (Rs. 50,000×9) - (Rs. 50,000 × 2) = Rs. 4,50,000 - Rs. 1,00,000 =	3,50,000	
<b>Step 3</b>	Compare ER for the whole year with the actual rent received / receivable for the let out period i.e. Rs.4,80,000 and Rs. 3,50,000		
<b>Step 4</b>	GAV is the higher of ER computed for the whole year and Actual rent received/receivable computed for the let-out period.	4,80,000	
<b>Gross Annual Value (GAV)</b>			<b>4,80,000</b>
<b>Less:</b>	Municipal taxes (paid by the owner during the previous year) = 12% of Rs. 5,00,000		60,000
<b>Net Annual Value (NAV)</b>			<b>4,20,000</b>
<b>Less:</b>	<b>Deductions under section 24</b>		
	a) 30% of NAV = 30% of Rs. 4,20,000	1,26,000	
	b) Interest on borrowed capital	25,000	1,51,000
<b>Income from House Property</b>			<b>2,69,000</b>

**PROBLEM NO.7**

Computation of Income from House Property of Mr. Rajender for the A.Y.2021-22

Particulars	Unit - A	Unit-B
	(8M - SOP, 4M - LOP)	(6M - SOP, 6M - LOP)
Gross annual value (See note below)	1,20,000	96,000
<b>Less:</b> Municipal taxes (6 : 4)	(24,000)	(16,000)
Net Annual Value	96,000	80,000
<b>Less:</b> Deduction under section 24		
a) 30% of Net Annual Value	(28,800)	(24,000)
b) Interest (6 : 4)	(12,000)	(8,000)
<b>Income From House Property</b>	<b>55,200</b>	<b>48,000</b>

Total Income from House Property = Rs.1,03,200

**NOTES:**

- a) In the absence of information relating to fair rental value, then actual rent for full year shall be considered as fair rental value.
- b) Sec. 23 (1) (c) is not applicable in the present case, because the property was never vacant during P.Y.

**PROBLEM NO.8**

Computation of income from house property of Mr. Vikas for the A.Y. 2021-22

Particulars	Rs.	Rs.
<b>Income from house property</b>		
<b>I) Self-occupied portion (Two third)</b>		
Net Annual value		Nil

<b>Less:</b> Deduction under section 24(b)			
Interest on loan (See Note below) (Rs.18,600 x 2/3)			12,400
<b>Loss from self-occupied property</b>			<b>(12,400)</b>
<b>II) Let-out portion (One third)</b>			
Gross Annual Value			
a) Actual rent received ((Rs. 5,000 x 12)	Rs.60,000		
b) Expected rent [Higher of municipal valuation (i.e., Rs. 96,000) and fair rent (i.e., Rs. 1,26,000) but restricted to standard rent (i.e., Rs.1,08,000)] = Rs.1,08,000 x 1/3 Higher of (a) or (b)	Rs.36,000		
		60,000	
<b>Less:</b> Municipal taxes (Rs. 96,000 x 11% x 1/3)		3,520	
<b>Net Annual Value</b>		<b>56,480</b>	
<b>Less:</b> Deductions under section 24			
a) 30% of NAV		16,944	
b) Interest on loan (See Note below) (Rs.18,600 x 1/3)		6,200	<b>33,336</b>
<b>Income From House Property</b>			<b>20,936</b>

**NOTE: Interest on loan taken for construction of building**

Interest for the year (1.4.2020 to 31.3.2021) = 12% of Rs.1,00,000 = Rs.12,000

Pre-construction period interest = 12% of Rs.1,00,000 for 33 months (from 1.07.2013 to 31.3.2016) = Rs.33,000

Pre-construction period interest to be allowed in 5 equal annual installments of Rs.6,600 from the year of completion of construction i.e. from F.Y. 2016-17 till F.Y. 2020-21

Therefore, total interest deduction under section 24 = Rs.12,000 + Rs.6,600 = Rs.18,600.

**PROBLEM NO.9**

**Computation of Income from House Property of Mr. Vamsi for the A.Y.2021-22**

Particulars	3/4 <sup>th</sup> (SOP)	1/4 <sup>th</sup> (9M-LO, 3M-SO)
Gross Annual Value	0	8,400
<b>Less:</b> Municipal Taxes	0	=
Net Annual Value	0	8,400
<b>Less:</b> Deduction under section 24		
a) 30% of Net Annual Value	0	(2,520)
b) Interest (See Note below)	(6,750)	(2,520)
<b>Income From House Property</b>	<b>(6,750)</b>	<b>3,630</b>

Total Income from House Property = (3,120)

**Working Note:**

a) As municipal taxes are not paid during the P.Y, cannot be deducted from GAV.

b) Pre-construction period interest = Nil

(Because the loan was taken in the year in which the construction was completed)

c) Current year interest = 60,000 x 15% = 9,000

d) Total interest = Pre construction period interest + Current year interest = 0 + 9,000 = 9,000

**NOTE:** In the absence of information relating to fair rental value, then actual rent for full year shall be considered as fair rental value.

**PROBLEM NO.10**

Computation of Income from house property of Mr. Krishna for A.Y. 2021-22

	Particulars	Rs.	Rs.
<b>A)</b>	<b>Rented unit (50% of total area)</b>		
	<b>Step I - Computation of Expected Rent</b>		
	Municipal valuation (Rs. 2,44,000 x ½)	1,22,000	
	Fair rent (Rs. 2,35,000 x ½)	1,17,500	
	Standard rent (Rs. 2,20,000 x ½)	1,10,000	
	Expected Rent is higher of municipal valuation and fair rent, but restricted to standard rent	1,10,000	
	<b>Step II - Actual Rent</b>		
	Rent receivable for the whole year (Rs. 12,000 x 12)	1,44,000	
	<b>Step III - Computation of Gross Annual Value</b>		
	Actual rent received owing to vacancy (Rs. 1,44,000 - Rs. 36,000)	1,08,000	
	Since, owing to vacancy, the actual rent received is lower than the Expected Rent, the actual rent received is the Gross Annual value		
	<b>Gross Annual Value (GAV)</b>		<b>1,08,000</b>
	<b>Less:</b> Municipal taxes (12% of Rs. 1,22,000)		14,640
	<b>Net Annual Value (NAV)</b>		93,360
	<b>Less:</b> Deductions under section 24		
	a) 30% of NAV	28,008	
	b) Interest on borrowed capital (Rs. 1,000 x 12)	12,000	40,008
	<b>Taxable income from let out portion</b>		<b>53,352</b>
<b>B)</b>	<b>Self-occupied unit (50% of total area)</b>		
	Annual value	Nil	
	<b>Less:</b> Deduction under section 24		
	Interest on borrowed capital (Rs. 1,000 x 12)	12,000	(12,000)
	<b>Income from house property</b>		<b>41,352</b>

**NOTE:** No deduction will be allowed separately for light and water charges, insurance charges and painting expenses.

**PROBLEM NO.11**

Computation of total income for the A.Y. 2021-22

Particulars	Arun (Rs.)	Bimal (Rs.)
<b>Income from house property</b>		
<b>I) Self-occupied portion (25%)</b>		
Gross Annual value	-	-
<b>Less: Deduction under section 24(b)</b>		
Interest on loan taken for construction Rs. 37,500 (being 25% of Rs.1.5 lakh) restricted to maximum of Rs. 30,000 for each co-owner since the property was constructed before 01.04.1999	30,000	30,000
Loss from self-occupied property	30,000	30,000
<b>II) Let-out portion (75%) - See Working Note below</b>	1,25,850	1,25,850
Income from house property	95,850	95,850
Other Income	2,90,000	1,80,000
<b>Total Income</b>	<b>3,85,850</b>	<b>2,75,850</b>

**Working Note: Computation of income from let-out portion of house property**

Particulars	Rs.	Rs.
<b>Let-out portion (75%)</b>		
Gross Annual Value		
(a) Municipal value (75% of Rs. 9 lakh)	6,75,000	
(b) Actual rent [(Rs. 12000 x 6 x 12) - (Rs. 12,000 x 1 x 4)]	8,16,000	
= Rs. 8,64,000 - Rs.48,000 - whichever is higher		8,16,000
<b>Less: Municipal taxes 75% of 1,80,000 (20% of Rs. 9 lakh)</b>		1,35,000
Net Annual Value (NAV)		6,81,000
<b>Less: Deduction under section 24</b>		
(a) 30% of NAV	2,04,300	
(b) Interest on loan taken for the house [75% of Rs. 3 lakh]	2,25,000	4,29,300
Income from let-out portion of house property		2,51,700
Share of each co-owner (50%)		1,25,850

**PROBLEM NO.12**

**Computation of Income from House Property of Mr. A for A.Y. 2021-22**

Particulars	Rs.	Rs.
Annual value is nil (since house is self-occupied)		Nil
<b>Less: Deduction under section 24(b)</b>		
Current year interest ( Rs. 20,00,000 @ 12%)	2,40,000	
Pre-construction interest	Nil	
	2,40,000	
As per second proviso to section 24(b), interest deduction restricted to		2,00,000
<b>Loss under the head "Income from house property" of Mr. A</b>		<b>(2,00,000)</b>

**Computation of Income from House Property of Mr. B for A.Y. 2021-22**

Particulars	Ground floor (Self-occupied)	First floor
Gross annual value (See note below)	Nil	90,000
<b>Less: Municipal taxes (for first floor)</b>		4,000
Net Annual Value (A)	Nil	86,000
<b>Less: Deduction under section 24</b>		
a) 30% of net annual value		25,800
b) Interest on borrowed capital		
Current year Interest (Rs. 12,00,000 x 10% = Rs. 1,20,000)	60,000	60,000
Pre-construction Interest (Rs. 12,00,000 x 10% x 9/12 = Rs. 90,000)		
Rs. 90,000 allowed in 5 equal installments		
Rs. 90,000 / 5 = Rs. 18,000 per annum	9,000	9,000
Total deduction under section 24 (B)	69,000	94,800
Income from house property (A)-(B)	69,000	8,800
Loss under the head "income from house property" of Mr. B (both ground floor and first floor)	(77,800)	

**NOTE:** Computation of Gross Annual Value (GAV) of first floor of B's house

If a single unit of property (in this case the first floor of B's house) is let out for some months and self-occupied for the other months, then the Expected Rent of the property shall be taken into account for determining the annual value. The Expected Rent shall be compared with the actual rent and whichever is higher shall be adopted as the annual value. In this case, the actual rent shall be the rent for the period for which the property was let out during the previous year.

The Expected Rent is the higher of fair rent and municipal value. This should be considered for 9 months since the construction of property was completed only on 30.06.2020.

Expected rent = Rs. 75,000 being higher of -

Fair rent =  $1,00,000 \times 9/12$  = Rs. 75,000

Municipal value =  $72,000 \times 9/12$  = Rs. 54,000

Actual rent = Rs. 90,000 (Rs. 15,000 p.m. for 6 months from July to December, 2020)

Gross Annual Value = Rs.90,000 (being higher of Expected Rent of Rs.75,000 and actual rent of Rs.90,000)

### **PROBLEM NO.13**

Since the assessee is a resident and ordinarily resident in India, her global income would form part of her total income i.e., income earned in India as well as outside India will form part of her total income.

She possesses a self-occupied house at Los Angeles as well as at Chennai. She can take the benefit of "Nil" Annual Value in respect of both the house properties.

As regards the Bangalore house, arrears of rent will be chargeable to tax as income from house property in the year of receipt under section 25A. It is not essential that the assessee should continue to be the owner. 30% of the arrears of rent shall be allowed as deduction.

Accordingly, the income from house property of Mrs. Rohini Ravi will be calculated as under:

	Particulars	Rs.	Rs.
<b>1)</b>	<b>Self-occupied house at Los Angeles</b>		
	Annual value	-	
	<b>Less:</b> Deduction under section 24	-	
	Chargeable income from this house property		-
<b>2)</b>	<b>Self Occupied house property at Chennai</b>		
	Annual value (Higher of municipal value and fair rent) [ $4,20,000 \times 9/12$ ]		Nil
	<b>Less:</b> Municipal Taxes (Property tax + Sewerage tax)		-
	<b>Net Annual Value (NAV)</b>		-
	<b>Less:</b> Deductions under section 24		
	30% of NAV	-	
	Interest on borrowed capital (See Note below)	1,91,940	1,91,940
			<b>(1,91,940)</b>
<b>3)</b>	<b>Arrears in respect of Bangalore property (Section 25A)</b>		
	Arrears of rent received	60,000	
	<b>Less:</b> Deduction @ 30% U/S 25A(2)	18,000	42,000
	<b>Income chargeable under the head "Income from house property"</b>		<b>(1,49,940)</b>

Note: Interest on borrowed capital	Rs.
Interest for the current year (Rs. 50,800 + Rs. 1,31,300)	1,82,100
<b>Add:</b> 1/5th of pre-construction interest (Rs. 49,200 x 1/5)	9,840
<b>Interest deduction allowable under section 24</b>	<b>1,91,940</b>

### **PROBLEM NO.14**

Computation of Income from House Property of Mr. Raphael for A.Y.2021-22

	Particulars	Rs.	Rs.
<b>1)</b>	<b>Shopping complex</b>		
	Gross Annual Value [Rs. 30,000 × 12]		3,60,000
	<b>Less:</b> Municipal Taxes		8,000
	<b>Net Annual Value (NAV)</b>		3,52,000

	<b>Less: Deductions under section 24</b>		
	30% of NAV	1,05,600	
	Interest on borrowed capital ( <b>See Working Note below</b> )	<u>2,83,333</u>	(3,88,933)
			(36,933)
	Arrears of rent received taxable under section 25A	1,20,000	
	<b>Less: Deduction@30%</b>	36,000	84,000
			<b>47,067</b>
<b>2)</b>	<b>Self-occupied residential house</b>		
	Annual value (since the house property is self-occupied)	Nil	
	<b>Less: Deduction under section 24</b>		
	Interest on loan from SBI Rs. 3 lakhs, restricted to	2,00,000	
	Chargeable income from this house property		(2,00,000)
	<b>Income chargeable under the head "Income from House Property"</b>		<b>(1,52,933)</b>

**Working Note:**

Interest on borrowed capital (Shopping Complex)	Rs.
Interest for the current year (10% of Rs. 25 lakhs)	2,50,000
<b>Add:</b> 1/5th of pre-construction interest (interest for the period from 01.08.2017 to 31.03.2018 for 8 months (Rs. 1,66,667 x 1/5)	33,333
<b>Interest deduction allowable under section 24</b>	<b>2,83,333</b>

**NOTE:**

- 1) In case all the conditions specified in Section 80EE are satisfied, out of the remaining interest of Rs. 1 lakh (Rs. 3 lakh - Rs. 2 lakh) Mr. Raphael can claim deduction of Rs. 50,000 towards interest paid for acquisition of self-occupied resident house.
- 2) It has been assumed that loan of Rs. 25 lakhs has to be repaid after the five year period. Hence, there has been no repayment up to 31.03.2021. Interest computation has been made accordingly.

**SECTION 4: ASSIGNMENT PROBLEMS**

**PROBLEM NO.1:** Raghav has three houses, all of which are self-occupied. The particulars of the houses for the P.Y. 2020-21 are as under:

Particulars	(Value in Rs.)		
	House - I	House - II	House - III
Municipal Valuation (p.a.)	1,20,000	1,44,000	1,32,000
Fair Rent (p.a.)	1,50,000	1,10,000	1,52,000
Standard Rent (p.a.)	1,00,000	1,65,000	1,50,000
Date of completion	31-03-1999	31-03-2001	1-04-2014
Municipal taxes payable during the year (paid for House II only)	12%	8%	7%
Interest on money borrowed for repair of property during current year	-	55,000	75,000

Compute income from house property of Mr. Raghav for the Assessment Year 2021-22 and suggest which houses should be opted by Raghav to be assessed as self-occupied so that her tax liability is minimum.

(Assessee has not opted Optional tax rates u/s 115BAC)

(RTP-M19(N&O), NEW SM, OLD PM, RTP N17, RTP M16, M14 - 8M, MTP N16, SIMILAR: N18 (O) - 5M, MAY19(N)) (ANS.: OPTION 1 - HOUSE 1,2 IS SOP HOUSE 3 IS DLOP, IFHP = (6,468), AND OPTION 2 - HOUSE 2 IS DLOP, HOUSE 1,3 IS SOP, IFHP = (37,264). OPTION 3 - HOUSE 1 IS DLOP, HOUSE 2,3 IS SOP, IFHP = (45,080). IFHP IN OPTION 3(45,080) IS LOW WHEN COMPARED TO OPTION 1 (6,468) AND OPTION 3 (37,264) I.E. HOUSE 1 = DLOP AND HOUSE 2,3 = SOP)

**PROBLEM NO.2:** Prem owns a house in Madras. During the previous year 2020-21,  $\frac{2}{3}$ <sup>rd</sup> portion of the house was self-occupied and  $\frac{1}{3}$ <sup>rd</sup> portion was let out for residential purposes at a rent of Rs. 8,000 p.m. Municipal value of the property is Rs. 3,00,000 p.a. fair rent is Rs. 2,70,000 p.a. and standard rent is Rs. 3,30,000 p.a. He paid municipal taxes @ 10% of municipal value during the year. A loan of Rs. 25,00,000 was taken by him during the year 2015 for acquiring the property. Interest on loan paid during the previous year 2018-19 was Rs. 1,20,000. Compute Prem's income from house property for the A.Y. 2021-22.

(Assessee has not opted Optional tax rates u/s 115BAC)

(NEW SM, OLD SM, RTP N15) (ANS.: IFHP FOR SOP = (80,000), IFHP FOR LOP = 23,000 AND TOTAL IFHP = (57,000))

**PROBLEM NO.3:** Mr. X owns one residential house in Mumbai. The house is having two identical units. First unit of the house is self occupied by Mr. X and another unit is rented for Rs. 8,000 p.m. The rented unit was vacant for 2 months during the year. The particulars of the house for the previous year 2020-21 are as under:

Particulars	Amount (Rs.)
Standard rent	1,62,000 p.a.
Municipal valuation	1,90,000 p.a.
Fair rent	1,85,000 p. a
Municipal tax (Paid by Mr. X)	15% of municipal valuation
Light and water charges	500 p.m.
Interest on borrowed capital	1,500 p.m.
Lease money	1,200 p.a.
Insurance charges	3,000 p.a.
Repairs	12,000 p.a.

Compute income from house property of Mr. X for the A.Y. 2021-22. (Assessee has not opted Optional tax rates u/s 115BAC)

(NEW SM, OLD PM, N08 - 6M) (ANS. IFHP 28,025)

**PROBLEM NO.4:** Mr. Raman is a co-owner of a house property along with his brother holding equal share in the property.

Particulars	Amount (Rs.)
Municipal value of the property	1,60,000
Fair rent	1,50,000
Standard rent under the Rent Control Act	1,70,000
Rent received (per month)	15,000

The loan for the construction of this property is jointly taken and the interest charged by the bank is Rs. 25,000, out of which Rs. 21,000 has been paid. Interest on the unpaid interest is Rs. 450. To repay this loan, Raman and his brother have taken a fresh loan and interest charged on this loan is Rs. 5,000.

The municipal taxes of Rs. 5,100 have been paid by the tenant.

Compute the income from this property chargeable in the hands of Mr. Raman for the A.Y. 2021-22.

(NEW SM, OLD PM, MTP N16, N09-6M) (ANS.: IFHP - RS. 48,000)

**PROBLEM NO.5:** Mrs. Indu, a resident individual, owns a house in U.S.A. She receives rent @ \$ 2,000 per month. She paid municipal taxes of \$ 1,500 during the financial year 2020-21. She also owns a two storied house in Mumbai, ground floor is used for her residence and first floor is let out at a monthly rent of Rs. 10,000. Standard rent for each floor is Rs. 11,000 per month and fair rent is Rs. 10,000 per month. Municipal taxes paid for the house amounts to Rs. 7,500. Mrs. Indu had constructed the house by taking a loan from a nationalized bank on 20-6-2013. She repaid the loan of Rs. 54,000 including interest of Rs. 24,000. The value of one dollar is to be taken as Rs. 60. Compute total income from house property of Mrs. Indu. (Assessee has not opted Optional tax rates u/s 115BAC)

(OLD PM, RTP N16) (ANS.: RS.10,02,375)

**PROBLEM NO.6:** Mr. Rohan a resident individual owns 4 houses in Chennai. Two houses is self-occupied by him, third house is self-occupied by his major son and Fourth house is vacant during the year.

You are required to highlight the steps involved to compute Income from House Property for Mr. Rohan under deemed to be let out concept. (M18 (O)-5M) (ANS.: REFER SEC. 24 & DEEMED LET OUT CONCEPT)

**PROBLEM NO.7:** Jayashree owns five houses in Chennai, all of which are let-out. Compute the GAV of each house from the information given below

Particulars	House I (Rs.)	House II (Rs.)	House III (Rs.)	House IV (Rs.)	House V (Rs.)
Municipal Value	80,000	55,000	65,000	24,000	80,000
Fair Rent	90,000	60,000	65,000	25,000	75,000
Standard Rent	N.A.	75,000	58,000	N.A.	78,000
Actual rent received/ receivable	72,000	72,000	60,000	30,000	72,000

(NEW SM) (ANS.: HOUSE I: 90,000; HOUSE II: 72,000; HOUSE III: 60,000; HOUSE IV: 30,000; HOUSE V: 78,000)

**PROBLEM NO.8:** Anirudh has a property whose municipal valuation is Rs. 1,30,000 p.a. The fair rent is Rs. 1,10,000 p.a. and the standard rent fixed by the Rent Control Act is Rs. 1,20,000 p.a. The property was let out for a rent of Rs. 11,000 p.m. throughout the previous year. Unrealised rent was Rs. 11,000 and all conditions prescribed by Rule 4 are satisfied. He paid municipal taxes @10% of municipal valuation. Interest on borrowed capital was Rs. 40,000 for the year. Compute the income from house property of Anirudh for A.Y. 2021 - 22. (NEW SM) (ANS.: IFHP: RS. 35,600)

**PROBLEM NO.9:** Mr. Rajesh owns a residential house, let out for a monthly rent of Rs. 15,000. The fair rental value of the property for the let out period is Rs. 1,50,000. The house was self-occupied by him from 1<sup>st</sup> January, 2021 to 31<sup>st</sup> March, 2021. He has taken a loan from bank of Rs. 20 lacs for the construction of the property, and has repaid Rs. 1,05,000 (including interest Rs. 40,000) during the year.

Compute Rajesh's income from house property for the Assessment Year 2021-22 (NEW SM) (ANS.: RS. 1,00,000)

**LIST OF IMPORTANT CONCEPTS (APPLICABLE FOR WEEKEND EXAMS ONLY BUT NOT FOR ANY OTHER EXAMS)**

1, 3, 4, 5, 6, 7, 9, 11, 12

## SECTION 5: ADVANCED CONCEPT FOR STUDENTS SELF STUDY

### 1. TAXATION OF INCOME FROM PROPERTIES SITUATED OUTSIDE INDIA

A resident assessee is taxable under section 22 in respect of annual value of a House Property situated in foreign country. A resident but not ordinarily resident or a non-resident is taxable in respect of income from such property if the income is received in India during the previous year. Once incidence of tax is attracted under section 22, the Annual value will be computed as if the property is situated in India.

The municipal taxes paid outside India shall be deductible from the gross annual value of the house property if such taxes have been actually paid by the assessee during the previous year. (N 10 - 4M)

### 2. DISPUTED OWNERSHIP

If the title of ownership of the house property is under dispute in a court of law, the decision about who is the owner lies with the Income tax Department. The assessment cannot be help up for such dispute. Generally, a person who receives the income or who enjoys the possession of the house property as owner, though his claim is under dispute, is assessable to tax under section 22. (N10 - 4M)

### 3. PROPERTY OWNED BY A PARTNERSHIP FIRM

a) Where an immovable property or properties is included in the assets of a firm, the income from such property should be assessed in the hands of the firm only.

Hence, the property income cannot be assessed as income of the individual partner in respect of his share in the firm.

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## SECTION 6: ADDITIONAL PROBLEMS FOR STUDENTS SELF PRACTICE

- 1) M is a member of the Co-operative Housing Society in Mumbai which has allotted a flat to him. According to the rules of the society a member has to pay a fixed charge known as Royalty if he lets out the flat. Besides, the society recovers service charges for watch-keeping and maintenance of lifts from the members. Is it possible for M to claim deduction of service charges and Royalty from rental income?
- 2) R owns a house, the construction of which was completed in May, 1996. 50% of the floor area is let out for residential purposes on a monthly rent of Rs.6,400. However this portion remained vacant for one month during 2020-21. 25% of the floor area is used by the owner for the purpose of his Profession, while remaining 25% of the floor area is utilized for the purpose of his residence. Other particulars of the house area as follows:

S.No.	Particulars	Amount (Rs.)
i)	Municipal value	1,20,000
ii)	Standard rent	1,80,000
iii)	Municipal tax paid	24,000
iv)	Repairs	6,000
v)	Interest on capital borrowed for repairs	56,000
vi)	Ground rent	8,000
vii)	Annual charge	12,000
viii)	Insurance premium	24,000

Compute the taxable income from house property of R for the assessment year 2021-22.

- 3) R Ltd. was registered in 1972 under the Companies Act, 1956 and started business of letting properties on rent for commercial use and residential purpose. It acquired some old properties in late 1972. while it constructed 4 properties till March 31, 2006 details of which are given as under:

	Date of completion of construction	Number of flats	
		Residential	Commercial
Property A	March 13, 1998	14	6
Property B	March 31, 1995	10	3
Property C	March 31, 1995	15	10
Property, D	March 10, 1995	7	8

During the previous year 2020-21 the company received Rs.6,40,000 as Rent. The company paid One-third of the municipal taxes imposed by the local authority while the balance two-third is paid by tenants (total municipal tax imposed @ 13% by the local authority for the previous year amounts to Rs.70,720). For the previous year the company gives the following information.

S.No.	Particulars	Expenses incurred by R Limited (Rs.)	Amount charged annually from the tenants & which is included in the rent of Rs.6,40,000
i)	Maintenance of lift (including depreciation)	6,000	9,000
ii)	Water supply	8,000	12,000
iii)	Maintenance of swimming pool	10,000	5,000
iv)	Lighting of stairs	12,000	5,000
v)	Extension of water connection (incl. depreciation.)	25,000	40,000
vi)	interest on capital borrowed for the purpose of construction of house properties	48,000	
vii)	Ground rent (unpaid)	22,000	
viii)	Land revenue (unpaid)	17,000	-
ix)	Fire insurance premium for the houses owned by the company	18,400	2,000

x)	Depreciation @ 10% on W.D.V of Rs.60,10,500	6,01,050	-
xi)	Salary of managing director and staff (including salary of Rs.4,000 paid to a clerk for collecting rent)	21,000	
xii)	Collection charges (including bank commission. Legal expenses & expenditure on stamp and stationery)	37,820	-
xiii)	3 flats of rental value of Rs.3,000 and 6 flats of rental value (inclusive of amenities) of Rs.1,800 remained vacant for 6 months and 7 months respectively during the previous year 2020-21.		
xiv)	All the properties are outside the jurisdiction of the Rent Control Acts		

Determine the income of the company for the assessment year 2021-22

- 4) R, uses his own house property for the purpose of his residence. Municipal valuation of the house is Rs.2,10,000, whereas a similar house in the same locality fetches annual rent of Rs.2,40,000 and standard rent of the property under the Rent Control Act is Rs.2,16,000. Local taxes are levied at the rate of 15%. Apart from, the payment of municipal taxes, R incurs the following expenditure: repairs: Rs.30,000, insurance premium: Rs.4,000, ground rent: Rs.20,000, land revenue: Rs.1,800. R borrowed Rs.3,00,000 @ 15% p.a. on 30.09.2006 (date of repayment of loan: 31.01.2020, date of completion of construction: 16.02.2014) for the purpose of construction of the property. Besides, on 10.04.2018, R borrows Rs.2,40,000 @ 15% p.a. for repairing the house property. He pays Rs.5,000 p.a. to his mother (as per will of his father, he got the land of the above property 15 years ago subject to this charge). For the previous year 2020-21, he income from other sources is as follows:

Particulars	Amount (Rs.)
Income from business X	4,50,000
Loss from business Y	1,20,000
Interest on debentures	65,000

Determine the taxable income and tax liability of R for the assessment year 2021-22 on the assumption that he contributes Rs.24,000 for PPF.

- 5) X owns a property at Delhi (municipal value: Rs. 1,64,000, fair rent: Rs. 2,16,000, standard rent: Rs.1,80,000). The house is let out up to January 31, 2021(monthly rent being Rs.74,000). From February 1, 2021, the property is self-occupied for own residential purposes. Expenses incurred by X are: municipal tax; Rs. 6,000 (actually paid), repairs: Rs.2,100, insurance: Rs.1,100, interest on capital borrowed (date of borrowing being June 10, 1992) for-acquiring the property Rs.7,23,000. Assuming that the income of X from other sources is Rs.1,86,000. find out the net income of X for the assessment year 2021-22. Does it make any difference if property is let out up to January 31, 2021 @ Rs.19,000 per month ? There is no un-realized rent.

### SECTION 7: TEST YOUR KNOWLEDGE

- 1) Give the proper head of income under which the following would be chargeable:
  - a) A Ltd., a trading company, constructed residential flats and let them to its employees, at a nominal rent deductible from their salaries
  - b) The assessee makes part of its business premises available to the Government for locating a branch of a bank, post office, etc in order to carry on its business smoothly.
- 2) Under Sec.4, an association of persons is also one of the entities on which tax shall be charged in respect of the previous year on the income. There is an exception to this rule. What is the exception?
- 3) Discuss the following issues relating to Income from House Property:
  - a) Income earned by residents from house properties situated in foreign countries. If Municipal Taxes are paid in that country is it allowed in India under I. T Act, 1961?
  - b) Properties which are used for agricultural purposes.

- 4) A property was acquired with borrowed money. The owner of the property raised a secured loan to repay the first loan and claimed the interest paid on the secured loan as a deduction from income. Is the claim admissible?
- 5) Mr. X constructs a house property consisting of 13 rooms apart from a residential portion in which he resides. The rooms are well furnished and are let-out to employees of a company who are paying guests. X provides them lunch and dinner. The rental income comprises of room rent and charges for lunch and dinner but separation of rental income and charges for dinner and lunch could not be made. Is the income chargeable under income from house properties u/s.22 or income from business u/s.28?
- 6) The assessee, who was deriving income from "House property", realized a sum of Rs. 52,000 on account of display of advertisement hoardings of various concerns on the roof of the building. He claims that this amount should be considered under the head "House property" and not under "Other sources".
- 7) 'X' Ltd. company is engaged in the business of letting out of property on rent and has that activity as its main object. It is contended that since House letting is done as a profitability activity the income there from is chargeable as business income and the company wants to claim depreciation. Is the Company correct?

### **THE END**

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