

4. INCOME FROM HOUSE PROPERTY

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.2017-18 would be –

Particulars	Amount in 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.2017-18 would be –

Particulars	Amount in 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. 2017-18.

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	30,000	46,740
(b) Interest on borrowed capital (allowed in full incase of deemed let out property)	-	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.2017-18

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)		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) 1/3 rd of Rs.1,20,000	40,000	67,000
Income from Unit II (let-out) 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. 2017-18

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. 2017-18

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 Note 3 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.
a) Municipal value of property	1,60,000			
b) Fair rent	1,50,000			
c) Higher of (a) and (b)		1,60,000		
d) Standard rent		1,70,000		
e) Expected rent [lower of (c) and (d)]			1,60,000	
f) Actual rent [15,000 x 12]			1,80,000	
g) Gross Annual Value [higher of (e) and (f)]				1,80,000

- 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.
- 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. 2017-18

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

MASTER MINDS
THE END