

### 3. INCOME FROM HOUSE PROPERTY

#### ASSIGNMENT SOLUTIONS

##### PROBLEM NO.1

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

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

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

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

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

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

Particulars	Amount (Rs.)
House I (Deemed to be let-out) <b>[See Working Note below]</b>	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 <b>repair of self-occupied property</b> , the interest deduction would be restricted to Rs.30,000, irrespective of the date of borrowal].	(30,000)
<b>Income from house property</b>	<b>40,000</b>

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

##### WORKING NOTE:

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

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

##### PROBLEM NO.2

There are two units of the house. Unit I with 2/3<sup>rd</sup> 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 1/3<sup>rd</sup> area is let-out throughout the previous year and its annual value has to be determined as per section 23(1).

Computation of income from house property of Mr. Prem for A.Y.2019-20

Particulars	Amount in Rs.
Unit I (2/3 <sup>rd</sup> area - self-occupied)	

Annual Value		Nil
<b>Less: Deduction under section 24(b)</b>		
2/3 <sup>rd</sup> of Rs.1,20,000		80,000
<b>Income from Unit I (self-occupied)</b>		<b>-80,000</b>
<b>Unit II (1/3<sup>rd</sup> area - let out)</b>		
<b>Computation of GAV</b>		
Step I - Compute ER		
ER = Higher of MV and FR, restricted to SR. However, in this case, SR of Rs.1,10,000 (1/3 <sup>rd</sup> of Rs.3,30,000) is more than the higher of MV of Rs.1,00,000 (1/3 <sup>rd</sup> of Rs.3,00,000) and FR of Rs.90,000 (1/3 <sup>rd</sup> 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	
<b>Gross Annual Value (GAV) (A)</b>		<b>1,00,000</b>
<b>Less: Municipal taxes paid by the owner during the previous year relating to let-out portion 1/3<sup>rd</sup> of (10% of Rs.3,00,000) = Rs.30,000/3 = Rs.10,000</b>		10,000
<b>Net Annual Value (NAV)</b>		<b>90,000</b>
<b>Less: Deductions under section 24</b>		
(a) 30% of NAV = 30% of Rs. 90,000	27,000	
(b) Interest paid on borrowed capital (relating to let out portion) 1/3 <sup>rd</sup> of Rs.1,20,000 (B)	40,000	67,000
<b>Income from Unit II (let-out) (A - B)</b>		<b>23,000</b>
<b>Loss under the head "Income from house property = Rs. -80,000 + Rs. 23,000 = -57,000</b>		

**PROBLEM NO.3****Computation of Income from house property of Mr. X for A.Y. 2019-20**

Particulars	Rs.	Rs.
<b>A) Rented unit (50% of total area - See Note 1 below)</b>		
<b>Step I - Computation of Expected Rent</b>		
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	
<b>Step II - Actual Rent</b>		
Rent receivable for the whole year (Rs. 8,000 x 12)	96,000	
<b>Step III – Computation of Gross Annual Value</b>		
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		
<b>Gross Annual Value</b>		<b>80,000</b>
<b>Less: Municipal taxes (15% of Rs. 95,000)</b>		14,250
<b>Net Annual value</b>		<b>65,750</b>
<b>Less: Deductions under section 24 -</b>		
i) 30% of net annual value	19,725	
ii) Interest on borrowed capital (Rs.750 x 12)	9,000	28,725
<b>Taxable income from let out portion</b>		<b>37,025</b>
<b>B) Self occupied unit (50% of total area - See Note 1 below)</b>		
Annual value		Nil
<b>Less: Deduction under section 24</b>		
Interest on borrowed capital (Rs. 750 x 12)	9,000	9,000
<b>Income from house property</b>		<b>28,025</b>

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

**PROBLEM NO.4****Computation of income from house property of Shri Raman for A.Y. 2019-20**

Particulars	Rs.	Rs.
Gross Annual Value (See Note 1 below)		1,80,000
<b>Less:</b> Municipal taxes - paid by the tenant, hence not deductible		Nil
<b>Net Annual Value (NAV)</b>		<b>1,80,000</b>
<b>Less:</b> 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
<b>Income from house property</b>		<b>96,000</b>
50% share taxable in the hands of Shri Raman (See Note3 below)		<b>48,000</b>

**Notes:****1. Computation of Gross Annual Value (GAV)**

GAV is the higher of Expected rent and actual rent received. Expected rent is the higher of municipal value and fair rent, but restricted to standard rent.

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

2. Interest on housing loan is allowable as a deduction under section 24 on accrual basis. Further, interest on fresh loan taken to repay old loan is also allowable as deduction. However, interest on unpaid interest is not allowable as deduction under section 24.
3. Section 26 provides that where a house property is owned by two or more persons whose shares are definite and ascertainable, the share of each such person in the income of house property, as computed in accordance with sections 22 to 25, shall be included in his respective total income. Therefore, 50% of the total income from the house property is taxable in the hands of Mr. Raman since he is an equal owner of the property.

**PROBLEM NO.5****Computation of Income from House Property of Mrs. Indu for the A.Y. 2019-20**

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

**PROBLEM NO.6**

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

As Mr. Rohan does not satisfy the condition mentioned above, the vacant property would be treated as deemed let out property.

4. In case of deemed let-out property:

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

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

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

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

**PROBLEM NO.7**

As per section 23(1), Gross Annual Value (GAV) is the higher of Expected rent and actual rent received. Expected rent is higher of municipal value and fair rent but restricted to standard rent.

**Computation of GAV of each house owned by Jayashree**

	Particulars	House I (Rs.)	House II (Rs.)	House III (Rs.)	House IV (Rs.)	House V (Rs.)
i)	Municipal value	80,000	55,000	65,000	24,000	80,000
ii)	Fair rent	90,000	60,000	65,000	25,000	75,000
iii)	Higher of (i) & (ii)	90,000	60,000	65,000	25,000	80,000
iv)	Standard rent	N.A.	75,000	58,000	N.A.	78,000
v)	Expected rent [Lower of (iii) & (iv)]	90,000	60,000	58,000	25,000	78,000
vi)	Actual rent received/ receivable	72,000	72,000	60,000	30,000	72,000
	<b>GAV [Higher of (v) &amp; (vi)]</b>	<b>90,000</b>	<b>72,000</b>	<b>60,000</b>	<b>30,000</b>	<b>78,000</b>

**PROBLEM NO.8****Computation of Income from house property of Mr. Anirudh for A.Y.2019-20**

Particulars		Amount in Rs.	
<b>Computation of GAV</b>			
<b>Step 1</b>	Compute ER		

	ER = Higher of MV of Rs. 1,30,000 p.a. and FR of Rs. 1,10,000 p.a., but restricted to SR of Rs. 1,20,000 p.a.	1,20,000	
<b>Step 2</b>	Compute actual rent received/receivable		
	Actual rent received/receivable less unrealized rent as per Rule 4 = Rs. 1,32,000 - Rs. 11,000	1,21,000	
<b>Step 3</b>	Compare ER of Rs. 1,20,000 and Actual rent received/receivable of Rs. 1,21,000.		
<b>Step 4</b>	GAV is the higher of ER and Actual rent received/receivable	1,21,000	
<b>Gross Annual Value (GAV)</b>		<b>1,21,000</b>	
<b>Less:</b>	Municipal taxes (paid by the owner during the previous year) = 10% of Rs. 1,30,000	13,000	
<b>Net Annual Value (NAV)</b>			<b>1,08,000</b>
<b>Less:</b>	Deductions under section 24		
	(a) 30% of NAV	32,400	
	(b) Interest on borrowed capital (actual without any ceiling limit)	40,000	72,400
<b>Income from house property</b>			<b>35,600</b>

**PROBLEM NO.9**

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

Particulars	Amount (Rs.)	Amount (Rs.)
GAV (Note - II)	2,00,000	
<b>Less: Municipal Taxes</b>	Nil	
<b>Net Annual Value</b>		<b>2,00,000</b>
<b>Less: Deduction U/s 24</b>		
<b>a) 30% of NAV</b>	(60,000)	
<b>b) Interest on borrowed capital (Actual without any ceiling limit)</b>	(40,000)	1,00,000
<b>Income from House Property</b>		<b>1,00,000</b>

**Note:**

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

2.

i) Municipal Value (12 months)	=	-
ii) Fair Rent (12 months) $\left(1,50,000 \times \frac{12}{9}\right)$	=	2,00,000
iii) Higher of (i) and (ii)	=	2,00,000
iv) Standard Rent	=	-
v) Expected Rent (Lower of (iii) & (iv))*	=	2,00,000
vi) Actual Rent Received / Receivable (15,000 x 12)	=	1,80,000
GAV (v) or (vi) whichever is higher	=	2,00,000

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

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

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**THE END**