CHAPTER 4

INCOME FROM HOUSE PROPERTY

Section/Rule	Subject Matter
Section 22	Charging Section – Chargeability of income under the head 'house property'
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CHAPTER 4 INCOME FROM HOUSE PROPERTY

Section 22 {Charging Section} CHARGEABILITY OF INCOME UNDER THE HEAD 'HOUSE PROPERTY'	
Essential Conditions for Taxing Income Under 'House Property' Head (To Be Satisfied Cumulatively)	The following **three conditions** must be satisfied before income of any property can be taxed u/h "income from house property": • The property must consist of **buildings and land appurtenant thereto** (ie any open land which is part and parcel of a building is also treated as house property). • The **assessee** must be the **owner of such house property**. • The **assessee may use the property for any purpose**, **but it should not be used by the owner for the purpose of any business/profession** carried on by him. If the property is used for own business or profession, it shall not be chargeable to tax u/h "income from house property".
Buildings & Land Appurtenant Thereto	• Buildings include factory buildings, offices, shops, godowns & other commercial premises. • Examples of land appurtenant are compounds, gardens, marriage halls with gardens. • **Income from letting out any land, which is not an essential part of any building is not taxable u/h 'income from house property'. Such vacant site lease rent is taxable u/h 'income from other sources'.**

SPECIAL POINTS:

- **Sub-Letting Of House Property:**
  As per Section 56 of the Income Tax Act, where an assessee is not the owner of a building and he further sub-lets it to any other person, rental income earned by the assessee from sub-letting of building shall be taxable u/h 'income from other sources'.

- **Sale Of House Property:**
  Income from sale of house property is taxable u/h 'income from capital gains'. However, if an assessee has a business of buying/selling house property, such income would be taxable u/h 'income from business/profession'.

- **Income From Business Of Letting-Out House Property:**
  Where an assessee is engaged in the business of letting out of properties on rent, income from such letting-out would be taxable as business income. *{As per the decision of the Supreme Court in the case of Rayala Corporation (P) Ltd v. Assistant CIT}*

- **Income From House Property Held As Stock-In-Trade:**
  Annual value of house property will be charged u/h 'income from house property', where it is held by the assessee as stock-in-trade of a business.

Computation of Income Under the Head "HOUSE PROPERTY"	
Gross Annual Value (GAV) *[Computed as per Section 23]*	XXXX
Less: Municipal Taxes *[Proviso to Section 23(1)]*	(XXXX)
Net Annual Value (NAV)	XXXX
Less: Statutory Deduction/Standard Deduction @ 30% of NAV *[Section 24(a)]*	(XXXX)
Less: Interest on Borrowed Capital for Construction, etc *[Section 24(b)]*	(XXXX)
Income Under the Head "House Property"	**XXXX**

Sections 23(1)(a) & 23(1)(b)
HOUSE PROPERTY LET OUT THROUGHOUT THE YEAR

Gross Annual Value (ie reasonable rental value of the property) **shall be computed as follows:**

- **Step 1:** Compare Fair Rent with Municipal Valuation/Municipal Rent and select the higher.
- **Step 2:** Compare the rent so selected at Step 1 with Standard Rent and the lower of the two will be selected and referred to as 'Expected Rent'.
- **Step 3:** Compare Expected Rent calculated at Step 2 with Actual Rent Received/Receivable and the higher shall be considered to be the Gross Annual Value (GAV).

Meaning of Certain Terms	• **Fair Rent:** Rent of similar types of buildings in the same locality • **Municipal Valuation:** Rental value determined by the municipality for the purpose of charging municipal tax (ie house tax or property tax) • **Standard Rent:** Highest possible rent as per Rent Control Act

Proviso to Section 23(1)
DEDUCTIBILITY OF MUNICIPAL TAX / PROPERTY TAX / HOUSE TAX

Municipal taxes are allowed as deduction from GAV to arrive at NAV if BOTH the following conditions are satisfied:

- Such **municipal taxes** have been **actually paid** (ie deduction is allowed on cash basis and not on accrual basis); **and**
- Such **municipal taxes** have been **paid by the owner himself** (ie **no deduction is available where** the **municipal taxes** have been **paid by the tenant** or any other person).

Example: *If municipal taxes payable for PY 2018-19 are Rs 25,000 but the assessee has paid only Rs 20,000, deduction of only Rs 20,000 would be available in PY 2018-19. If municipal taxes payable for PY 2019-20 are Rs 60,000 but the assessee has paid Rs 70,000 which includes Rs 5,000 for the earlier year and Rs 5,000 for the subsequent year, deduction of Rs 70,000 would be available during PY 2019-20.*

Purpose of Levying Municipal Taxes	Municipal taxes are generally **levied by the local authority to raise funds for the purpose of maintaining any particular town or city**. Municipal taxes may also be water tax, house tax, fire tax, sewerage tax, etc.

Net Annual Value ('NAV') can be negative if municipal taxes actually paid during the year exceeds Gross Annual Value ('GAV').

Illustration on Pre-Construction Period Interest (IPCC May 2017 Exam – 4 Marks)

Mr Ganesh owns a commercial building whose construction got completed in June 2017. He took a loan of Rs 15 lakhs from his friend on 1.8.2016 and had been paying interest calculated at 15% p.a. He is eligible for pre-construction interest as deduction as per the provisions of the Income Tax Act. Mr Ganesh has let out the commercial building at a monthly rent of Rs 40,000 during FY 2018-19. He paid municipal tax of Rs 18,000 each for FY 2017-18 and FY 2018-19 on 1.5.2018 and 5.4.2019 respectively. Compute income u/h 'House Property' of Mr Ganesh for AY 2019-20.

Section 24
DEDUCTIONS FROM 'NAV' FOR CALCULATING 'INCOME FROM HOUSE PROPERTY'

- **Section 24(a) – Statutory Deduction/Standard Deduction:**
  A notional deduction equal to **30% of NAV** is allowed in respect of various expenditures incurred to maintain the house. The **actual amount of expenditure is not relevant**.

- **Section 24(b) – Interest on Borrowed Capital:**
  - ❑ Interest payable on loan/advance taken for purchase, construction, repairs, renovation, addition, alteration, etc of a house property is allowed as deduction from NAV u/s 24(b) ***(interest has to calculated on simple interest basis; ~~compound interest~~)***
  - ❑ Such **interest** is **allowed to be deducted on accrual basis** (ie the **payment of interest is not relevant** for claiming deduction).
  - ❑ **Current period interest is fully allowed as deduction.** The treatment of prior-period interest is discussed below.

Special Provisions for Prior Period Interest	• Prior period starts from the date on which the loan is taken and ends with the expiry of the financial year immediately preceding the financial year in which the house is purchased/constructed. Interest for prior period is known as 'prior period interest'. • **Prior period interest is allowed as deduction in 5 equal instalments starting with the financial year in which the house was purchased or constructed.**
Loans Taken from Outside India (Section 25)	**Interest on loans taken from outside India is also allowed as deduction if ANY one of the following two conditions is satisfied:** • The person making payment of interest deducts TDS at the time of making payment of interest to the foreign lender; **OR** • The foreign lender (ie person receiving interest) has appointed an agent in India.

Example:
If Mr A has taken a loan of Rs 10,00,000 for construction of property on 01.10.2016 and interest is payable @ 10% p.a. and the construction was completed on 30.06.2018, in this case interest allowed u/s 24(b) during PY 2018-19 shall be:

- ❑ *Interest for the current year (01.04.2018 to 31.03.2019) = 10% of Rs 10,00,000 = Rs 1,00,000*
- ❑ *Prior period interest = 10% p.a of Rs 10,00,000 for 18 months (01.10.2016 to 31.03.2018) = Rs 1,50,000 (Prior period interest to be allowed in 5 equal annual installments of Rs 30,000 starting from the year of completion of construction, PY 2018-19 in the present case).*
- ❑ *Therefore, total interest allowed as deduction u/s 24(b) = 1,00,000 + 30,000 = Rs 1,30,000*

SPECIAL POINTS:

- **No deduction is allowed for any brokerage or commission for arranging loan.**
- **Interest on fresh loan taken to repay the original loan is allowed as deduction. There can also be more than one loan.**
- **Interest on unpaid interest is not deductible.**
- **List of deductions given u/s 24 is exhaustive; no other deductions shall be allowed from NAV other than deductions given u/s 24(a) & 24(b).**

SPECIAL CASES

- **Section 23(1)(c)** House Lying Vacant for Part of the Year
- **Section 23(2)** One House Which is Self-Occupied
- **Section 23(3)** One House Self-Occupied for Part of Year & Let Out for Other Part of Year
- **Section 23(4)** More Than One House Which are Self-Occupied
- **Section 23(5)** House Property Held As Stock-In-Trade

COMPUTATION OF INCOME U/H HOUSE PROPERTY - SPECIAL CASES:

Case 1: Section 23(1)(c) {HOUSE LYING VACANT FOR PART OF THE YEAR}	
Computation of GAV	• **Step 1:** Calculate Expected Rent for full 12 months. • **Step 2:** Calculate Gross Rent Received/Receivable for full 12 months. Also calculate Effective Rent Received/Receivable for the months during which the house property was actually let out. • **Step 3:** Compare Expected Rent with Gross Rent Received/Receivable. • If Gross Rent R/R is not less than Expected Rent, Effective Rent R/R shall be taken as GAV. If Gross Rent R/R is less than Expected Rent, Expected Rent shall be taken as GAV. • **In other words, if the assessee would have given the property on rent for full 12 months and the Rent R/R by him would not be less than Expected Rent, the assessee will be given the benefit of vacancy and Effective Rent R/R shall be taken as GAV.** ***Example***: *Expected Rent of a house is Rs 30,000 p.m.; it was let out @ Rs 50,000 p.m. for only 6 months whereas it was vacant for the remaining 6 months.* • *Expected Rent (12 months) = Rs 30,000*12 = Rs 3,60,000* • *Gross Rent R/R (12 months) = Rs 50,000*12 = Rs 6,00,000* • *Effective Rent R/R (6 months) = Rs 50,000*6 = Rs 3,00,000* *Since Gross Rent R/R is not less than Expected Rent, the assessee would be given the benefit of vacancy and Effective Rent R/R will be taken as GAV. GAV = Rs 3,00,000.*
Municipal Taxes	Allowed in the normal manner
Deduction u/s 24(a)	Allowed in the normal manner
Deduction u/s 24(b)	Allowed in the normal manner

Case 2: Section 23(2) {ONE HOUSE WHICH IS SELF-OCCUPIED OR UNOCCUPIED}	
GAV	Nil
Municipal Taxes	Nil (Not Allowed) – *NAV will also be 'Nil'*
Deduction u/s 24(a)	Nil *(Since NAV would be nil, statutory deduction would also come out to nil)*
Deduction u/s 24(b)	• **Deduction** for interest on borrowed capital would be **limited to Rs 30,000**. • However, if **all the following conditions are satisfied**, the assessee can claim a **maximum deduction of Rs 2,00,000** in respect of interest on borrowed capital: **a) Loan has been taken on or after April 1, 1999;** **b) Loan has been taken for purchase or construction of the property ~~(repairs, alteration, etc)~~;** **c) The house has been purchased or constructed within 5 years from the end of the year in which the loan was taken; and** **d) A certificate has been obtained from the lender certifying the amount of interest.**
Note 1: The expression 'unoccupied property' refers to a property which cannot be 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.	

Note 2: The benefit of exemption of one self-occupied house is available only to an individual/HUF.

Note 3: If a house is self-occupied as well as vacant, its income shall be computed as if it is a self-occupied house. In other words, there is no treatment of vacancy in case of a self-occupied house.

Case 3: Section 23(3) {ONE HOUSE SELF-OCCUPIED FOR PART OF THE YEAR & LET OUT FOR OTHER PART OF THE YEAR (MAY/MAY NOT BE VACANT)}

GAV	• Expected Rent shall be calculated for full 12 months. • Rent Received/Receivable shall be calculated only for the period the house property was actually let out. • GAV shall be higher of Expected Rent and Rent Received/Receivable. **NO BENEFIT OF VACANCY IS AVAILABLE UNDER THIS CASE.**
Municipal Taxes	Municipal taxes for the whole year are allowed as deduction provided they are paid by the owner himself during the relevant previous year.
Deduction u/s 24(a)	Allowed in the normal manner
Deduction u/s 24(b)	Allowed in the normal manner

Case 4: Section 23(4) {MORE THAN ONE HOUSE WHICH ARE SELF-OCCUPIED}

- **Only one house** shall be **considered to be self-occupied** at the **OPTION OF THE ASSESSEE** and the **other house/houses** would be **DEEMED AS LET OUT** and income of all houses shall be computed in the manner discussed above.
- **House/Houses Deemed as Let Out:** Expected Rent would be considered as GAV. Further, the **limit of Rs 30,000/Rs 2,00,000** in respect of **interest on borrowed capital** would **not apply in respect of property which has been deemed to be let out**. Such limit would apply only in respect of that house which has been considered as self-occupied.

Case 5: Section 23(5) {HOUSE PROPERTY HELD AS STOCK-IN-TRADE}

- Annual value of house property will be charged u/h 'income from house property', where it is held by the assessee as stock-in-trade of a business.
- **Where a property consisting of any building or land appurtenant held as stock-in-trade is not let out, its annual value shall be taken as nil. This benefit would be available for a period of one year from the end of the financial year in which certificate of completion of construction of the property has been obtained from the competent authority.**
- After the expiry of one year from the end of the financial year in which certificate of completion of construction of the property is obtained from the competent authority, income has to be computed on a notional basis by taking the Expected Rent as GAV.

Illustration on Recovery of Unrealised Rent & Arrears of Rent (ICAI Study Material)

Mr Anand sold his residential house property in March 2018.

In June 2018, he recovered rent of Rs 10,000 from Mr Gaurav, to whom he had let out his house for two years from April 2012 to March 2014. 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 AY 2014-15.

Further, he had let out his property from April 2014 to February 2018 to Mr Satish. In April 2016, 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 2018, the matter was finally settled and Mr Anand received Rs 69,000 as arrears of rent for the period April 2016 to February 2018.

Would the recovery of unrealised rent and arrears of rent be taxable in the hands of Mr Anand, and if so in which year?

Solution:

Relevant Law:

- As per Section 25A of the Income Tax Act, 1961, recovery of unrealised rent/arrears of rent is taxable in the year of receipt u/h 'income from house property' irrespective of the fact whether the assessee is the owner of the property or not at the time of receipt of unrealised rent/arrears of rent.
- Further, a deduction of 30% is available and only 70% amount is taxable.

Present Case:

- Mr Anand has sold his residential house property in March 2018.
- He has recovered unrealised rent of Rs 10,000 in June 2018 and arrears of rent amounting to Rs 69,000 in September 2018.
- Both the amounts shall be taxable during PY 2018-19 (ie year of receipt) u/h income from house property irrespective of the fact that Mr Anand is not the owner of the property during PY 2018-19.
- Further, a deduction of 30% is available u/s 25A and an amount of Rs 55,300 (Rs 79,000 x 70%) shall be taxable u/h income from house property.

TREATMENT OF UNREALISED RENT / ARREARS OF RENT:

Section 25A RECOVERY OF UNREALISED RENT AND ARREARS OF RENT	
Part 1 - UNREALISED RENT	
Meaning of Unrealised Rent	Unrealised rent is that portion of **rent** which the **owner has not been able to realize** from the tenant and which has been proved to be **lost or irrecoverable (ie bad debt).**
Treatment of Unrealised Rent - Section 23(1)	• The amount of **unrealised rent** should be **deducted from** the **gross amount of rent** to arrive at the effective amount of Actual Rent Received/Receivable. • **Deduction** of unrealised rent would be **available only when all the following four conditions given under Rule 4** of the Income Tax Rules are **satisfied**: ❑ the tenancy is a bonafide tenancy; ❑ the defaulting tenant is not in occupation of any other property of the assessee; ❑ the defaulting tenant has vacated, or steps have been taken by the assessee to compel the tenant to vacate the property; and ❑ the assessee has taken all reasonable steps to institute legal proceedings for the recovery of the unpaid rent or satisfies the Assessing Officer that legal proceedings would be useless.
Recovery of Unrealised Rent – Section 25A	• Any **unrealised rent recovered subsequently** by the assessee would be: ❑ **taxable in the year of receipt** ❑ **under the head 'income from house property'** ❑ irrespective of the fact **whether the assessee is the owner of that property or not** at the time of receipt of unrealised rent. • **A deduction of 30% is available in respect of unrealised rent recovered subsequently and balance 70% shall be taxable.**
Part 2 - ARREARS OF RENT	
Meaning of Arrears of Rent	Sometimes the **rent** of a house property may be **increased with retrospective effect** (ie from a back date) and the assessee may receive **arrears of rent pertaining to previous periods in the current period.**
Treatment of Arrears of Rent – Section 25A	• **Arrears of rent** pertaining to previous periods would be: ❑ **taxable in the year of receipt** ❑ **under the head 'income from house property'** ❑ irrespective of the fact **whether the assessee is the owner of that property or not** at the time of receipt of arrears of rent. • **A deduction of 30% is available in respect of arrears of rent and only 70% of such arrears would be taxable.**
Example: *Mr X has let out his house to PNB @ Rs 50,000 p.m. On April 1, 2018, Mr X increases the rent of his house to Rs 60,000 p.m. with retrospective effect from November 1, 2017. Arrears of rent from November 2017 to March 2018 (Rs 10,000 for 5 months) would be taxable in PY 18-19. A deduction of 30% is available in respect of such arrears of rent amounting to Rs 50,000 and only Rs 35,000 would be taxable u/h 'income from house property'.*	

MISCELLANEOUS TOPICS:

HOUSE PROPERTY DIVIDED INTO DIFFERENT PORTIONS

- **There is no need to treat the whole property as a single unit for computation of income. Every portion would be treated as a separate house and income shall be computed accordingly.**
- If Fair Rent/Municipal Valuation/Standard Rent are not given separately, then such figures would be apportioned between the let-out area portion & self-occupied portion on the basis of built-up floor area or any other reasonable basis.
- If property taxes are given on consolidated basis, such municipal taxes also need to be apportioned on the basis of built-up floor area or any other reasonable basis.

INCOME FROM CO-OWNED PROPERTY (MULTIPLE OWNERS) {Section 26}

- **In case a house property is self-occupied by all the co-owners**, the **limit of Rs 30,000/Rs 2,00,000** in respect of interest on borrowed capital shall be considered **separately for each person**.
- **Where a property/part of the property owned by co-owners is let out**, income shall be first computed as if this property/part is owned by one person only and thereafter the **income** so computed shall be **apportioned amongst the co-owners as per their definite share**.
- If any house property is owned by a partnership firm or company, it will be considered to be income of partnership firm or company and not that of partners or shareholders.

SUB-LETTING OF HOUSE PROPERTY {Section 56}

Meaning of Sub-letting	Sub-letting covers a situation where a tenant (who has taken a house property on rent) himself gives the same property on rent to another person.
Treatment	• **Income of the original owner:** **Income of the original owner would be computed under the head 'house property'.** • **Income of the tenant who has sub-let the property to a third person:** **Income of such person is generally computed under the head 'income from other sources'. All expenses incurred to earn such income are allowed as deduction.**

TREATMENT OF COMPOSITE RENT

Meaning of Composite Rent	Where a house property is let out by a person along with various facilities like generator, security, air-conditioner, furniture, etc and a **combined rent** is charged from the tenant **towards the use of house property and the facilities**, such combined rent is commonly known as composite rent.
Treatment	• **Rent of house property & rent of other facilities is separable:** ❑ **Rent of house property is taxable under the head 'house property'.** ❑ **Rent of other facilities is taxable under the head 'PGBP' or 'other sources'.** • **Rent of house property & rent of other facilities is not separable:** ❑ **Rent is taxable under the head 'business/profession' if assessee is engaged in the business of such renting (eg hotels, PGs, auditoriums, etc).** ❑ **Rent is taxable under the head 'other sources' if assessee is not engaged in the business of such renting.**

TREATMENT OF HOUSE PROPERTY LOCATED OUTSIDE INDIA

- **In case of ROR:**
  Income from house property located outside India would always be taxable in the hands of ROR irrespective of the fact whether such income is received in India or not.
- **In case of NOR/NR:**
  Income from house property located outside India would be taxable in the hands of NOR/NR only when such income is directly received in India.
- **Where a house property is situated outside India, deduction is available in respect of municipal taxes levied by local authority of the country in which the property is situated.**

TREATMENT OF LOSSES UNDER HOUSE PROPERTY

- **Intra-Head Adjustment (Section 70):** Losses of one house can be set-off against the income of another house/houses during the same year.
- **Inter-Head Adjustment (Section 71):** Losses under the head house property pertaining to a particular year can be set-off against any other income for that particular year, however no such adjustment would be permitted from casual income. **However, with effect from PY 2017-18, such adjustment is allowed maximum to the extent of Rs 2 lakhs and the excess loss shall be carried forward for being set-off in future years as per the provisions of Section 71B**.
- **Carry-Forward of House Property Losses (Section 71B):** Unadjusted house property losses can be c/f for maximum 8 years and in such future years, such losses can be set-off only against HP income.

INCOME FROM HOUSE PROPERTY TAXABLE UNDER BUSINESS/PROFESSION

House Property Owned by Assessee Used for His Own Business/Profession – Sections 22 & 30:

- **Income of any house property owned by any person used by him for the purposes of his own business/profession is taxable u/h 'Business/Profession' ~~(u/h House Property)~~.**
- While computing income u/h 'Business/Profession', rent in respect of such house property is not allowed to be debited to the Profit & Loss A/c prepared u/h 'PGBP' and therefore the income of such business/profession gets increased to that extent.
- **No deduction is allowed u/s 24(a) in respect of expenditure such as municipal tax, repairs, depreciation, land revenue, ground rent etc. However, such expenditure on actual basis is allowed to be debited to the Profit & Loss A/c prepared u/h 'Business/Profession'.**

Letting-Out of Building which is Supplementary to the Business:

- **Income from letting out any house property for any purpose is taxable u/h PGBP provided such letting out is supplementary to the business/profession of the assessee.**
- **All expenses in relation to such house property are allowed to be debited to the Profit & Loss A/c prepared u/h 'Business/Profession'.**
- ***Examples:*** *Rent received by a school from letting out its auditorium for conducting coaching classes, rent income from letting out of houses by a company to its employees, etc.*

OWNER IN CASE OF DISPUTED OWNERSHIP / DEEMED OWNER – Sections 22 & 27

OWNER IN CASE OF DISPUTED OWNERSHIP {Section 22}

- An owner of a house property is liable to pay income tax in respect of income earned by him from such house property.
- **If the title of ownership of a house property is under dispute in a court of law, the decision about who is the real owner lies with the Court.**
- In cases **where the decision of the Court is pending**, the **power to decide** who is the **owner** of the house property in the meanwhile **lies with the Income Tax Department**. **Generally**, the **beneficial owner of such house property is considered to be the owner** and thus liable to pay tax in respect of income from such property. ***Example:*** *Ownership of a house property is disputed amongst Mr A & Mr B; however rent is being received by Mr B. In this case, Mr B is most likely to be considered the owner of such house property till the time Court announces its decision and the amount of tax paid by Mr B can be adjusted after the Court's decision.*

DEEMED OWNER {Section 27}

As per Section 27, the following persons though not the legal owners of a property are deemed to be the owners for the purposes of Sections 22 to 26:

- **Transferor of a house property to spouse for inadequate consideration:**
  If an individual transfers any house property to his/her spouse otherwise than for adequate consideration, the transferor shall be deemed to the owner of the property so transferred. This provision would not apply where a house property has been transferred to spouse in connection with an agreement to live apart.
- **Transferor of a house property to a minor child for inadequate consideration:**
  If an individual transfers any house property to his/her minor child otherwise than for adequate consideration, the transferor shall be deemed to the owner of the property so transferred. This provision doesn't apply where a house property has been transferred to a minor married daughter.
- **Holder of an impartible estate (a property which is not legally divisible):**
  The holder of an impartible estate shall be deemed to be the individual owner of all properties comprised in the estate.
- **Member of a Cooperative Society, etc:**
  If any cooperative society, company or other association of persons allots/leases any house property to any member under its House Building Scheme, such member is deemed as the owner of such house property although the legal owner of such property is the cooperative society/company/ association.
- **Person in possession of a property:**
  A person who is allowed to take or retain the possession of any building or part thereof in part performance of a contract of nature referred to in Section 53A of the Transfer of Property Act shall be deemed to be the owner of that house property. **This covers the cases where possession of the property has been handed to a proposed buyer and consideration has been paid/promised to be paid by the proposed buyer to the proposed seller but the house property has not yet been registered in the name of the proposed buyer.**
- **Person to whom a property is leased out for not less than 12 years:**
  In such cases, lessee is deemed as the owner even though the lessor is the legal owner of the house property.

QUESTIONS FOR PRACTICE

Chargeability u/s 22

Question 1

Enumerate the head of income under which the following incomes would be taxable:

(i) *Income earned by Mr Bhushan from letting out house property.*

(ii) *Income earned by Mr Bhushan from selling one house property.*

(iii) *Income earned by ABC Ltd from letting out an open land.*

(iv) *Income earned by ABC Ltd from letting out 500 flats (such flats are stock-in-trade for ABC Ltd).*

(v) *ABC Ltd has constructed flats within its premises for letting out to the employees.*

(vi) *ABC Ltd is engaged in the business of providing paying guest accommodation in his own building.*

(vii) *Mr X is engaged in the business of warehousing.*

(viii) *Income earned by Mr X from sub-letting of house property.*

House Property Let Out Throughout The Year – Section 23(1)(a),(b)

Question 2 (Study Material)

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	House II	House III	House IV	House V
Municipal Value (Rs)	80,000	55,000	65,000	24,000	75,000
Fair Rent (Rs)	90,000	60,000	65,000	25,000	80,000
Standard Rent (Rs)	NA	75,000	58,000	NA	78,000
Actual Rent Received/Receivable (Rs)	72,000	72,000	60,000	30,000	72,000

Question 3 (Practice Manual)

Mr Vaibhav own five houses at Cochin, all of which are let out. Compute the gross annual value of each house from the information given below:

Particulars	House-I	House-II	House-III	House-IV	House-V
Municipal Value (Rs)	1,20,000	2,40,000	1,10,000	90,000	75,000
Fair Rent (Rs)	1,50,000	2,40,000	1,14,000	84,000	80,000
Standard Rent (Rs)	1,08,000	NA	1,44,000	NA	78,000
Actual Rent Received/Receivable (Rs)	1,80,000	2,10,000	1,20,000	1,08,000	72,000

Question 4

Assessee is owner of a building. It was let out for Rs 18,000 p.m. Municipal value of the building is Rs 20,000 p.m. and FRV of the building is Rs 16,000 p.m. Following are the expenses of the building: municipal taxes paid Rs 2,000 p.m, repairs are Rs 4,000 p.m, insurance premium Rs 12,000 p.m. Interest on loan taken for house property Rs 80,000 p.a. Compute income u/h house property.

Question 5

Assessee is owner of a building. It was let out for Rs 15,000 p.m. Municipal value of the building is Rs 10,000 p.m. and FRV of the building is also Rs 10,000 p.m. Following are the expenses of the building: municipal taxes paid by the owner Rs 15,000 p.m, repairs Rs 21,000 p.m, insurance premium Rs 2,000 p.m. Interest on loan taken for property Rs 5,000 p.m. Compute income u/h house property.

Question 6

Assessee is owner of a building. It was let out for Rs 35,000 p.m. Municipal value of the building is Rs 90,000 p.m. and FRV of the building Rs 30,000 p.m. Following are the expenses of the building: municipal taxes paid by the *owner Rs 10,000 p.m, repairs Rs 9,000 p.m, insurance premium Rs 12,000 p.m. Interest on loan taken for property Rs 15,000 p.a. Compute income u/h house property.*

House Property Partly Let Out & Partly Vacant –Section 23(1)(c)

Question 7

Assessee is owner of a building. It was let out for Rs 20,000 p.m. but it remained vacant for 2 months. MV of the building is Rs 18,000 p.m. and FRV of the building is Rs 16,000 p.m. Compute GAV of the house property.

Question 8

Assessee is owner of a building. It was let out for Rs 65,000 p.m. but it remained vacant for 5 months. MV of the building is Rs 45,000 p.m. and FRV of the building is Rs 40,000 p.m. Compute GAV of the house property.

Question 9

Sachin Tendulkar has given his house on rent of Rs 1,000 p.m. But the house could not be let out for 5 months & during this period it was not occupied by any person. FRV of the house is Rs 10,000. Interest of the current year is Rs 5,000 & total interest of the pre-construction period is Rs 10,000. Municipal taxes paid by the tenant were Rs 4,000. Compute income u/h HP.

Question 10

What would be your answer in Question 9 if the house was vacant for 2 months? Under which clause GAV shall be determined?

Question 11

Mrs A let out her house on a rent of Rs 10,000 p.m. But for 2 months the house remained vacant. FRV of the house is also Rs 10,000 p.m. Interest paid on loan taken for repairing house for the entire PY was Rs 42,000. Expenses on municipal taxes paid were Rs 5,000 and land revenue Rs 8,000. Calculate income u/h HP.

Question 12

Pathan has a house in Hyderabad. For 7 months, he let out the house to Sania Malik on a rent of Rs 20,000 p.m. and the house remained vacant for the other 5 months. FRV of the house for 5 months is Rs 1,10,000. Interest on loan for the entire PY is Rs 50,000 which was taken for repair of the house. Municipal taxes paid Rs 3,000 p.m. Calculate the income.

Question 13

Assessee is owner of a building. It was let out for Rs 70,000 p.m. But it remained vacant for 3 months. Municipal value of the building is Rs 50,000 p.m. and FRV of the building is Rs 40,000 p.m. Compute GAV of the house property.

Question 14

Assessee is owner of a building. It was let out for Rs 18,000 p.m. But it remained vacant for 2 months. Municipal value of the building is Rs 18,000 p.m. and FRV of the building Rs 16,000 p.m. Following are the expenses of the building: municipal taxes Rs 2,000, repairs Rs 4,000, interest on loan taken for repair Rs 80,000, insurance premium Rs 12,000. Compute income u/h house property.

Question 15

X owns 3 House Properties situated in Delhi. The particulars of the houses are as under:

	Particulars	House 1	House 2	House 3
(1)	Municipal Value (Rs)	1,00,000	1,50,000	2,00,000
(2)	Fair Rent (Rs)	1,40,000	1,80,000	2,40,000
(3)	Standard Rent (Rs)	1,20,000	2,00,000	-
(4)	Actual Rent p.m. (Rs)	12,000	17,500	21,000
(5)	Period of vacancy	Nil	1 month	6 months
(6)	Municipal taxes payable for the entire year (Rs)	20% of MV	40,000	50,000

(7)	Municipal taxes paid during the year (Rs)	20,000	80,000	30,000

Compute the income u/h house property of all the 3 properties.

One House Which is Self-Occupied – Section 23(2)

Question 16

Assessee is owner of a building. It was occupied by the assessee for his own residence. Expected rent of the house property is Rs 1,00,000 p.m. For the above house property, municipal taxes of Rs 20,000 were paid by the owner. Compute net annual value of the house property.

Question 17

Assessee purchased a building in Shahadra. It was self-occupied by the assessee for his own residence. Rent collected by owner of a similar property in Shahadra is 65,000 p.m. Assessee had to pay municipal taxes of Rs 1,00,000 which were outstanding from last 3 years in relation to the building purchased. Compute net annual value of the house property.

Question 18

Mr X constructed a building in Dehradun. It was occupied by the assessee for his own residence. Rent collected from a similar property in Dehradun is Rs 25,000 p.m. Municipal taxes paid for the house property amounted to Rs 15,000. Compute net annual value of the house property.

Question 19

Poorna has one house property at Indira 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 are Rs 8,000. The house was constructed in the year 2012 with a loan of Rs 20,00,000 taken from SBI Housing Finance Ltd. The construction was completed on 30.11.2014. The accumulated interest up to 31.3.2014 is Rs 1,50,000. During PY 2018-19, Poorna paid Rs 2,40,000 to SBI which included Rs 1,80,000 as interest. Compute Poorna's income from house property for AY 2019-20.

One House Which is Self-Occupied as well as Let Out – Section 23(3)

Question 20

Assessee purchased a building and it was self-occupied by the assessee for his own residence for 5 months. After 5 months, assessee had let out the same at a rent of Rs 75,000 p.m. Municipal valuation of the building is Rs 65,000 p.m. Assessee paid municipal taxes of Rs 1,00,000 which were outstanding from last 3 years in relation to the building purchased. Compute income u/h house property.

Question 21

Assessee purchased a building and it was self-occupied by the assessee for his own residence for 8 months. After 8 months, assessee had let out the same for 4 months at a rent of Rs 1,00,000 p.m. Water taxes paid by the owner to the central government are Rs 15,000. Municipal valuation of the building is Rs 65,000 p.m. Compute income u/h house property.

Question 22

Mrs X took ownership & possession of a flat in Chennai, which is used for self-occupation. During PY 2018-19, the flat was used by her for 5 months only. For the remaining 7 months, it was let out at a rent of Rs 75,000 p.m. Municipal valuation is Rs 32,000 p.m. & the fair rent is Rs 4,20,000 p.a. Compute income u/h house property.

Question 23

A has a house property in Delhi whose municipal value is Rs 1,00,000 and the fair rental value is Rs 1,20,000. It was self-occupied by A from 1.4.2018 to 31.7.2018. Wef 1.8.2018, it was let out at Rs 9,000 p.m. Compute income u/h house property for AY 2019-20 if the municipal taxes paid during the year were Rs 20,000.

More Than One House/House Divided Into Different Portions

Question 24

Assessee is owner of two buildings. He is treating building A as self-occupied and B as let out. Municipal value of the building B is Rs 18,000 p.m. and its FRV is Rs 16,000 p.m. Compute income u/h house property. Following are the expenses of the buildings:

- ***Building A**: Municipal taxes Rs 2,000; repairs Rs 4,000; interest on loan taken for repair Rs 80,000; insurance premium Rs 12,000.*
- ***Building B**: Municipal taxes Rs 2,000; repairs Rs 4,000; interest on loan taken for repair Rs 80,000; insurance premium Rs 12,000.*

Question 25

Mr V has two self-occupied houses. One in Delhi and other in Bangalore. He has sought your advice as to the tax treatment of these two houses.

- ***Delhi House**: FRV is Rs 1,00,000; MV is Rs 2,00,000; municipal taxes paid Rs 20,000; interest on loan taken before 01.04.1999 is Rs 50,000; repairs Rs 30,000.*
- ***Bangalore House**: FRV is Rs 5,00,000; municipal taxes paid Rs 2,00,000; interest on loan taken for construction of house Rs 2,70,000; land revenue paid Rs 50,000.*

Question 26

Assessee has a building of two floors. Ground floor was let out for Rs 20,000 p.m. while the first floor was occupied for his own residence. Municipal value of the building is Rs 18,000 p.m. and FRV of the building is Rs 16,000 p.m. Compute income u/h house property. Following are the expenses of the building:

- *Municipal taxes – Rs 20,000;*
- *Repairs - Rs 4,000;*
- *Interest on loan taken for repair - Rs 1,80,000;*
- *Insurance premium - Rs 12,000.*

Question 27

Assessee has a building of two floors. One was let out for Rs 10,000 p.m. and the other was occupied for his own business or profession. Municipal value of the building is Rs 18,000 p.m. and FRV of the building is Rs 16,000 p.m. Compute income u/h house property. Following are the expenses of the building:

- *Municipal taxes – Rs 2,000*
- *Repairs – Rs 4,000*
- *Interest on loan taken for repair – Rs 80,000*
- *Insurance premium – Rs 12,000.*

Question 28

Mrs B is the owner of a two storied house in Madras. Compute Mrs B's income from house property for PY 2018-19:

- *She gets a monthly rent of Rs 7,000 from her tenant in the ground floor.*
- *The first floor, identical in all respect with the ground floor used to be occupied by a friend of Mrs B from whom she charged a rent of Rs 5,000 p.m. During the year ended 31.03.2019, the friend stayed in Mrs B's house up to 31.12.2018. On 01.01.2019, it was again let out to tenant at a rent of Rs 7,000 p.m.*
- *Details of expenses incurred by Mrs B during the year ending 31.03.2019 in respect of the house were as under:*

Particulars	Amount (Rs)
Cost of repairing ground floor	7,500
Cost of repairing first floor	50,000
Interest on loan taken for construction of first floor	20,000
Municipal taxes paid by owner	6,000
Monthly salary of an employee for collecting rent	1,000

Question 29

Mr X owns one residential house in Mumbai. The house is having two units. First unit of the house is self-occupied by Mr X and another unit is rented for Rs 8,000 p.m. (excluding facilities for which charged separately). The rented unit was vacant for 2 months during the year. Compute income of Mr X from house property for AY 2019-20 if the particulars of the house for PY 2018-19 are as under:

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

Question 30 (Practice Manual)

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 PY 2018-19 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 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 AY 2019-20.

Question 31 (Practice Manual)

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. During FY 2018-19, 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 taxes @ 11% of municipal value were paid during the year. The construction of house began in June 2011 and was completed on 31.05.2014. Vikas took a loan of Rs 1,00,000 on 01.07.2011 for construction of building. He paid interest on loan @ 12% p.a. and every month such interest was paid. Compute income from house property of Mr Vikas for AY 2019-20.

Question 32 (Practice Manual)

Nisha has two houses, both of which are self-occupied. The particulars of these are given below:

Particulars	House – I	House - II
Municipal Valuation per annum (Rs)	1,20,000	1,15,000
Fair Rent per annum (Rs)	1,50,000	1,75,000
Standard Rent per annum (Rs)	1,00,000	1,65,000
Date of completion	31-03-1999	31-03-2001
Municipal taxes payable during the year (paid for House II only)	12%	8%
Interest on money borrowed for repair of property during current year (Rs)	-	55,000

Compute Nisha's income from house property for AY 2019-20 and suggest which house should be opted by Nisha to be assessed as self-occupied so that her tax liability is minimum.

Question 33 (Study Material)

Prem owns a house in Madras. During PY 2018-19, 2/3rd portion of house was self-occupied and 1/3rd 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. He paid MT @ 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 PY 2018-19 was Rs 1,20,000. Compute Prem's income from house property for AY 2019-20.

Preconstruction Period Interest

Question 34

Mr Jai Jain started the construction of the house on 01.04.2014 with borrowed capital of Rs 22,00,000 @ 10% p.a. He completed the house on 01.04.2015. During PY 18-19, the house was let out for Rs 20,000 p.m. Municipal taxes paid were Rs 30,000. Loan is still outstanding. Calculate income of PY 18-19.

Question 35

What will be your answer in Question 34 if the house occupied is a self-occupied house?

Question 36 (Study Material)

Arvind had taken a loan of Rs 5,00,000 for construction of property on 1.10.2017. Interest was payable @ 10% p.a. The construction was completed on 30.6.2018. No principal repayment has been made up to 31.3.2019. Compute the interest allowable as deduction u/s 24 for AY 2019-20.

Question 37 (IPCC Nov 2015 Exam)

Mr Raphael constructed a shopping complex. He had taken a loan of Rs 25 lakhs for construction of the said property on 01.08.2016 from SBI @ 10% for 5 years. The construction was completed on 30.06.2017. The shopping complex has been let out for the whole year and rental income received is Rs 30,000 per month. 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 FY 2018-19 is Rs 3 lakhs. Compute income from house property of Mr Raphael for AY 2019-20 as per the Income Tax Act, 1961.

Treatment of Unrealized Rent/Recovery of Unrealized Rent

Question 38

Compute gross annual value in the following cases for AY 2019-20:

Particulars	Situation 1	Situation 2	Situation 3	Situation 4
Fair Rent (p.m.) (Rs)	11,000	13,000	14,000	16,000
Municipal Valuation (p.m.) (Rs)	12,000	11,000	9,000	18,000
Standard Rent (p.m.) (Rs)	13,000	12,000	8,000	17,000
Rent Received/Receivable (p.m.) (Rs)	8,000	12,500	21,000	17,000
Vacancy	-	2 months	1 month	3 months
Unrealised rent	1 month	-	3 months	1 month

Question 39

An owner of a building has given it on a rent of Rs 20,000 p.m. But he could not realize rent for 2 months. Municipal value of building is Rs 18,000 p.m. and FRV of the building is Rs 16,000 p.m. Municipal taxes Rs 2,000; repairs Rs 4,000; interest on loan taken for repair Rs 80,000; insurance premium Rs 12,000. Compute income u/h HP.

Question 40

Y furnishes the following particulars in respect of a house property owned by him in Delhi.

Municipal Value	Rs 2,00,000
Fair Rent	Rs 2,40,000
Actual Rent (per month)	Rs 21,000

Municipal tax paid during the year	*Rs 20,000*

The tenant vacated the property on 31.10.2018 and thereafter the property was let out for Rs 25,000 p.m. Y could not realize the rent for the month of Sept 2018 and Oct 2018 due to the death of the earlier tenant.

(a) *Compute income u/h house property for AY 2019-20.*

(b) *What will be your answer if the unrealized rent is for one month instead of two months?*

Question 41 (Study Material)

Anirudh has a property whose municipal valuation is Rs 1,30,000 p.a. The fair rent is Rs 1,10,000 p.a & 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 PY. 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 entire year. Compute the income from house property of Anirudh for AY 2019-20.

Question 42 (Study Material)

Ganesh has a property whose municipal valuation is Rs 2,50,000 p.a. The fair rent is Rs 2,00,000 p.a. whereas 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 31.1.2019. 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 income from house property of Ganesh for AY 2019-20.

Question 43 (Study Material)

Smt Rajalakshmi 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 2018. Thereafter, the tenant vacated the property and Smt Rajalakshmi used the house for self-occupation. Rent for the months of November & December 2018 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 AY 2019-20.

Question 44 (Recovery of Unrealised Rent)

Bhajji gave his house on rent to Sreesanth at Rs 3,000 p.m. FRV of the house is Rs 2,500 p.m. But Sreesanth did not pay rent of 5 months because Bhajji slapped him. Municipal taxes were Rs 200 p.m. Municipal taxes for 5 months were paid by Bhajji and municipal taxes for the rest 7 months were paid by Sreesanth. Interest on loan taken for purchase of the house were Rs 40,000. The loan was taken from the Monkey of Australia. Interest on loan taken from Monkey was paid without deduction of TDS and the Monkey had not appointed any person in India as his agent. During PY 2020-21, Sreesanth paid the rent although Bhajji did not own any house in that year.

Discuss the tax treatment of the above rent for PY 18-19 and PY 20-21 and write the conditions subject to which Bhajji can claim deduction of unrealized rent.

Treatment of Losses Under House Property

Question 45

Mr X has loss u/h house property Rs 13,00,000; income u/h salary Rs 8,00,000; income u/h PGBP Rs 6,00,000; LTCG Rs 20,00,000 and casual income Rs 5,00,000. Compute his tax liability for AY 2019-20.

Question 46

Mr X has loss u/h house property Rs 20,00,000; income u/h salary Rs 10,00,000; income u/h PGBP Rs 11,00,000; LTCG Rs 20,00,000 and deductions u/s 80C to 80U is Rs 2,00,000. Compute his tax liability for AY 2019-20.

Treatment of Income From Co-Owned Property (Multiple Owners)

Question 47

M & N are two equal co-owners of the property situated in Goa, which has 2 units of identical size. M & N have self-occupied one unit each for their residence. The municipal valuation of the house is Rs 2,00,000 p.a. FRV of the house is Rs 2,50,000 p.a. The other particulars of the house property are as under:

Taxes paid to local authority	*Rs 80,000 p.a.*
Expenses on repairs	*Rs 1,00,000 p.a.*
Interest on money borrowed (for construction of the house)	*Rs 4,20,000 p.a.*

Compute the income u/h house property for each co-owner.

Question 48

P & Q are the two equal co-owners of the property situated in Delhi, which has 2 units of identical size. Both the units are let out to one tenant at a combined rent of Rs 50,000 p.m. The house remained vacant for 1 month. The municipal valuation of the house is Rs 40,000 p.m. The other particulars of the house property are as under:

- *Municipal taxes paid – Rs 80,000 p.a.*
- *Insurance premium paid – Rs 10,000 p.a.*
- *Interest on money borrowed (for construction of the house) – Rs 6,00,000 p.a.*

Compute the income u/h house property for each co-owner.

Question 49

R, S and T are 3 equal co-owners of the property situated in Delhi, which has 3 units of identical size. All 3 units are let out to one tenant at a combined rent of Rs 1,20,000 p.m. The house remained vacant for 3 months. The municipal valuation of the house is Rs 1,00,000 p.m. The other particulars of the house property are as under:

Particulars	Amount (Rs)
Municipal taxes paid by tenant	*1,20,000 p.a.*
Rent collection charges	*6,000 p.m.*
Interest on money borrowed (for repair of the house)	*6,00,000 p.a.*

Compute the income u/h house property for each co-owner.

Question 50 (Practice Manual)

Raman is a co-owner of a house property along with his brother.

- *Municipal value of the Property – Rs 1,60,000*
- *Fair Rent – Rs 1,50,000*
- *Standard Rent under the Rent Control Act – Rs 1,70,000*
- *Rent received (monthly) – Rs 15,000*

The municipal taxes of Rs 5,100 have been paid by the tenant. The loan for the construction of this property is jointly taken. The interest charged by the bank is Rs 25,000 out of which Rs 21,000 has been paid and Rs 4,000 has not been paid. Interest paid 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.

Compute the income from this property chargeable in the hands of Mr Raman for AY 2019-20.

Question 51 (Practice Manual)

Two brothers Arun and Bimal are co-owners of a house property with equal share. The property was constructed during FY 1999-2000. The property consists of 8 identical units and is situated at Cochin. During FY 2018-19, each co-owner occupied one unit for residence and the balance 6 units were let out at a rent of Rs 12,000 p.m. per unit. The municipal value of the house property is Rs 9,00,000 and the municipal taxes are 20% of municipal value, which are paid during the year. The other expenses were as follows:

Particulars	Amount (Rs)
Repairs	40,000
Insurance premium (paid)	15,000
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 6 months as he was transferred to Chennai. He does not own any other house. The other incomes of Mr Arun and Mr Bimal are Rs 2,90,000 and Rs 1,80,000 respectively for FY 2018-19.

Compute the income u/h house property and the total income of two brothers for AY 2019-20.

Treatment of Composite Rent

Question 52

Mr Z lets out his house at a rent of Rs 16,000 p.m. (charges for facilities are paid separately). The rented unit was vacant for 1 month during the year. The particulars of the house for PY 2018-19 are as under:

- *Municipal valuation - Rs 95,000 p.a.;*
- *Fair rent - Rs 1,44,000 p.a.;*
- *Municipal tax paid by owner - 10% of municipal valuation;*
- *Following charges have been recovered by the owner from the tenant for providing additional facilities:*
  - *Electricity and water charges - Rs 400 p.m.;*
  - *Charges for AC facility provided - Rs 2,500 p.m..*
- *To provide additional facilities, the owner has incurred maintenance charges of Rs 1,000 p.m. Such maintenance charges have not been incurred during the time of vacancy; and*
- *Interest on borrowed capital - Rs 80,000 p.a.*

Compute total income of Mr Z for AY 2019-20.

Question 53

Mr A is the owner of a house property in Bangalore. It has been let out for Rs 2,40,000 inclusive of all facilities. The tax payable by the owner comes to Rs 20,000 on MV of Rs 2,00,000 but Mr A has taken an agreement from the tenant stating that the tenant would pay tax direct to the municipality. The particulars of amount recovered for other facilities and deductions claimed by landlord are given below:

S.No.	Particulars	Amount (Rs)
(1)	Water charges (as per agreement)	7,000
(2)	Lift Maintenance	6,000
(3)	Salary of Gardner	3,500
(4)	Lighting of Stairs	3,500
(5)	Mr A claims the following deductions (related to house property) • Repair • Land Revenue paid • Collection charges	 20,000 3,000 5,500

Compute total income of Mr A for AY 2019-20 assuming that no maintenance charges were incurred towards provision of other facilities.

Question 54

Mr X owns one residential house in a well flourished society of Kolkata which is rented for Rs 8,000 p.m. (excluding facilities for which charges are paid separately). The rented unit was vacant for 2 months during the year.
The particulars of the house for PY 2018-19 are as under:

Standard rent	Rs 81,000 p.a.
Municipal valuation	Rs 95,000 p.a.
Fair rent	Rs 92,500 p.a.

Municipal tax paid by tenant	*15% of municipal valuation*
Society maintenance charges	*Rs 500 p.m.*
Power backup facility charges	*Rs 2,500 p.m.*
Lift maintenance charges	*Rs 1,000 p.m.*
Interest on borrowed capital	*Rs 1,500 p.m.*
X also claims following deductions (related to house property and not additional facilities):	
Insurance charges	*Rs 3,000 p.a.*
Lease money	*Rs 1,200 p.a.*
Repairs	*Rs 12,000 p.a.*

Compute total income of Mr X for AY 2019-20 assuming that no maintenance charges were incurred towards provision of other facilities.

Question 55

Mr X has let out one house along with generator facility and has charged a sum of Rs 40,000 p.m. as rent, out of which Rs 3,000 p.m. is attributable to the generator. He has paid Rs 2,300 and the tenant has paid Rs 900 towards municipal taxes. The interest on the capital borrowed for construction of the house is Rs 7,000. Mr X has paid repair charges of the generator Rs 3,400, fuel charges Rs 5,600 and operator's salary Rs 300 p.m. Compute the total income and tax liability of Mr X for AY 2019-20.

Treatment of House Property Located Outside India/Non-Resident Cases

Question 56

Miss J (a ROR) is owner of a house in USA. She has let out the house on $1,000 p.m. But for 6 months it was self-occupied by her for own residence. FRV of the house is $400 p.m. Taxes paid to the local authority in USA were $50 for the entire PY. Interest payable on borrowed capital for the entire PY were Rs 2,00,000. Calculate her income if $1 = Rs 50.

Question 57 (Study Material)

Rajesh, a British national, is a resident and ordinarily resident in India during PY 2018-19. 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 is £8,000 during PY 2018-19. The value of one £ in Indian rupee to be taken at Rs 82.50. Compute Rajesh's taxable income for AY 2019-20.

Question 58 (Practice Manual)

Mrs Indu, a resident individual, owns a house in USA. She receives rent @ $2,000 p.m. She paid municipal taxes of $1,500 during FY 2018-19. 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 p.m. 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 20.06.2015. 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.

Question 59 (Practice Manual)

Mrs Rohini Ravi, a citizen of USA, is a resident and ordinarily resident in India during FY 2018-19. She owns a house property at Los Angeles, USA 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 45.

She took ownership & possession of a flat in Chennai on 01.07.2018, 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 31.03.2019. Whilst municipal valuation is Rs 32,000 p.m., the fair rent is Rs 4,20,000 p.a. She paid the following taxes to Municipal Corporation of Chennai:

- *Property Tax – Rs 16,200*
- *Sewerage Tax – Rs 1,800*

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

- *Period prior to 01.04.2018 – Rs 49,200*
- *Period from 01.04.2018 to 30.06.2018 – Rs 50,800*

- *Period from 01.07.2018 to 31.03.2019 – Rs 1,31,300*

She had a HP in Bangalore, which was sold in March 2015. In respect of this house, she received arrears of rent of Rs 60,000 in March 2019. This amount has not been charged to tax earlier.

Compute the income chargeable from house property of Mrs Rohini Ravi for AY 2019-20, exercising the most beneficial option available.

Question 60 (Practice Manual)

Miss Charlie, an American national, got married to Mr Radhey of India in USA on 02.03.2018 and came to India for the first time on 16.03.2018. She left for USA on 23.09.2018. She returned to India again on 27.03.2019. While in India, she had purchased a show room in Mumbai which was leased out to a company on a rent of Rs 25,000 p.m. from 01.05.2018. She had taken loan from a bank for purchase of this show room on which bank had charged interest of Rs 97,500 upto 31.03.2019.

She had received the following gifts from her relatives and friends during 01.04.2018 to 30.06.2018:

S.No	Particulars	Amount (Rs)
(1)	From parents of husband	51,000
(2)	From married sister of husband	11,000
(3)	From two very close friends of her husband (1,51,000 + 21,000)	1,72,000

Determine her residential status and compute the total income chargeable to tax along with the amount of tax payable on such income for AY 2019-20.

Miscellaneous

Question 61

C is the owner of a residential house whose construction was completed on 31.08.2013. It has been let out with effect from 01.01.2014 for residential purposes. Its particulars for FY 2018-19 are:

Particulars	Amount (Rs)
Municipal valuation (p.a.)	65,000
Expected fair rent (p.a.)	72,000
Standard rent under the Rent Control Act (p.m.)	7,000
Actual rent p.m.	7,000
Municipal taxes paid (including Rs 5,000 paid by tenant)	20,000
Water/sewerage benefit tax, levied by State Government paid under protest	5,000
Interest on loan taken for the construction of the house. The interest has been paid outside India to a non-resident without deduction of tax at source (non-resident had agreed to pay income tax on such interest directly to the Government)	15,000
Legal charges for the recovery of rent	4,000
Stamp duty and registration charges in respect of lease agreement of the house	2,000

Compute income from house property for AY 2019-20.

Question 62 (Practice Manual)

Mr A & B constructed their houses on a piece of land purchased by them at New Delhi. The built-up area of each house was 1,000 sq ft ground floor and an equal area on the first floor. A started construction on 01.04.2017 & completed on 01.04.2018. B started the construction on 01.04.2017 & completed the construction on 30.06.18.

Mr A occupied the entire house on 01.04.2018. Mr B occupied the ground floor on 01.07.2018 & let out the first floor for a rent of Rs 15,000 p.m. However, the tenant vacated the house on 31.12.2018 & Mr B occupied the entire house during period 01.01.19 to 31.03.19.

Following are the other information:

- *FRV of each unit (Ground floor/First floor) – Rs 1,00,000 p.a.*
- *Municipal value of each unit (Ground floor/First floor) – Rs 72,000 p.a.*
- *Municipal taxes paid by A – Rs 8,000; B – Rs 8,000*

- *Repair & maintenance charges paid by A – Rs 28,000; B – Rs 30,000.*

Mr A availed a housing loan of Rs 20 lakhs @ 12% p.a. on 01.04.2017. Mr B availed a housing loan of Rs 12 lakhs @ 10% p.a. on 01.07.2017. No repayment was made by either of them till 31.03.2019.

Compute income from house property for Mr A and Mr B for PY 2018-19.

Theory Questions

Question 63 (Practice Manual)
Explain the treatment of unrealized rent and its recovery in subsequent years under the provisions of the Income Tax Act, 1961.

Question 64 (Practice Manual)
Explain briefly the applicability of Section 22 for chargeability of income tax for:

(i) *House property situated in foreign country; and*

(ii) *House property with disputed ownership.*

Question 65 (Practice Manual)
Ownership itself is the criteria for assessment u/h income from house property. Discuss.

Question 66 (Practice Manual)
Discuss the following issues relating to income from house property:

(i) *Income earned by residents from house properties situated in foreign countries.*

(ii) *Properties which are used for agricultural purposes.*

Question 67 (Practice Manual)
(1) *X let out his property to Y. Y sublets it. How is sub-letting receipt to be assessed in the hands of Y?*

(2) *Z uses his property for his own business. Would the annual value be subject to tax u/h 'income from house property'?*

Question 68 (Practice Manual)
Discuss the tax liability in respect of arrears of rent.

Question 69 (Practice Manual)
Mr Kalpesh borrowed a sum of Rs 30 lakhs from the National Housing Bank towards purchase of a residential flat. The loan amount was disbursed directly to the flat promoter by the bank. Though the construction was completed in May 2019, repayments towards principal and interest had been made during the year ended 31.03.2019.

In the light of the above facts, state:

(i) *Whether Mr Kalpesh can claim deduction u/s 24 in respect of interest for PY 2018-19 (AY 2019-20)?*

(ii) *Whether deduction u/s 80C can be claimed for AY 2019-20, even though the construction was completed only after the closure of the year?*

SOLUTIONS

Chargeability u/s 22:

Answer 1

(i) House Property
(ii) Capital Gains
(iii) Other Sources
(iv) House Property
(v) Business/Profession
(vi) Business/Profession
(vii) Business/Profession
(viii) Other Sources

Answer 2

Computation of GAV of each house owned by Jayashree (Figures in Rs):

	Particulars	House-I	House-II	House-III	House-IV	House-V
(i)	Municipal Value	80,000	55,000	65,000	24,000	75,000
(ii)	Fair Rent	90,000	60,000	65,000	25,000	80,000
(iii)	**Higher of (i) & (ii)**	**90,000**	**60,000**	**65,000**	**25,000**	**80,000**
(iv)	Standard Rent	NA	75,000	58,000	NA	78,000
(v)	**Expected Rent [Lower of (iii) & (iv)]**	**90,000**	**60,000**	**58,000**	**25,000**	**78,000**
(vi)	Actual Rent Received/Receivable	72,000	72,000	60,000	30,000	72,000
	GAV [Higher of (v) & (vi)]	**90,000**	**72,000**	**60,000**	**30,000**	**78,000**

Answer 3

Computation of GAV of each house owned by Mr Vaibhav (Figures in Rs):

	Particulars	House-I	House-II	House-III	House-IV	House-V
(i)	Municipal Value	1,20,000	2,40,000	1,10,000	90,000	75,000
(ii)	Fair Rent	1,50,000	2,40,000	1,14,000	84,000	80,000
(iii)	**Higher of (i) & (ii)**	**1,50,000**	**2,40,000**	**1,14,000**	**90,000**	**80,000**
(iv)	Standard Rent	1,08,000	NA	1,44,000	NA	78,000
(v)	**Expected Rent [Lower of (iii) & (iv)]**	**1,08,000**	**2,40,000**	**1,14,000**	**90,000**	**78,000**
(vi)	Actual Rent Received/Receivable	1,80,000	2,10,000	1,20,000	1,08,000	72,000
	GAV [Higher of (v) & (vi)]	**1,80,000**	**2,40,000**	**1,20,000**	**1,08,000**	**78,000**

Answer 4

Computation of Income from House Property for AY 2019-20:

Particulars	Amount (in Rs)
Gross Annual Value (GAV)	**2,40,000**
• **Step 1**: Compute Expected Rent ('ER'). ER = Higher of MV of Rs 2,40,000 p.a. and FR of Rs 1,92,000 p.a.; ER = Rs 2,40,000	
• **Step 2**: Compute actual rent received/receivable = Rs 18,000 X 12 = Rs 2,16,000	
• **Step 3**: GAV is higher of ER and actual rent received/receivable. GAV = Rs 2,40,000	
Less: Municipal taxes paid by the owner during the PY {2,000 X 12}	(24,000)
Net Annual Value (NAV)	**2,16,000**
Less: Deduction u/s 24(a) {30% of NAV}	(64,800)
Less: Deduction u/s 24(b) {Interest on Loan}	(80,000)
Income from House Property	**71,200**

Answer 5

Computation of Income from House Property for AY 2019-20:

Particulars	Amount (in Rs)
Gross Annual Value (GAV)	**1,80,000**
• **Step 1**: Compute Expected Rent ('ER'). ER = Higher of MV of Rs 1,20,000 p.a. and FR of Rs 1,20,000 p.a., ER = Rs 1,20,000	
• **Step 2**: Compute actual rent received/receivable = Rs 15,000 X 12 = Rs 1,80,000	
• **Step 3**: GAV is higher of ER and actual rent received/receivable. GAV = Rs 1,80,000	
Less: Municipal taxes paid by the owner during the PY {Rs 15,000 X 12}	(1,80,000)
Net Annual Value (NAV)	**NIL**
Less: Deduction u/s 24(a) {30% of NAV}	(0)
Less: Deduction u/s 24(b) {Interest on Loan}	(60,000)
Income from House Property	**(60,000)**

Answer 6

Computation of Income from House Property for AY 2019-20:

Particulars	Amount (in Rs)
Gross Annual Value (GAV)	**10,80,000**
• **Step 1**: Compute Expected Rent ('ER'). ER = Higher of MV of Rs 10,80,000 p.a. and FR of Rs 3,60,000 p.a., ER = Rs 10,80,000	
• **Step 2**: Compute actual rent received/receivable = Rs 35,000 X 12 = Rs 4,20,000	
• **Step 3**: GAV is higher of ER and actual rent received/receivable. GAV = Rs 10,80,000	
Less: Municipal taxes paid by the owner during the PY {Rs 10,000 X 12}	(1,20,000)
Net Annual Value (NAV)	**9,60,000**
Less: Deduction u/s 24(a) {30% of NAV}	(2,88,000)
Less: Deduction u/s 24(b) {Interest on Loan}	(15,000)
Income from House Property	**6,57,000**

House Property Partly Let Out & Partly Vacant – Computation of Income [Sec 23(1)(c)]

Answer 7

Computation of Income from House Property for AY 2019-20:

Particulars	Amount (Rs)
Step I - Computation of Expected Rent:	
• Municipal Valuation (Rs 18,000 x 12)	2,16,000
• Fair Rent (Rs 16,000 x 12)	1,92,000
Expected Rent is higher of municipal valuation and fair rent	**2,16,000**
Step II – Computation of Gross Rent R/R & Effective Rent R/R:	
• **Gross Rent R/R:** Actual Rent R/R for the whole year without vacancy (Rs 20,000 x 12) = Rs 2,40,000	
• **Effective Rent R/R:** Actual Rent R/R after considering vacancy (Rs 20,000 x 10) = Rs 2,00,000	
Since Gross Rent R/R is more than expected rent, the assessee will be allowed the benefit of vacancy and Effective Rent R/R shall be taken as GAV.	
Gross Annual Value (GAV)	**2,00,000**

Answer 8

Computation of Income from House Property for AY 2019-20:

Particulars	Amount (Rs)
Step I - Computation of Expected Rent:	
• Municipal Valuation (Rs 45,000 x 12)	5,40,000
• Fair Rent (Rs 40,000 x 12)	4,80,000
Expected Rent is higher of municipal valuation and fair rent	**5,40,000**
Step II – Computation of Gross Rent R/R & Effective Rent R/R: • **Gross Rent R/R:** Actual Rent R/R for the whole year without vacancy (Rs 65,000 x 12) = Rs 7,80,000 • **Effective Rent R/R:** Actual Rent R/R after considering vacancy (Rs 65,000 x 7) = Rs 4,55,000 Since Gross Rent R/R is more than expected rent, the assessee will be allowed the benefit of vacancy and Effective Rent R/R shall be taken as GAV.	
Gross Annual Value (GAV)	**4,55,000**

Answer 9

Computation of Income from House Property for AY 2019-20:

Particulars	Amount (Rs)
Step I - Computation of Expected Rent: Expected Rent = FRV = Rs 10,000	
Step II – Computation of Gross Rent R/R & Effective Rent R/R: • **Gross Rent R/R:** Actual Rent R/R for the whole year without vacancy (Rs 1,000 x 12) = Rs 12,000 • **Effective Rent R/R:** Actual Rent R/R after considering vacancy (Rs 1,000 x 7) = Rs 7,000 Since Gross Rent R/R is more than expected rent, the assessee will be allowed the benefit of vacancy and Effective Rent R/R shall be taken as GAV.	
Gross Annual Value (GAV)	**7,000**
Less: Municipal taxes (Not allowed to be deducted since paid by tenant)	NIL
Net Annual Value (NAV)	**7,000**
Less: Deduction u/s 24(a) {30% of NAV}	(2,100)
Less: Deduction u/s 24(b) {Interest on borrowed capital (Rs 5,000 + Rs 2,000)}	(7,000)
Income from House Property	**(2,100)**

Answer 10

Computation of Income from House Property for AY 2019-20:

Particulars	Amount (Rs)
Step I - Computation of Expected Rent: Expected Rent = FRV = Rs 10,000	
Step II – Computation of Gross Rent R/R & Effective Rent R/R: • **Gross Rent R/R:** Actual Rent R/R for the whole year without vacancy (Rs 1,000 x 12) = Rs 12,000 • **Effective Rent R/R:** Actual Rent R/R after considering vacancy (Rs 1,000 x 10) = Rs 10,000 Since Gross Rent R/R is more than expected rent, the assessee will be allowed the benefit of vacancy and Effective Rent R/R shall be taken as GAV.	
Gross Annual Value (GAV)	**10,000**
Less: Municipal taxes (Not allowed to be deducted since paid by tenant)	NIL
Net Annual Value (NAV)	**10,000**
Less: Deduction u/s 24(a) {30% of NAV}	(3,000)
Less: Deduction u/s 24(b) {Interest on borrowed capital (Rs 5,000 + Rs 2,000)}	(7,000)
Income from House Property	**NIL**

Answer 11

Computation of Income from House Property for AY 2019-20:

Particulars	Amount (Rs)
Step I - Computation of Expected Rent: Expected Rent = FRV = Rs 1,20,000	
Step II – Computation of Gross Rent R/R & Effective Rent R/R: • **Gross Rent R/R:** Actual Rent R/R for the whole year without vacancy (Rs 10,000 x 12) = Rs 1,20,000 • **Effective Rent R/R:** Actual Rent R/R after considering vacancy (Rs 10,000 x 10) = Rs 1,00,000 Even if the house was let out for full 12 months, Gross Rent R/R would not have been less than expected rent. Therefore, the assessee will be allowed the benefit of vacancy and Effective Rent R/R shall be taken as GAV.	
Gross Annual Value (GAV)	**1,00,000**
Less: Municipal taxes	(5,000)
Net Annual Value (NAV)	**95,000**
Less: Deduction u/s 24(a) {30% of NAV}	(28,500)
Less: Deduction u/s 24(b) {Interest on borrowed capital}	(42,000)
Income from House Property	**24,500**

Answer 12

Computation of Income from House Property of Mr Pathan for AY 2019-20:

Particulars	Amount (Rs)
Step I - Computation of Expected Rent: Expected Rent = FRV = Rs 2,64,000 {Rs 1,10,000 x 12 months/5 months}	
Step II – Computation of Gross Rent R/R & Effective Rent R/R: • **Gross Rent R/R:** Actual Rent R/R for the whole year without vacancy (Rs 20,000 x 12) = Rs 2,40,000 • **Effective Rent R/R:** Actual Rent R/R after considering vacancy (Rs 20,000 x 7) = Rs 1,40,000 Even if the house was let out for full 12 months, Gross Rent R/R would have been less than expected rent. Therefore, the assessee will not be allowed the benefit of vacancy and Expected Rent shall be taken as GAV.	
Gross Annual Value (GAV)	**2,64,000**
Less: Municipal taxes	(36,000)
Net Annual Value (NAV)	**2,28,000**
Less: Deduction u/s 24(a) {30% of NAV}	(68,400)
Less: Deduction u/s 24(b) {Interest on Loan}	(50,000)
Taxable Income from Let Out Portion	**1,09,600**

Answer 13

Computation of Income from House Property for AY 2019-20:

Particulars	Amount (Rs)
Step I - Computation of Expected Rent: Expected Rent = Higher of FRV of Rs 4,80,000 & Municipal Valuation of Rs 6,00,000; ER = Rs 6,00,000	
Step II – Computation of Gross Rent R/R & Effective Rent R/R: • **Gross Rent R/R:** Actual Rent R/R for the whole year without vacancy (Rs 70,000 x 12) = Rs 8,40,000 • **Effective Rent R/R:** Actual Rent R/R after considering vacancy (Rs 70,000 x 9) = Rs 6,30,000 If the house was let out for full 12 months, Gross Rent R/R would have been more than expected rent. Therefore, the assessee will be allowed the benefit of vacancy and Effective Rent R/R shall be taken as GAV.	
Gross Annual Value (GAV)	**6,30,000**

Answer 14

Computation of Income from House Property for AY 2019-20:

Particulars	Amount (Rs)
Step I - Computation of Expected Rent: Expected Rent = Higher of FRV of Rs 1,92,000 & Municipal Valuation of Rs 2,16,000; ER = Rs 2,16,000	
Step II – Computation of Gross Rent R/R & Effective Rent R/R: • **Gross Rent R/R:** Actual Rent R/R for the whole year without vacancy (Rs 18,000 x 12) = Rs 2,16,000 • **Effective Rent R/R:** Actual Rent R/R after considering vacancy (Rs 18,000 x 10) = Rs 1,80,000 If the house was let out for full 12 months, Gross Rent R/R would not have been less than expected rent. Therefore, the assessee will be allowed the benefit of vacancy and Effective Rent R/R shall be taken as GAV.	
Gross Annual Value (GAV)	**1,80,000**
Less: Municipal taxes	(2,000)
Net Annual Value (NAV)	**1,78,000**
Less: Deduction u/s 24(a) {30% of NAV}	(53,400)
Less: Deduction u/s 24(b) {Interest on borrowed capital}	(80,000)
Income from House Property	**44,600**

Answer 15

Computation of Income from House Property:

Particulars	House 1	House 2	House 3
Step I - Computation of Expected Rent ER is higher of MV and FRV but restricted to standard rent	1,20,000	1,80,000	2,40,000
Step II – Computation of Gross Rent R/R & Effective Rent R/R:			
• **Gross Rent R/R:** Actual Rent R/R for the whole year without vacancy	1,44,000	2,10,000	2,52,000
• **Effective Rent R/R:** Actual Rent R/R after considering vacancy	1,44,000	1,92,500	1,26,000
In all the cases, Gross Rent R/R is higher than Expected Rent. Therefore, the assessee will be allowed the benefit of vacancy and Effective Rent R/R shall be taken as GAV.			
GAV	1,44,000	1,92,500	1,26,000
Less: Municipal taxes paid during the year	(20,000)	(80,000)	(30,000)
Net Annual Value	1,24,000	1,12,500	96,000
Less: Deduction u/s 24(a) {30% of NAV}	(37,200)	(33,750)	(28,800)
Gross Annual Value (GAV)	**86,800**	**78,750**	**67,200**

One House Which is Self-Occupied – Section 23(2)

Answer 16

As per Section 23(2), NAV of a self-occupied house property shall be Nil.

Answer 17

As per Section 23(2), NAV of a self-occupied house property shall be Nil.

Answer 18

As per Section 23(2), NAV of a self-occupied house property shall be Nil.

Answer 19

Particulars	Amount (Rs)
Annual value of one house used for self-occupation u/s 23(2)	Nil
Less: Deduction u/s 24(b) {Interest on borrowed capital} • Interest on loan was taken for construction of house on or after 1.4.99 and same was completed within 5 years, therefore maximum deduction permissible u/s 24(b) is Rs 2,00,000. • 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.	2,00,000
Loss from House Property	**(2,00,000)**

One House Which is Self-Occupied as well as Let Out – Section 23(3)

Answer 20

Computation of Income from House Property for AY 2019-20:

Particulars	Amount (Rs)	Amount (Rs)
Step I - Computation of Expected Rent: Municipal Valuation (Rs 65,000 x 12)	7,80,000	
Step II - Actual Rent R/R: (Rs 75,000 x 7)	5,25,000	
Gross Annual Value (GAV) {Higher of Expected Rent and Actual Rent Received/Receivable}		**7,80,000**
Less: Municipal taxes		(1,00,000)
Net Annual Value (NAV)		**6,80,000**
Less: Deduction u/s 24(a) {30% of NAV}		(2,04,000)
Less: Deduction u/s 24(b) {Interest on borrowed capital}		NIL
Income from House Property		**4,76,000**

Answer 21

Computation of Income from House Property for AY 2019-20:

Particulars	Amount (Rs)	Amount (Rs)
Step I - Computation of Expected Rent: Municipal valuation (Rs 65,000 x 12)	7,80,000	
Step II - Actual Rent R/R: (Rs 1,00,000 x 4)	4,00,000	
Gross Annual Value (GAV) {Higher of Expected Rent and Actual Rent Received/Receivable}		**7,80,000**
Less: Municipal taxes		NIL
Net Annual Value (NAV)		**7,80,000**
Less: Deduction u/s 24(a) {30% of NAV}		(2,34,000)
Less: Deduction u/s 24(b) {Interest on borrowed capital}		NIL
Income from House Property		**5,46,000**

Answer 22

Computation of Income from House Property for AY 2019-20:

Particulars	Amount (Rs)	Amount (Rs)
Step I - Computation of Expected Rent: Higher of Municipal Valuation of Rs 3,84,000 and Fair Rent of Rs 4,20,000	4,20,000	
Step II - Actual Rent R/R: (Rs 75,000 x 7)	5,25,000	
Gross Annual Value (GAV) {Higher of Expected Rent and Actual Rent Received/Receivable}		**5,25,000**
Less: Municipal taxes		NIL
Net Annual Value (NAV)		**5,25,000**
Less: Deduction u/s 24(a) {30% of NAV}		(1,57,500)
Less: Deduction u/s 24(b) {Interest on borrowed capital}		NIL
Income from House Property		**3,67,500**

Answer 23

Computation of Income from House Property for AY 2019-20:

Particulars	Amount (Rs)	Amount (Rs)
Step I - Computation of Expected Rent: Higher of Municipal Valuation of Rs 1,00,000 and Fair Rent of Rs 1,20,000	1,20,000	
Step II - Actual Rent R/R: (Rs 9,000 x 8 Months)	72,000	
Gross Annual Value (GAV) {Higher of Expected Rent and Actual Rent R/R}		**1,20,000**
Less: Municipal taxes		(20,000)
Net Annual Value (NAV)		**1,00,000**
Less: Deduction u/s 24(a) {30% of NAV}		(30,000)
Less: Deduction u/s 24(b) {Interest on borrowed capital}		NIL
Income from House Property		**70,000**

More Than One House/House Divided Into Different Portions

Answer 24

Computation of Income from House Property for AY 2019-20:

Particulars	Amount (Rs)
BUILDING B (LET OUT)	
Gross Annual Value (GAV) {Higher of Municipal Valuation of Rs 2,16,000 & FRV of Rs 1,92,000}	**2,16,000**
Less: Municipal taxes	(2,000)
Net Annual Value (NAV)	**2,14,000**
Less: Deduction u/s 24(a) {30% of NAV}	(64,200)
Less: Deduction u/s 24(b) {Interest on borrowed capital}	(80,000)
Taxable Income from Let-Out Portion	**69,800**
BUILDING A (SELF-OCCUPIED UNIT)	
Net Annual Value	Nil
Less: Deduction u/s 24(a) {30% of NAV}	Nil
Less: Deduction u/s 24(b) {Interest on borrowed capital}	(30,000)
Loss from Self-Occupied Portion	**(30,000)**
Income from House Property	**39,800**

Answer 25

Option 1: House at Delhi is assumed to be let out & House at Bangalore is assumed to be self-occupied:

Particulars	Amount (Rs)
DELHI HOUSE (LET OUT)	
Gross Annual Value (GAV) {Higher of Municipal Valuation of Rs 2L & FRV of Rs 1L}	**2,00,000**
Less: Municipal taxes	(20,000)
Net Annual Value (NAV)	**1,80,000**
Less: Deduction u/s 24(a) {30% of NAV}	(54,000)
Less: Deduction u/s 24(b) {Interest on Loan}	(50,000)
Taxable Income from Let-Out Portion	**76,000**
BANGALORE HOUSE (SELF-OCCUPIED UNIT)	
Net Annual Value	Nil
Less: Deduction u/s 24(a) {30% of NAV}	Nil
Less: Deduction u/s 24(b) {Interest on borrowed capital}	(2,00,000)
Loss from Self-Occupied Portion	**(2,00,000)**
Income from House Property	**(1,24,000)**

Option 2: House at Bangalore is assumed to be let out & House at Delhi is assumed to be self-occupied:

Particulars	Amount (Rs)
BANGALORE HOUSE (LET OUT)	
Gross Annual Value (GAV)	**5,00,000**
Less: Municipal taxes	(2,00,000)
Net Annual Value (NAV)	**3,00,000**
Less: Deduction u/s 24(a) {30% of NAV}	(90,000)
Less: Deduction u/s 24(b) {Interest on Loan}	(2,70,000)
Loss from Let Out Portion	**(60,000)**
DELHI HOUSE (SELF-OCCUPIED UNIT)	
Net Annual Value	Nil
Less: Deduction u/s 24(a) {30% of NAV}	Nil
Less: Deduction u/s 24(b) {Interest on borrowed capital}	(30,000)
Loss from Self-Occupied Portion	**(30,000)**
Income from House Property	**(90,000)**

Conclusion: Option 1 is better since loss u/h house property is higher under Option 1.

Answer 26

Computation of Income from House Property for AY 2019-20:

Particulars	Amount (Rs)	Amount (Rs)
GROUND FLOOR (LET OUT)		
Expected Rent: Higher of Municipal Valuation of Rs 1,08,000 and Fair Rent of Rs 96,000	1,08,000	
Actual Rent: Rs 20,000 x 12 months	2,40,000	
Gross Annual Value (GAV) {Higher of Expected Rent & Actual Rent}		**2,40,000**
Less: Municipal taxes		(10,000)
Net Annual Value (NAV)		**2,30,000**
Less: Deduction u/s 24(a) {30% of NAV}		(69,000)
Less: Deduction u/s 24(b) {Interest on borrowed capital}		(90,000)
Taxable Income from Let Out Portion		**71,000**
FIRST FLOOR (SELF-OCCUPIED UNIT)		
Net Annual Value		Nil
Less: Deduction u/s 24(a) {30% of NAV}		Nil
Less: Deduction u/s 24(b) {Interest on borrowed capital}		(30,000)
Loss from Self-Occupied Portion		**(30,000)**
Income from House Property		**41,000**

Answer 27

Computation of Income from Let Out Portion for AY 2019-20:

Particulars	Amount (Rs)
Expected Rent: Higher of Municipal Valuation of Rs 1,08,000 and Fair Rent of Rs 96,000	1,08,000
Actual Rent R/R: Rs 10,000 x 12 months	1,20,000
Gross Annual Value (GAV) {Higher of Expected Rent & Actual Rent R/R}	**1,20,000**
Less: Municipal taxes	(1,000)
Net Annual Value (NAV)	**1,19,000**
Less: Deduction u/s 24(a) {30% of NAV}	(35,700)
Less: Deduction u/s 24(b) {Interest on loan for repairs}	(40,000)
Income from House Property	**43,300**

Note: Income of the floor which has been used for business/profession will be computed u/h 'PGBP' and not u/h 'HP'.

Answer 28

Computation of Income from House Property for AY 2019-20:

Particulars	Amount (Rs)
GROUND FLOOR	
Gross Annual Value (GAV) {GAV = Rent R/R = Rs 7,000 x 12 months = Rs 84,000}	**84,000**
Less: Municipal taxes	(3,000)
Net Annual Value (NAV)	**81,000**
Less: Deduction u/s 24(a) {30% of NAV}	(24,300)
Less: Deduction u/s 24(b) {Interest on borrowed capital}	NIL
Taxable Income from Let Out Portion	**56,700**
FIRST FLOOR	
Gross Annual Value (GAV) [GAV = Rent R/R = {(Rs 5K x 9M) + (Rs 7K x 3M)} = Rs 66,000]	**66,000**
Less: Municipal taxes	(3,000)
Net Annual Value (NAV)	**63,000**
Less: Deduction u/s 24(a) {30% of NAV}	(18,900)
Less: Deduction u/s 24(b) {Interest on borrowed capital}	(20,000)
Taxable Income from Let Out Portion	**24,100**
Income from House Property	**80,800**

Note: In the absence of any information regarding Fair Rent, Municipal Rent & Standard Rent, Rent R/R has been taken as GAV.

Answer 29

Computation of Income from House Property for AY 2019-20:

Particulars	Amount (Rs)
RENTED UNIT (50% OF TOTAL AREA)	
Step I - Computation of Expected Rent:	
• Municipal valuation (Rs 1,90,000 x 50%)	95,000
• Fair rent (Rs 1,85,000 x 50%)	92,500
• Standard rent (Rs 1,62,000 x 50%)	81,000
ER is higher of municipal valuation and fair rent, but restricted to standard rent	**81,000**
Step II – Computation of Gross Rent R/R & Effective Rent R/R: • **Gross Rent R/R:** Actual Rent R/R for the whole year without vacancy (Rs 8,000 x 12) = Rs 96,000 • **Effective Rent R/R:** Actual Rent R/R after considering vacancy (Rs 8,000 x 10) = Rs 80,000 Since Gross Rent R/R is more than expected rent, the assessee will be allowed the benefit of vacancy and Effective Rent R/R shall be taken as GAV.	
Gross Annual Value (GAV)	**80,000**
Less: Municipal taxes (15% of Rs 95,000)	(14,250)
Net Annual Value (NAV)	**65,750**
Less: Deduction u/s 24(a) {30% of NAV}	(19,725)
Less: Deduction u/s 24(b) {Interest on borrowed capital (Rs 750 x 12)}	(9,000)
Taxable Income from Let Out Portion	**37,025**
SELF-OCCUPIED UNIT (50% OF TOTAL AREA)	
Net Annual Value	Nil
Less: Deduction u/s 24(a) {30% of NAV}	Nil
Less: Deduction u/s 24(b) {Interest on borrowed capital (Rs 750 x 12)}	(9,000)
Loss from Self-Occupied Portion	**(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.

Answer 30

Computation of Income from House Property of Mr Krishna for AY 2019-20:

Particulars	Amount (Rs)
RENTED UNIT (50% OF TOTAL AREA)	
Step I - Computation of Expected Rent:	
• Municipal valuation (Rs 2,44,000 x 50%)	1,22,000
• Fair rent (Rs 2,35,000 x 50%)	1,17,500
• Standard rent (Rs 2,20,000 x 50%)	1,10,000
ER is higher of municipal valuation and fair rent, but restricted to standard rent	**1,10,000**
Step II – Computation of Gross Rent R/R & Effective Rent R/R:	
• **Gross Rent R/R:** Actual Rent R/R for the whole year without vacancy (Rs 12,000 x 12) = Rs 1,44,000	
• **Effective Rent R/R:** Actual Rent R/R after considering vacancy (Rs 12,000 x 9) = Rs 1,08,000	
Since Gross Rent R/R is more than expected rent, the assessee will be allowed the benefit of vacancy and Effective Rent R/R shall be taken as GAV.	
Gross Annual Value (GAV)	**1,08,000**
Less: Municipal taxes (12% of Rs 1,22,000)	(14,640)
Net Annual Value (NAV)	**93,360**
Less: Deduction u/s 24(a) {30% of NAV}	(28,008)
Less: Deduction u/s 24(b) {Interest on borrowed capital (Rs 1,000 x 12)}	(12,000)
Taxable Income from Let Out Portion	**53,352**
SELF-OCCUPIED UNIT (50% OF TOTAL AREA)	
Net Annual Value	Nil
Less: Deduction u/s 24(a) {30% of NAV}	Nil
Less: Deduction u/s 24(b) {Interest on borrowed capital (Rs 1,000 x 12)}	(12,000)
Loss from Self-Occupied Portion	**(12,000)**
Income from House Property	**41,352**

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

Answer 31

Computation of Income from House Property of Mr Vikas for AY 2019-20:

Particulars	Amount (Rs)	Amount (Rs)
I. Self-Occupied Portion (Two third)		
Net Annual Value	Nil	
Less: Deduction u/s 24(b) {Interest on loan (See Note below) (Rs 18,600 x 2/3)}	(12,400)	
Loss from Self-Occupied Portion		**(12,400)**
II. Let-Out Portion (One third)		
Gross Annual Value [Higher of (a) or (b)]	**60,000**	
(a) Actual rent received (Rs 5,000 x 12) = Rs 60,000		
(b) Expected rent (Rs 1,08,000 * 1/3) = Rs 36,000 {Expected rent is higher of municipal valuation (Rs 96,000) and fair rent (Rs 1,26,000) but restricted to standard rent (Rs 1,08,000)}		
Less: Municipal taxes (Rs 96,000 x 11% x 1/3)	(3,520)	
Net Annual Value	**56,480**	
Less: Deduction u/s 24(a) {30% of NAV}	(16,944)	
Less: Deduction u/s 24(b) {Interest on borrowed capital (Rs 18,600 x 1/3)}	(6,200)	
Income from Let-Out Portion		**33,336**
Income from House Property		**20,936**

Note: Interest on loan taken for construction of building:

- Interest for the year (1.4.2018 to 31.3.2019) = 12% of Rs 1,00,000 = Rs 12,000

- Pre-construction period interest = 12% of Rs 1,00,000 for 33 months (from 1.07.2011 to 31.3.2014) = Rs 33,000. Pre-construction period interest to be allowed in 5 equal annual installments of Rs 6,600 each from the year of completion of construction (ie from FY 2014-15 till FY 2018-19).
- Therefore, total interest deduction u/s 24(b) = Rs 12,000 + Rs 6,600 = Rs 18,600.

Answer 32

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 (ie, 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 annual letting value 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 AY 2019-20 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 AY 2019-20 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 since interest deduction in respect of money borrowed for repair of self-occupied property is restricted to Rs 30,000, irrespective of the date of borrowing]	(30,000)
Income from House Property	**40,000**

Conclusion: 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 AY 2019-20.

Working Note:

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

Particulars	House I (Rs)	House II (Rs)
GAV {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 PY)	Nil	(9,200)
Net Annual Value	**1,00,000**	**1,55,800**
Less: Deduction u/s 24(a) {30% of NAV}	(30,000)	(46,740)
Less: Deduction u/s 24(b) {Interest on borrowed capital}	-	(55,000)
Income from Deemed to be Let-Out House Property	**70,000**	**54,060**

Answer 33

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 PY and its annual value has to be determined as per Section 23(1).

Computation of Income from House Property of Mr Prem for AY 2019-20:

Particulars	Amount (Rs)	
Unit I (2/3rd Area - Self-Occupied):		
Net Annual Value	Nil	
Less: Deduction u/s 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):		
Gross Annual Value (GAV)	**1,00,000**	
• Step 1: Compute Expected Rent ('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 shall be taken as ER. Thus, ER = Rs 1,00,000.		
• Step 2: Compute Actual Rent Received/Receivable {Rs 8,000 x 12 = Rs 96,000}		
• Step 3: GAV is higher of ER and Actual Rent Received/Receivable. GAV = Rs 1,00,000		
Less: Municipal taxes paid by the owner during the PY 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: Deduction u/s 24(a) {30% of NAV}	(27,000)	
Less: Deduction u/s 24(b) {Interest on borrowed capital relating to let out portion) {1/3rd of Rs 1,20,000}	(40,000)	
Income from Unit II (Let-out)		23,000
Loss u/h head "House Property" [(Rs 80,000) + Rs 23,000]		**(57,000)**

Preconstruction Period Interest

Answer 34

Computation of Income from House Property for AY 2019-20:

Particulars	Amount (Rs)
Gross Annual Value (GAV) {Actual rent assumed to be GAV in the absence of any other information}	**2,40,000**
Less: Municipal taxes	(30,000)
Net Annual Value (NAV)	**2,10,000**
Less: Deduction u/s 24(a) {30% of NAV}	(63,000)
Less: Deduction u/s 24(b) {Refer Working Note}	(2,64,000)
Income from House Property	**(1,17,000)**

Working Note (Interest on borrowed capital):

• Interest for the current year (10% of Rs 22 lakhs)	Rs 2,20,000
• 1/5th of pre-construction interest (interest for the period from 1.4.2014 to 31.3.2015 for 1 year) {1/5th of (Rs 22,00,000 x 10%)}	Rs 44,000
Interest Deduction Allowable u/s 24	**Rs 2,64,000**

Answer 35

Particulars	Amount (Rs)
Annual value of one house used for self-occupation u/s 23(2)	Nil
Less: Deduction u/s 24(b) - Interest on borrowed capital • Interest on loan was taken for construction of house on or after 01.04.1999 and same was completed within 5 years, therefore maximum deduction permissible u/s 24(b) is Rs 2,00,000. • In this case, the total interest is Rs 2,20,000 + Rs 44,000 (Being 1/5th of Rs 2,20,000) = Rs 2,64,000. However, the interest deduction is restricted to Rs 2,00,000.	2,00,000
Loss from House Property	**(2,00,000)**

Answer 36

- Interest for the year (1.4.2018 to 31.3.2019) = 10% of Rs 5,00,000 = Rs 50,000
- Pre-construction interest = 10% of Rs 5,00,000 for 6 months (from 1.10.2017 to 31.3.2018) = Rs 25,000. Pre-construction interest to be allowed in 5 equal annual installments of Rs 5,000 each from the year of completion of construction (PY 2018-19 in the present case).
- Therefore, total interest deduction u/s 24(b) for PY 2018-19 = Rs (50,000 + 5,000) = Rs 55,000.

Answer 37

Computation of Income from House Property of Mr Raphael for AY 2019-20:

Particulars	Amount (Rs)	Amount (Rs)
Shopping Complex:		
• **Income from letting out of shopping complex:**		
Gross Annual Value [Rs 30,000 x 12]	3,60,000	
Less: Municipal Taxes	(8,000)	
Net Annual Value (NAV)	3,52,000	
Less: Deduction u/s 24(a) {30% of NAV}	(1,05,600)	
Less: Deduction u/s 24(b) {Interest on borrowed capital} **(See Working Note below)**	(2,83,333)	
Loss from letting out of shopping complex		**(36,933)**
• **Arrears of rent taxable u/s 25A after allowing deduction of 30%** {Rs 1,20,000 * 70%}		**84,000**
Self-Occupied Residential House:		
Net Annual value (since the house property is self- occupied)	Nil	
Less: Deduction u/s 24(b) *{It is assumed that loan has been taken on or after 01.04.1999 and the house has been purchased within 5 years from the end of the year in which the loan was taken. Accordingly, the maximum amount of deduction available u/s 24(b) would be Rs 2,00,000}*	(2,00,000)	
Loss from self-occupied residential house		**(2,00,000)**
Loss u/h "House Property"		**(1,52,933)**

Working Note (Interest on borrowed capital):

• Interest for the current year (10% of Rs 25 lakhs)	Rs 2,50,000
• 1/5th of pre-construction interest (interest for the period from 1.8.2016 to 31.3.2017 for 8 months) {1/5th of (Rs 25,00,000 x 10% x 8/12)}	Rs 33,333
Interest Deduction Allowable u/s 24	**Rs 2,83,333**

Note 1: It has been assumed that the loan of Rs 25 lakhs is still outstanding and no repayment has been made till now.

Note 2: Rent received has been taken as the annual value in the absence of information relating to municipal value, fair rent and standard rent.

Treatment of Unrealized Rent/Recovery of Unrealized Rent

Answer 38

Particulars	Situation 1	Situation 2	Situation 3	Situation 4
GAV (Rs)	1,44,000	1,25,000	1,68,000	2,04,000

Answer 39

Computation of Income from House Property for AY 2019-20:

Particulars	Amount (in Rs)
Gross Annual Value (GAV)	**2,16,000**
• **Step 1**: Compute Expected Rent ('ER'). ER = Higher of MV of Rs 2,16,000 p.a. and FR of Rs 1,92,000 p.a., ER = Rs 2,16,000	
• **Step 2**: Compute Actual Rent R/R (20,000 X 10 = Rs 2,00,000)	
• **Step 3**: GAV is higher of ER and Actual Rent R/R. GAV = Rs 2,16,000	
Less: Municipal taxes paid by the owner during the PY	(2,000)
Net Annual Value (NAV)	**2,14,000**
Less: Deduction u/s 24(a) {30% of NAV}	(64,200)
Less: Deduction u/s 24(b) {Interest on loan taken for repair}	(80,000)
Income from House Property	**69,800**

Answer 40

(a) Computation of Income from House Property for AY 2019-20:

Particulars	Amount (in Rs)
Gross Annual Value (GAV)	**2,40,000**
• **Step 1**: Compute Expected Rent ('ER'). ER = Higher of MV of Rs 2,00,000 p.a. and FR of Rs 2,40,000 p.a., ER = Rs 2,40,000	
• **Step 2**: Compute Actual Rent Received/Receivable. Actual Rent Received/Receivable less unrealized rent as per Rule 4 = Rs 2,72,000 – Rs 42,000 = Rs 2,30,000	
• **Step 3**: GAV is higher of Step 1 & Step 2. GAV = Rs 2,40,000	
Less: Municipal taxes paid by the owner	(20,000)
Net Annual Value	**2,20,000**
Less: Deduction u/s 24(a) {30% of NAV}	(66,000)
Less: Deduction u/s 24(b)	Nil
Income from House Property	**1,54,000**

(b) Computation of Income from House Property for AY 2019-20:

Particulars	Amount (in Rs)
Gross Annual Value (GAV)	**2,51,000**
• **Step 1**: Compute Expected Rent ('ER'). ER = Higher of MV of Rs 2,00,000 p.a. and FR of Rs 2,40,000 p.a., ER = Rs 2,40,000	
• **Step 2**: Compute Actual Rent Received/Receivable. Actual Rent Received/Receivable less unrealized rent as per Rule 4 = Rs 2,72,000 – Rs 21,000 = Rs 2,51,000	
• **Step 3**: GAV is higher of higher of Step 1 & Step 2. GAV = Rs 2,51,000	
Less: Municipal taxes paid by the owner	(20,000)
Net Annual Value	**2,31,000**
Less: Deduction u/s 24(a) {30% of NAV}	(69,300)
Less: Deduction u/s 24(b)	Nil
Income from House Property	**1,61,700**

Answer 41

Computation of Income from House Property of Mr Anirudh for AY 2019-20:

Particulars	Amount (in Rs)
Gross Annual Value (GAV)	**1,21,000**
• **Step 1**: Compute Expected Rent ('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. ER = Rs 1,20,000	
• **Step 2**: Compute Actual Rent Received/Receivable. Actual Rent Received/Receivable less unrealized rent as per Rule 4 = Rs 1,32,000 - Rs 11,000 = Rs 1,21,000	
• **Step 3**: GAV is higher of Step 1 & Step 2. GAV = Rs 1,21,000	
Less: Municipal taxes paid by the owner during the PY {10% of Rs 1,30,000}	(13,000)
Net Annual Value (NAV)	**1,08,000**
Less: Deduction u/s 24(a) {30% of NAV}	(32,400)
Less: Deduction u/s 24(b) {Interest on Loan}	(40,000)
Income from House Property	**35,600**

Answer 42

Computation of Income from House Property of Mr Ganesh for AY 2019-20:

Particulars	Amount (in Rs)
Gross Annual Value (GAV)	**1,80,000**
• **Step 1**: Compute Expected Rent ('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. ER = Rs 2,10,000	
• **Step 2**: Compute Actual Rent Received/Receivable. Actual Rent Received/Receivable less unrealized rent as per Rule 4 = Rs 2,00,000 - Rs 20,000 = Rs 1,80,000	
• **Step 3**: Compare ER and Actual Rent Received/Receivable. 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). Therefore, actual rent at Step 2 is the GAV.	
Less: Municipal taxes paid by the owner during the PY {8% of Rs 2,50,000}	(20,000)
Net Annual Value (NAV)	**1,60,000**
Less: Deduction u/s 24(a) {30% of NAV}	(48,000)
Less: Deduction u/s 24(b) {Interest on Loan}	(65,000)
Income from House Property	**47,000**

Answer 43

Computation of Income from House Property of Smt Raja lakshmi for AY 2019-20:

Particulars	Amount (Rs)
Gross Annual Value (GAV)	**4,80,000**
• **Step 1**: Compute Expected Rent ('ER'). ER = Higher of MV of Rs 5,00,000 p.a. and FR of Rs 4,20,000 p.a., but restricted to SR of Rs 4,80,000 p.a. ER = Rs 4,80,000	
• **Step 2:** Compute Actual Rent Received/Receivable. Actual Rent Received/Receivable for the let-out period less unrealized rent as per Rule 4 = (Rs 50,000 x 9) - (Rs 50,000 x 2) = Rs 3,50,000.	
• **Step 3:** GAV is higher of Step 1 & Step 2. GAV = Rs 4,80,000	
Less: Municipal taxes paid by the owner during the PY {12% of Rs 5,00,000}	(60,000)
Net Annual Value (NAV)	**4,20,000**
Less: Deduction u/s 24(a) {30% of NAV}	(1,26,000)
Less: Deduction u/s 24(b) {Interest on borrowed capital without any ceiling limit}	(25,000)
Income from House Property	**2,69,000**

Answer 44

Computation of Income from House Property of Bhajji for AY 2019-20:

Particulars	Amount (Rs)
Gross Annual Value (GAV)	**30,000**
• Step 1: Compute Expected Rent ('ER'). ER = FRV = Rs 30,000 p.a.	
• Step 2: Compute Actual Rent Received/Receivable. Actual Rent Received/Receivable for the let-out period less unrealized rent as per Rule 4 = Rs 3,000 x 7 = Rs 21,000	
• Step 3: GAV is higher of Step 1 & Step 2	
Less: Municipal taxes paid by the owner during the PY	(1,000)
Net Annual Value (NAV)	**29,000**
Less: Deduction u/s 24(a) {30% of NAV}	(8,700)
Less: Deduction u/s 24(b)	NIL
Income from House Property	**20,300**

Conditions to be fulfilled for deductibility of unrealized rent: Pls refer to conditions given under Rule 4 on Page 4.6.

Computation of Income from House Property of Bhajji for AY 2021-22:

As per Section 25A, recovery of unrealized rent is taxable in the year of receipt u/h house property irrespective of the fact whether the assessee is the owner of the property or not at the time of recovery of unrealized rent.

Particulars	Amount (Rs)
Recovery of unrealized rent (Rs 3,000 * 5 months)	15,000
Less: Deduction u/s 25A (30% of unrealized rent)	(4,500)
Income from House Property	**10,500**

Answer 45

In this case, Mr X has the option to set-off the loss u/h house property either from normal income or from LTCG. As per Section 71, maximum inter-head adjustment allowed for house property loss is Rs 2,00,000 and house property loss in excess of Rs 2,00,000 shall be carried-forward to future years.

Option-1: Set-off from normal income:		
Computation of Total Income	**Amount (Rs)**	**Amount (Rs)**
Income u/h Salary	8,00,000	
Less: Loss u/h House Property	(2,00,000)	6,00,000
Income u/h Business/Profession		6,00,000
Long Term Capital Gain		20,00,000
Casual Income		5,00,000
Total Income		**37,00,000**
Computation of Tax Liability		**Amount (Rs)**
Tax on casual income of Rs 5,00,000 @ 30% u/s 115BB		1,50,000
Tax on LTCG of Rs 20,00,000 @ 20% u/s 112		4,00,000
Tax on normal income of Rs 12,00,000 at slab rates		1,72,500
Tax before Health & Education Cess		7,22,500
Add: Health & Education Cess @ 4%		28,900
Tax Liability		**7,51,400**
Option-2: Set off from LTCG:		
Computation of Total Income	**Amount (Rs)**	**Amount (Rs)**
Income u/h Salary		8,00,000
Income u/h Business/Profession		6,00,000
Long Term Capital Gain	20,00,000	
Less: Loss u/h House Property	(2,00,000)	18,00,000
Casual income		5,00,000
Total Income		**37,00,000**
Computation of Tax Liability		**Amount (Rs)**
Tax on casual income of Rs 5,00,000 @ 30% u/s 115BB		1,50,000
Tax on LTCG of Rs 18,00,000 @ 20% u/s 112		3,60,000
Tax on normal income of Rs 14,00,000 at slab rates		2,32,500
Tax before Health & Education Cess		7,42,500
Add: Health & Education Cess @ 4%		29,700
Tax Liability		**7,72,200**

Conclusion: Option 1 is better since total tax liability is lower under Option 1.

Answer 46

In this case, Mr X has the option to set off the loss u/h House Property either from normal income or from LTCG. As per Section 71, maximum inter-head adjustment allowed for house property loss is Rs 2,00,000 and house property loss in excess of Rs 2,00,000 shall be carried-forward to future years.

Option-1: Set off from normal income:		
Computation of Total Income	**Amount (Rs)**	**Amount (Rs)**

Income u/h Salary Less: Loss u/h House Property	10,00,000 (2,00,000)	8,00,000
Income u/h Business/Profession		11,00,000
Long Term Capital Gain		20,00,000
Gross Total Income Less: Deductions u/s 80C to 80U		39,00,000 (2,00,000)
Total Income		**37,00,000**
Computation of Tax Liability		**Amount (Rs)**
Tax on LTCG of Rs 20,00,000 @ 20% u/s 112 Tax on normal income of Rs 17,00,000 at slab rates		4,00,000 3,22,500
Tax before Health & Education Cess Add: Health & Education Cess @ 4%		7,22,500 28,900
Tax Liability		**7,51,400**
Option-2: Set off from LTCG:		
Computation of Total Income	**Amount (Rs)**	**Amount (Rs)**
Income u/h Salary		10,00,000
Income u/h Business/Profession		11,00,000
Long Term Capital Gain Less: Loss u/h House Property	20,00,000 (2,00,000)	18,00,000
Gross Total Income Less: Deduction u/s 80C to 80U		39,00,000 (2,00,000)
Total Income		**37,00,000**
Computation of Tax Liability		**Amount (Rs)**
Tax on LTCG of Rs 18,00,000 @ 20% u/s 112 Tax on normal income of Rs 19,00,000 at slab rates		3,60,000 3,82,500
Tax before Health & Education Cess Add: Health & Education Cess @ 4%		7,42,500 29,700
Tax Liability		**7,72,200**

Conclusion: Option 1 is better since total tax liability is lower under Option 1.

Treatment of Income From Co-Owned Property (Multiple Owners)

Answer 47

Computation of Income from House Property for AY 2019-20:

Particulars	M (Rs)	N (Rs)
Net Annual Value	Nil	Nil
Less: Deduction u/s 24(a) {30% of NAV}	Nil	Nil
Less: Deduction u/s 24(b) {Interest on loan}	(2,00,000)	(2,00,000)
Income from House Property	**(2,00,000)**	**(2,00,000)**

Answer 48

Computation of Income from House Property for AY 2019-20:

Particulars	Amount (Rs)
Step I - Computation of Expected Rent: Expected Rent = Municipal Valuation = Rs 4,80,000	
Step II – Computation of Gross Rent R/R & Effective Rent R/R: • **Gross Rent R/R:** Actual Rent R/R for the whole year without vacancy (Rs 50,000 x 12) = Rs 6,00,000 • **Effective Rent R/R:** Actual Rent R/R after considering vacancy (Rs 50,000 x 11) = Rs 5,50,000 Since Gross Rent R/R is more than expected rent, the assessee will be allowed the benefit of vacancy and Effective Rent R/R shall be taken as GAV.	
Gross Annual Value (GAV)	**5,50,000**

Less: Municipal taxes paid by the owner during the PY	(80,000)
Net Annual Value (NAV)	**4,70,000**
Less: Deduction u/s 24(a) {30% of NAV}	(1,41,000)
Less: Deduction u/s 24(b) {Interest on Loan}	(6,00,000)
Loss from House Property	**(2,71,000)**

Total loss from the house property comes out to Rs 2,71,000 which would be divided equally between P & Q (P's share – Loss of Rs 1,35,500; Q's share – Loss of Rs 1,35,500)

Answer 49

Computation of Income from House Property for AY 2019-20:

Particulars	Amount (Rs)
Step I - Computation of Expected Rent: Expected Rent = Municipal Valuation = Rs 12,00,000	
Step II – Computation of Gross Rent R/R & Effective Rent R/R: • **Gross Rent R/R:** Actual Rent R/R for the whole year without vacancy (Rs 1,20,000 x 12) = Rs 14,40,000 • **Effective Rent R/R:** Actual Rent R/R after considering vacancy (Rs 1,20,000 x 9) = Rs 10,80,000 Since Gross Rent R/R is more than expected rent, the assessee will be allowed the benefit of vacancy and Effective Rent R/R shall be taken as GAV.	
Gross Annual Value (GAV)	**10,80,000**
Less: Municipal taxes paid by the owner during the PY	NIL
Net Annual Value (NAV)	**10,80,000**
Less: Deduction u/s 24(a) {30% of NAV}	(3,24,000)
Less: Deduction u/s 24(b) {Interest on Loan}	(6,00,000)
Income from House Property	**1,56,000**

Total income from the house property comes out to Rs 1,56,000 which would be divided equally amongst R, S & T (R's share – Rs 52,000; S's share – Rs 52,000; T's share – Rs 52,000)

Answer 50

Computation of Income from House Property of Mr Raman for AY 2019-20:

Particulars	Amount (in Rs)
Gross Annual Value (GAV) • Step 1: Compute Expected Rent ('ER'). ER = Higher of MV of Rs 1,60,000 p.a. and FR of Rs 1,50,000 p.a., but restricted to SR of Rs 1,70,000 p.a;. ER = Rs 1,60,000 • Step 2: Compute Actual Rent Received/Receivable = Rs 15,000 x 12 = Rs 1,80,000 • Step 3: GAV shall be higher of Step 1 & Step 2	**1,80,000**
Less: Municipal taxes paid by tenant, hence not deductible	NIL
Net Annual Value (NAV)	**1,80,000**
Less: Deduction u/s 24(a) {30% of NAV}	(54,000)
Less: Deduction u/s 24(b) {Interest on loan taken from bank}	(25,000)
Less: Deduction u/s 24(b) {Interest on fresh loan to repay old loan for this property}	(5,000)
Income from House Property	**96,000**

Total income from the house property comes out to Rs 96,000 which would be divided equally between the co-owners. Therefore, Raman's share of income is Rs 48,000.

Answer 51

Particulars	Arun (Rs)	Bimal (Rs)
Loss from self-occupied portion	(30,000)	(30,000)
Income from let out portion (total income from let out portion comes out to Rs 2,51,700 which would be equally divided between Arun & Bimal)	1,25,850	1,25,850
Income u/h House Property	**95,850**	**95,850**

Other Incomes	2,90,000	1,80,000
Total Income	3,85,850	2,75,850

WN 1: Computation of Income from Let-Out Portion of House Property

Particulars	Amount (Rs)
Let Out portion (75%):	
GAV {Actual Rent (Rs 12,000 p.m. x 6 units x 12 months) – (Rs 12,000 x 1 unit x 4 months)}	8,16,000
Less: Municipal taxes paid (75% of Rs 1,80,000)	(1,35,000)
Net Annual Value (NAV)	**6,81,000**
Less: Deduction u/s 24(a) (30% of NAV)	(2,04,300)
Less: Interest on loan taken for the house (75% of Rs 3,00,000)	(2,25,000)
Income from Let Out Portion	**2,51,700**

Treatment of Composite Rent

Answer 52

Computation of Total Income of Mr Z for AY 2019-20:

Particulars	Amount (in Rs)
Step I - Computation of Expected Rent: Expected Rent = Higher of MV of Rs 95,000 p.a. and FR of Rs 1,44,000 p.a. = Rs 1,44,000	
Step II – Computation of Gross Rent R/R & Effective Rent R/R: • **Gross Rent R/R:** Actual Rent R/R for the whole year without vacancy (Rs 16,000 x 12) = Rs 1,92,000 • **Effective Rent R/R:** Actual Rent R/R after considering vacancy (Rs 16,000 x 11) = Rs 1,76,000 Since Gross Rent R/R is more than expected rent, the assessee will be allowed the benefit of vacancy and Effective Rent R/R shall be taken as GAV.	
Gross Annual Value (GAV)	**1,76,000**
Less: Municipal taxes	(9,500)
Net Annual Value (NAV)	**1,66,500**
Less: Deduction u/s 24(a) {30% of NAV}	(49,950)
Less: Deduction u/s 24(b) {Interest on loan}	(80,000)
Income u/h House Property	**36,550**
Income u/h Other Sources: Net income from facilities {(400 + 2500 - 1000) x 11 months}	**20,900**
Total Income	**57,450**

Answer 53

Computation of Total Income of Mr A for AY 2019-20:

Particulars	Amount (in Rs)
Gross Annual Value (GAV) • Step 1: Expected Rent ('ER'). ER = Rs 2,00,000 • Step 2: Compute Actual Rent Received/Receivable = Total rent – Rent of facilities = Rs 2,40,000 - Rs 7,000 - Rs 6,000 - Rs 3,500 - Rs 3,500 = Rs 2,20,000 • Step 3: GAV shall be higher of Step 1 & Step 2	**2,20,000**
Less: Municipal taxes	(NIL)
Net Annual Value (NAV)	**2,20,000**
Less: Deduction u/s 24(a) {30% of NAV}	(66,000)
Less: Deduction u/s 24(b) {Interest on loan}	NIL
Income u/h House Property	**1,54,000**
Income u/h Other Sources: Rent of facilities (Rs 7,000 + Rs 6,000 + Rs 3,500 + Rs 3,500)	**20,000**
Total Income	**1,74,000**

Answer 54

Computation of Income from House Property of Mr X for AY 2019-20:

Particulars	Amount (in Rs)
Step I - Computation of Expected Rent: Expected Rent = Higher of MV of Rs 95,000 p.a. and FR of Rs 92,500 p.a. but limited to SR of Rs 81,000 p.a. = Rs 81,000	
Step II –Computation of Gross Rent R/R & Effective Rent R/R: • **Gross Rent R/R:** Actual Rent R/R for the whole year without vacancy (Rs 8,000 x 12) = Rs 96,000 • **Effective Rent R/R:** Actual Rent R/R after considering vacancy (Rs 8,000 x 10) = Rs 80,000 Since Gross Rent R/R is more than expected rent, the assessee will be allowed the benefit of vacancy and Effective Rent R/R shall be taken as GAV.	
Gross Annual Value (GAV)	**80,000**
Less: Municipal taxes	NIL
Net Annual Value (NAV)	**80,000**
Less: Deduction u/s 24(a) {30% of NAV}	(24,000)
Less: Deduction u/s 24(b) {1,500 x 12 months}	(18,000)
Income u/h House Property	**38,000**
Income u/h Other Sources: Rent of facilities [(500 + 2,500 + 1,000) x 10 months]	**40,000**
Total Income	**78,000**

Answer 55

Computation of Income from House Property of Mr X for AY 2019-20:

Particulars	Amount (in Rs)
Gross Annual Value (Rs 37,000 x 12 months)	4,44,000
Less: Municipal taxes	(2,300)
Net Annual Value (NAV)	4,41,700
Less: Deduction u/s 24(a) {30% of NAV}	(1,32,510)
Less: Deduction u/s 24(b) {Interest on Borrowed Capital}	(7,000)
Income u/h House Property	**3,02,190**
Income u/h Other Sources: [Receipts of Rs 36,000 (Rs 3,000 x 12 months) – Expenses of 12,600 {Generator repair charges – Rs 3,400 p.a.; Fuel charges – Rs 5,600 p.a.; Operator's salary – Rs 3,600 p.a.}]	**23,400**
Total Income	**3,25,590**
Computation of Tax Liability	
Tax on normal income of Rs 3,25,590 at slab rates	3,779.50
Less: Rebate u/s 87A	(2,500.00)
Tax before Health & Education Cess	1,279.50
Add: Health & Education Cess @ 4%	51.18
Tax Liability (Rounded off u/s 288B)	**1,330.00**

Treatment of House Property Located Outside India/Non-Resident Cases

Answer 56

Computation of Income from House Property of Miss J for AY 2019-20:

Particulars	Amount (in Rs)
Gross Annual Value ($1,000 x 6months x Rs 50)	3,00,000
Less: Municipal taxes paid ($50 x Rs 50)	(2,500)
Net Annual Value (NAV)	**2,97,500**
Less: Deduction u/s 24(a) {30% of NAV}	(89,250)
Less: Deduction u/s 24(b) {Interest}	(2,00,000)
Income from House Property	**8,250**

Answer 57

For PY 2018-19, Mr Rajesh, a British national, is resident and ordinarily resident in India. Therefore, income received by him by way of rent of the house property located in London is to be included in the total income in India. Municipal taxes paid in London are allowed as deduction from the gross annual value.

Computation of Income from House Property of Mr Rajesh for AY 2019-20:

Particulars	Amount (in Rs)
Gross Annual Value (£10,000 x 12 months x Rs 82.50)	99,00,000
Less: Municipal taxes paid (£8,000 x Rs 82.50)	(6,60,000)
Net Annual Value (NAV)	**92,40,000**
Less: Deduction u/s 24(a) {30% of NAV = 30% of Rs 92,40,000}	(27,72,000)
Income from House Property	**64,68,000**

Answer 58

Computation of Income from House Property of Mrs Indu for AY 2019-20:

Particulars	Amount (Rs)	Amount (Rs)
Property 1 - House property in USA:		
GAV {Rent received treated as GAV} ($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 u/s 24(a) (30% of NAV)	(4,05,000)	
Income from House Property in USA		**9,45,000**
Property 2 - House property in Mumbai (Let-out portion - First Floor):		
Gross Annual Value (GAV)	1,20,000	
• Step 1: Compute Expected Rent ('ER'). **It is assumed that Fair Rent p.m is equal to rent received/receivable p.m.**		
➢ Standard Rent = Rs 1,32,000 (Rs 11,000 x 12 months);		
➢ Fair Rent = Rs 1,20,000 (Rs 10,000 x 12 months);		
➢ Expected Rent = Lower of SR and FR = Rs 1,20,000		
• Step 2: Compute Actual Rent Received/Receivable {Rs 10,000 x 12 = Rs 1,20,000}		
• Step 3: GAV is higher of ER and Actual Rent Received/Receivable. GAV = Rs 1,20,000		
Less: Municipal taxes paid (50% of Rs 7,500)	(3,750)	
Net Annual Value (NAV)	**1,16,250**	
Less: Deduction u/s 24(a) (30% of NAV)	(34,875)	
Less: Deduction u/s 24(b) {Interest on housing loan (50% of Rs 24,000)}	(12,000)	
Income from Let Out Portion (Mumbai House)		**69,375**
Property 3 - House property in Mumbai (Self-occupied portion - Ground Floor):		
Gross Annual Value	Nil	
Less: Municipal taxes	Nil	
Net Annual Value (NAV)	Nil	
Less: Deduction u/s 24(a) (30% of NAV)	Nil	
Less: Deduction u/s 24(b) {Interest on housing loan (50% of Rs 24,000)}	(12,000)	
Loss from Self-Occupied Portion (Mumbai House)		(12,000)
Total Income u/h House Property		**10,02,375**

Answer 59

- Since the assessee is a resident and ordinarily resident in India, her global income would form part of her total income ie, 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. At her option, one house shall be treated as self-occupied while the other self-occupied house property will be treated as "deemed let out property".

- The annual value of the Los Angeles house is Rs 9,00,000 and the Chennai flat is Rs 3,15,000 (Rs 4,12,000 * 9/12). Since the annual value of Los Angeles house is obviously more, it will be beneficial for her to opt for choosing the same as self-occupied. The Chennai house will, therefore, be treated as "deemed let out property".
- As regards the Bangalore house, arrears of rent will be chargeable to tax as income from house property in the year of receipt as per Section 25A. It is not essential that the assessee should continue to be the owner. Further, 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	Amount (Rs)	Amount (Rs)
1. **Self-occupied house at Los Angeles**		
Net Annual Value ('NAV')	Nil	
Less: Deduction u/s 24(a)/24(b)	Nil	
Chargeable Income from this House Property		**Nil**
2. **Deemed let out house property at Chennai**		
Gross Annual Value (Higher of Municipal Value and Fair Rent) [Rs 4,20,000 x 9/12]	3,15,000	
Less: Municipal Taxes (Property tax + Sewerage tax)	(18,000)	
Net Annual Value (NAV)	2,97,000	
Less: Deduction u/s 24(a) {30% of NAV}	(89,100)	
Less: Deduction u/s 24(b) {Interest on borrowed capital (See Note below)}	(1,91,940)	
Chargeable Income from this House Property		**15,960**
3. **Arrears in respect of Bangalore property taxable as per Section 25A after deduction of 30%** {Rs 60,000 * 70%}		**42,000**
Income chargeable u/h " House Property"		**57,960**

Working Note (Interest on borrowed capital):

• Interest for the current year (Rs 50,800 + Rs 1,31,300)	Rs 1,82,100
• 1/5th of pre-construction interest (Rs 49,200 x 1/5)	Rs 9,840
Interest Deduction Allowable u/s 24(b)	**Rs 1,91,940**

Answer 60

- Under Section 6(1), an individual is said to be resident in India if he satisfies any one of the following conditions:
  (i) He has been in India during the PY for a total period of 182 days or more; or
  (ii) He has been in India during the 4 years immediately preceding the PY for a total period of 365 days or more and has been in India for at least 60 days in the PY.

  If an individual satisfies any one of the conditions mentioned above, he is a resident. If both the above conditions are not satisfied, the individual is a non-resident.
- Therefore, the residential status of Miss Charlie, an American National, for PY 2018-19 has to be determined on the basis of her stay in India during PY 2018-19 and in the preceding four PYs. Her stay in India during PY 2018-19 and in the preceding four years is as under:

PY 2018-19	
➢ 01.04.2018 to 23.09.2018	176 days
➢ 27.03.2019 to 31.03.2019	5 days
Total	**181 days**

Four Preceding Previous Years	
➢ PY 2017-18 [1.4.2017 to 31.3.2018]	16 days
➢ PY 2016-17 [1.4.2016 to 31.3.2017]	Nil
➢ PY 2015-16 [1.4.2015 to 31.3.2016]	Nil
➢ PY 2014-15 [1.4.2014 to 31.3.2015]	Nil
Total	**16 days**

- The total stay of the assessee during the PY in India was less than 182 days and during the past four years was 16 days. Therefore, due to non-fulfillment of any of the two conditions, she would be treated as non-resident for AY 2019-20.

Computation of Total Income of Miss Charlie for AY 2019-20:

Particulars	Amount (Rs)	Amount (Rs)
Income from House Property:		
{Show room located in Mumbai remained on rent from 01.05.2018 to 31.03.2019 @ Rs 25,000 per month. Since the values of SR, FR & MV are not given, actual rent is taken as GAV}		
Gross Annual Value [25,000 x 11]	2,75,000	
Less: Municipal taxes	Nil	
Net Annual Value (NAV)	**2,75,000**	
Less: Deduction u/s 24(a) {30% of NAV}	(82,500)	
Less: Deduction u/s 24(b) {Interest on loan}	(97,500)	
Total Income u/h House Property		**95,000**
Income from other sources:		
• Rs 50,000 received from parents of husband would be exempt, since parents of husband fall within the definition of relatives and gifts from a relative are not chargeable to tax.	Nil	
• Rs 11,000 received from married sister of husband is exempt, since sister-in-law falls within the definition of relative and gifts from a relative are not chargeable to tax.	Nil	
• Gifts received from two friends of husband (Rs 1,51,000 & Rs 21,000) are taxable u/s 56(2)(x) since the aggregate amount of cash gift from non-relatives exceeds Rs 50,000.	1,72,000	**1,72,000**
Total Income		**2,67,000**

Computation of Tax Payable by Miss Charlie for AY 2019-20:

Particulars	Amount (Rs)
Tax on total income of Rs 2,67,000	850
Add: Health & Education Cess @ 4%	34
Total Tax Liability	**884**
Total Tax Liability (Rounded off u/s 288B)	**880**

Note: Since Miss Charlie is a non-resident for AY 2019-20, rebate u/s 87A would not be available to her even though her total income is less than Rs 3.5 lacs.

Miscellaneous

Answer 61

Computation of Income from House Property for AY 2019-20:

Particulars	Amount (in Rs)
Gross Annual Value (GAV)	**84,000**
• **Step 1**: Compute Expected Rent ('ER'). ER = Higher of MV of Rs 65,000 p.a. and FR of Rs 72,000 p.a. but restricted to SR of Rs 84,000 p.a. ER = Rs 72,000	
• **Step 2**: Compute Actual Rent Received/Receivable = Rs 7,000 x 12 = Rs 84,000	
• **Step 3**: GAV shall be higher of Step 1 & Step 2.	
Less: Municipal taxes	15,000
Net Annual Value (NAV)	**69,000**
Less: Deduction u/s 24(a) {30% of NAV}	(20,700)
Less: Deduction u/s 24(b) {Interest on borrowed capital}	NIL
Income u/h House Property	**48,300**

Answer 62

Computation of Income from House Property of Mr A for AY 2019-20:

Particulars	Amount (Rs)
Net Annual Value is nil (since house is self-occupied)	Nil
Less: Deduction u/s 24(b)	(2,00,000)
{Current year interest is Rs 2,40,000. Total pre-construction interest is also Rs 2,40,000. Current	

year interest plus 1/5th of pre-construction period interest is available as deduction u/s 24(b). Total comes out to Rs 2,88,000. However, total deduction is restricted to Rs 2,00,000}	
Loss u/h "House Property" {For Mr A}	**(2,00,000)**

Computation of Income from House Property of Mr B for AY 2019-20:

Particulars	Ground floor (Rs) (Self-occupied)	First floor (Rs) (Let-out)
Gross Annual Value ('GAV') (See note below)	Nil	90,000
Less: Municipal taxes (for first floor)	Nil	(4,000)
Net Annual Value ('NAV')	Nil	86,000
Less: Deduction u/s 24(a) {30% of NAV}	Nil	(25,800)
Less: Deduction u/s 24(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 allowed in five equal instalments of Rs 18,000 each	(9,000)	(9,000)
Loss from House Property	**(69,000)**	**(8,800)**
House Property Loss for Mr B (Both Ground Floor & 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, higher of expected rent and actual rent is taken as GAV. Actual rent shall be the rent for the period for which the property was let out during the PY.
- 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 30.6.2018.
- Expected Rent = Rs 75,000 (Higher of FR = Rs 1,00,000 x 9/12 = Rs 75,000; MV = Rs 72,000 x 9/12 = Rs 54,000)
  Actual Rent = Rs 90,000 (Rs 15,000 p.m. for 6 months from July 2018 to December 2018)
  Gross Annual Value =Rs 90,000 (being higher of expected rent of Rs 75,000 and actual rent of Rs 90,000).

Theory Questions

Answer 63

Refer relevant theory portion in the book.

Answer 64

Applicability of Section 22 for chargeability of income tax for:

(i) House property situated in foreign country:

- ➢ A resident assessee is taxable u/s 22 in respect of annual value of a house property situated in foreign country.
- ➢ NOR or NR is taxable in respect of income from such property if the income is received in India during the PY.
- ➢ Once incidence of tax is attracted u/s 22, the annual value will be computed as if the property is situated in India.

(ii) House property with 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 held 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 u/s 22.

Answer 65

- Deemed Owner – Section 27 (As given in book)
- Also, the provisions of Section 25A dealing with receipt of unrealised rent and arrears of rent also fall in this category. The receipt is considered as income u/h 'house property' though the recipient may not have legal ownership of the property to which the receipt relates.

Answer 66

(i) In case of resident individual, his global income is taxable in India. Therefore, income earned by residents from house properties situated in foreign countries is taxable in India. If the income from house properties situated outside India is chargeable to tax in India, the gross annual value of such property would be computed as if the property is situated in India. Further, municipal taxes paid under the laws of that country can also be deducted while arriving at the net annual value of the property. The Madras High Court in **CIT v Venugopala Reddiar** *{[1965] 58 ITR 439}* observed that while computing taxable income, no distinction should be made between a house property situated in India and a house property situated abroad.

(ii) If the property is used for agricultural purposes, the annual value of such property would be treated as "agricultural income" as per Section 2(1A)(c) and it is exempt u/s 10(1) of the Act. However, if the house property is used for purposes other than agriculture, the annual value of such property cannot be treated as agricultural income.

Answer 67

(1) Sub-letting receipt in the hands of Y can be assessed as "income from other sources" or as "PGBP income" depending upon the facts and circumstances of each case. It is not assessable as income from house property.

(2) Where the assessee uses his property for business, it is not assessable u/h "house property". He is entitled to depreciation u/s 32 on the building.

Answer 68

- As per Section 25A, where the assessee receives any amount by way of arrears of rent in respect of any property consisting of buildings or land appurtenant thereto of which he is the owner, the amount so received shall be chargeable to tax u/h "income from house property".
- It shall be charged to tax as the income of the PY in which such rent is received even if the assessee is no longer the owner of such property.
- In computing the income chargeable to tax in respect of the arrears so received, 30% shall be allowed as a deduction, irrespective of the actual expenditure incurred.

Answer 69

(i) **<u>Interest on borrowed capital is allowed as deduction u/s 24(b):</u>**

- As per Section 24(b), interest payable on loans borrowed for the purpose of acquisition, construction, repairs, renewal or reconstruction of house property can be claimed as deduction.
- Interest payable on borrowed capital for the period prior to the PY in which the property has been acquired or constructed, can be claimed as deduction over a period of 5 years in equal annual installments **commencing from the year of acquisition or completion of construction.**
- It is stated that the construction is completed only in May 2019. Hence, deduction in respect of interest on housing loan cannot be claimed in PY 2018-19 (AY 2019-20).

(ii) Repayment of any amount borrowed from National Housing Bank is eligible for deduction u/s 80C if the loan is taken for the purpose of purchase or construction of a residential house property, the income from which is chargeable to tax u/h 'income from house property'. However, deduction is eligible only if the income from such property is chargeable to tax u/h "income from house property". During AY 2019-20, there is no such income chargeable under this head. Hence, deduction u/s 80C cannot be claimed for AY 2019-20.