CHAPTER 4

HEADS OF INCOME

UNIT – 2 : INCOME FROM HOUSE PROPERTY

LEARNING OUTCOMES

After studying this unit, you would be able to –

- comprehend when income is chargeable under the head "Income from house property".
- appreciate the meaning and tax treatment of composite rent.
- determine annual value of different categories of house property.
- compute income from house property for different categories of house property.
- comprehend and apply the tax treatment on recovery of unrealized rent and arrears of rent.
- compute income from co-owned property.

2.1 CHARGEABILITY [SECTION 22]

(i) The process of computation of income under the head "Income from house property" starts with the determination of annual value of the property. The concept of annual value and the method of determination is laid down in section 23.

(ii) The annual value of any property comprising of building or land appurtenant thereto, of which the assessee is the owner, is chargeable to tax under the head "Income from house property".

However, where the property is occupied for the purpose of any business or profession carried on by him, the profit of which is chargeable to tax as **profits or gains from business or profession,** the annual value of such property would not be chargeable to tax under the head "Income from house property".

2.2 CONDITIONS FOR CHARGEABILITY

(i) Property should consist of any building or land appurtenant thereto.

(a) Buildings include not only residential buildings, but also factory buildings, offices, shops, godowns and other commercial premises.

(b) Land appurtenant means land connected with the building like garden, garage etc.

It may be noted that Income from letting out of vacant land is, however, taxable under the head "Income from other sources".

(ii) Assessee must be the owner of the property

(a) Owner is the person who is entitled to receive income from the property in his own right.

(b) The requirement of registration of the sale deed is not warranted.

(c) Ownership includes both free-hold and lease-hold rights.

(d) Ownership includes deemed ownership (discussed later in point 2.11)

(e) The person who owns the building need not also be the owner of the land upon which it stands.

(f) The assessee must be the owner of the house property during the previous year. It is not material whether he is the owner in the assessment year.

(g) If the title of the ownership of the property is under dispute in a court of law, the decision as to who will be the owner chargeable to income-tax under section 22 will be of the Income-tax Department till the court gives its decision to the suit filed in respect of such property.

However, in case of recovery of unrealized rent and arrears of rent, ownership of that property is not relevant. (discussed later in point 2.9)

(iii) The property may be used for any purpose, but it should not be used by the owner for the purpose of any business or profession carried on by him, the profit of which is chargeable to tax.

The income earned by an assessee engaged in the business of letting out of properties on rent would be taxable as business income[1].

(iv) Property held as stock-in-trade etc.

Annual value of house property will be charged under the head "Income from house property", where it is held by the assessee as stock-in-trade of a business also.

However, the annual value of property being held as stock in trade would be treated as NIL for a period 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, if such property is not let-out during such period. [Section 23(5)]

2.3 COMPOSITE RENT

(i) Meaning of composite rent: The owner of a property may sometimes receive rent in respect of building as well as –

(1) other assets like say, furniture, plant and machinery.

(2) for different services provided in the building, for eg. –

(a) Lifts;

(b) Security;

(c) Power backup;

The amount so received is known as **"composite rent"**.

(ii) Tax treatment of composite rent

Where composite rent includes rent of building and charges for different services (lifts, security etc.), the composite rent is has to be split up in the following manner-

(a) the sum attributable to use of property is to be assessed under section 22 as income from house property;

(b) the sum attributable to use of services is to charged to tax under the head "Profits and gains of business or profession" or under the head "Income from other sources", as the case may be.

1 *Supreme Court ruling in Rayala Corporation (P) Ltd. v. Asstt. CIT (2016) 386 ITR 500*

(iii) Manner of splitting up

If let out building and other assets are inseparable

Where composite rent is received from letting out of building and other assets (like furniture) and the two lettings are not separable i.e. the other party does not accept letting out of buildings without other assets, then the rent is taxable either as business income or income from other sources, the case may be.

This is applicable even if sum receivable for the two lettings is fixed separately.

If let out building and other assets are separable

Where composite rent is received from letting out of buildings and other assets and the two lettings are separable i.e. letting out of one is acceptable to the other party without letting out of the other, then

(a) income from letting out of building is taxable under "Income from house property";

(b) Income from letting out of other assets is taxable under "Profits and gains of business or Profession" or Income from other sources, as the case may be.

This is applicable even if a composite rent is received by the assessee from his tenant for the two lettings.

2.4 INCOME FROM HOUSE PROPERTY SITUATED OUTSIDE INDIA

(i) In case of a resident in India (resident and ordinarily resident in case of individuals and HUF), income from property situated outside India is taxable, whether such income is brought into India or not.

(ii) In case of a non-resident or resident but not ordinarily resident in India, income from a property situated outside India is taxable only if it is received in India.

2.5 DETERMINATION OF ANNUAL VALUE [SECTION 23]

Determination of Gross Annual Value (GAV) – Municipal tax paid by the owner during the previous year = Net Annual Value (NAV)

(i) Determination of annual value for different types of house properties

(1) <u>Where the property is let out throughout the previous year [Section 23(1)(a)/(b)]</u>

Where the property is let out for the whole year, then the GAV would be the higher of –

(a) Expected Rent (ER) and

(b) Actual rent received or receivable during the year

- The Expected Rent (ER) is the higher of fair rent (FR) and municipal value (MV), but restricted to standard rent (SR).

  For example, let us say the higher of FR and MV is X. Then ER = SR, if X>SR. However, if X<SR, ER = X.
- Expected Rent (ER) as per section 23(1)(a) cannot exceed standard rent (SR) but it can be lower than standard rent, in a case where standard rent is more than the higher of MV and FR.
- Municipal value is the value determined by the municipal authorities for levying municipal taxes on house property.
- Fair rent means rent which similar property in the same locality would fetch.
- The standard rent (SR) is fixed by the Rent Control Act.

From the GAV computed above, municipal taxes paid by the owner during the previous year is to be deducted to arrive at the NAV.

ILLUSTRATION 1

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	*80,000*	*55,000*	*65,000*	*24,000*	*80,000*
Fair Rent	*90,000*	*60,000*	*65,000*	*25,000*	*75,000*
Standard Rent	*N.A.*	*75,000*	*58,000*	*N.A.*	*78,000*
Actual rent received/ receivable	*72,000*	*72,000*	*60,000*	*30,000*	*72,000*

SOLUTION

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

Computation of GAV of each house owned by Jayashree

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

(2) <u>Where let out property is vacant for part of the year [Section 23(1)(c)]</u>

Where let out property is vacant for part of the year and owing to vacancy, the actual rent is lower than the ER, then the actual rent received or receivable will be the GAV of the property.

(3) <u>In case of self-occupied property or unoccupied property [Section 23(2)]</u>

(a) Where the property is self-occupied for **own residence** or **unoccupied** throughout the previous year, its Annual Value will be Nil, provided no other benefit is derived by the owner from such property.

> The 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.

(b) The benefit of exemption of one self-occupied house is available only to an individual/HUF.

(c) No deduction for municipal taxes is allowed in respect of such property.

(4) <u>Where a house property is let-out for part of the year and self-occupied for part of the year [Section 23(3)]</u>

(a) If a single unit of a property is self-occupied for part of the year and let-out for the remaining part of the year, then the ER for the whole year shall be taken into account for determining the GAV.

(b) The ER for the whole year shall be compared with the **actual rent for the let out period** and whichever is higher shall be adopted as the GAV.

(c) However, municipal tax for the whole year is allowed as deduction provided it is paid by the owner during the previous year.

(5) <u>In case of deemed to be let out property [Section 23(4)]</u>

(a) Where the assessee owns more than one property for self-occupation, then the income from any one such property, at the option of the assessee, shall be computed under the self-occupied property category and its annual value will be nil.

(b) The other self-occupied/unoccupied properties shall be treated as "deemed let out properties".

(c) This option can be changed year after year in a manner beneficial to the assessee.

(d) In case of deemed let-out property, the ER shall be taken as the GAV.

(e) The question of considering actual rent received/receivable does not arise. Consequently, no adjustment is necessary on account of property remaining vacant or unrealized rent.

(f) Municipal taxes actually paid by the owner during the previous year, in respect of the deemed let out properties, can be claimed as deduction.

(6) *<u>In case of a house property held as stock-in-trade [Section 23(5)]</u>*

(a) In some cases, property consisting of any building or land appurtenant thereto may be held as stock-in-trade, and the whole or any part of the property may not be let out during the whole or any part of the previous year.

(b) In such cases, the annual value of such property or part of the property shall be NIL.

(c) This benefit would be available for the period upto 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.

(7) <u>In case of a house property, a portion let out and a portion self-occupied</u>

(a) Income from any portion or part of a property which is let out shall be computed separately under the "let out property" category and the other portion or part which is self-occupied shall be computed under the "self-occupied property" category.

(b) There is no need to treat the whole property as a single unit for computation of income from house property.

(c) Municipal valuation/fair rent/standard rent, if not given separately, shall be apportioned between the let-out portion and self-occupied portion either on plinth area or built-up floor space or on such other reasonable basis.

(d) Property taxes, if given on a consolidated basis can be bifurcated as attributable to each portion or floor or on a reasonable basis.

Notional income instead of real income

Thus, under this head of income, there are circumstances where notional income is charged to tax instead of real income. For example –

- Where the assessee owns more than one house property for the purpose of self-occupation, the annual value of any one of those properties, at the option of the assessee, will be nil and the other properties are deemed to be let-out and income has to be computed on a notional basis by taking the Expected Rent (ER) as the GAV.
- In the case of let-out property also, if the Expected Rent (ER) exceeds the actual rent, then ER is taken as the GAV.
- In case of a house property held as stock-in-trade by assesse (which is not let out), income has to be computed on a notional basis by taking the Expected Rent (ER) as the GAV after 1 year from the end of the financial year in which certificate of completion of construction of the property is obtained from the competent authority.

(ii) Treatment of unrealised rent [*Explanation* to section 23(1)]

(1) The Actual rent received/receivable should not include any amount of rent which is not capable of being realised.

(2) However the conditions prescribed in Rule 4 should be satisfied. They are –

(a) the tenancy is *bona fide*;

(b) the defaulting tenant has vacated, or steps have been taken to compel him to vacate the property;

(c) the defaulting tenant is not in occupation of any other property of the assessee;

(d) 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.

(iii) Property taxes (Municipal taxes)

(1) Property taxes are allowable as deduction from the GAV subject to the following two conditions:

(a) It should be borne by the assessee (owner); and

(b) It should be actually paid during the previous year.

(2) If property taxes levied by a local authority for a particular previous year is not paid during that year, no deduction shall be allowed in the computation of income from house property for that year.

(3) However, if in any subsequent year, the arrears are paid, then, the amount so paid is allowed as deduction in computation of income from house property for that year.

(4) Thus, we find that irrespective of the previous year in which the liability to pay such taxes arise according to the method of accounting regularly employed by the owner, the deduction in respect of such taxes will be allowed only in the year of actual payment.

(5) In case of property situated outside India, taxes levied by local authority of the country in which the property is situated is deductible[2].

ILLUSTRATION 2

Rajesh, a British national, is a resident and ordinarily resident in India during the P.Y. 2017-18. 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 the P.Y. 2017-18. The value of one £ in Indian rupee to be taken at ₹ 82.50. Compute Rajesh's Net Annual Value of the property for the A.Y. 2018-19.

SOLUTION

For the P.Y.2017-18, 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 is be to allowed as deduction from the gross annual value.

Computation of Net Annual Value of the property of Mr. Rajesh for A.Y.2018-19

Particulars	₹
Gross Annual Value (£ 10,000 × 12 × 82.50)	99,00,000
Less: Municipal taxes paid (£ 8,000× 82.50)	6,60,000
Net Annual Value (NAV)	**92,40,000**

2.6 DEDUCTIONS FROM ANNUAL VALUE [SECTION 24]

(i) There are two deductions from annual value. They are –

(1) 30% of NAV; and

2 *CIT v. R. Venugopala Reddiar (1965) 58 ITR 439 (Mad)*

(2) Interest on borrowed capital

(1) <u>30% of NAV is allowed as deduction under section 24(a)</u>

(a) This is a flat deduction and is allowed irrespective of the actual expenditure incurred.

(b) The assessee will not be entitled to deduction of 30%, in the following cases, as the annual value itself is nil.

i. In case of self-occupied property or

ii. In case of property held as stock-in-trade and the whole or any part of the property is not let out during the whole or any part of the previous year, upto 1 year from the end of the financial year in which certificate of completion of construction of the property is obtained from the competent authority.

(2) <u>Interest on borrowed capital is allowed as deduction under section 24(b)</u>

Interest payable on loans borrowed for the purpose of acquisition, construction, repairs, renewal or reconstruction can be claimed as deduction.

Interest payable on a fresh loan taken to repay the original loan raised earlier for the aforesaid purposes is also admissible as a deduction.

Interest for pre-construction period:

Pre-construction period is the period prior to the previous year in which property is acquired or construction is completed.

Interest payable on borrowed capital for the period prior to the previous year in which the property has been acquired or constructed (Pre-construction interest), 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.

Interest for the year in which construction is completed:

Interest relating to the year of completion of construction can be **fully claimed** in that year irrespective of the date of completion.

(ii) Deduction in respect of one self-occupied property where annual value is nil

(1) In this case, the assessee will be allowed a deduction on account of interest **(including 1/5th of the accumulated interest of pre-construction period)** as under –

S. No.	Conditions	Amount of Deduction
(a)	**Loan borrowed before 1.4.99:** Where the property has been acquired, constructed, repaired, renewed or reconstructed with borrowed capital before 1.4.99.	Actual interest payable subject to maximum of ₹ 30,000.
(b)	**Loan borrowed on or after 1.4.99:** (i) Where the property is acquired or constructed with capital borrowed on or after 1.4.99 and such acquisition or construction is completed within 5 years from the end of the financial year in which the capital was borrowed.	Actual interest payable subject to maximum of ₹ 2,00,000, if certificate mentioned in (2) below is obtained.
	(ii) Where the property is repaired, renewed or reconstructed with capital borrowed on or after 1.4.99.	Actual interest payable subject to a maximum of ₹ 30,000.

(2) **Certificate to be furnished:** For the purpose of claiming deduction of ₹ 2,00,000 as per (b) in the table given above, the assessee should furnish a certificate from the person to whom any interest is payable on the capital borrowed, specifying the amount of interest payable by the assessee for the purpose of such acquisition or construction of the property.

Important points:

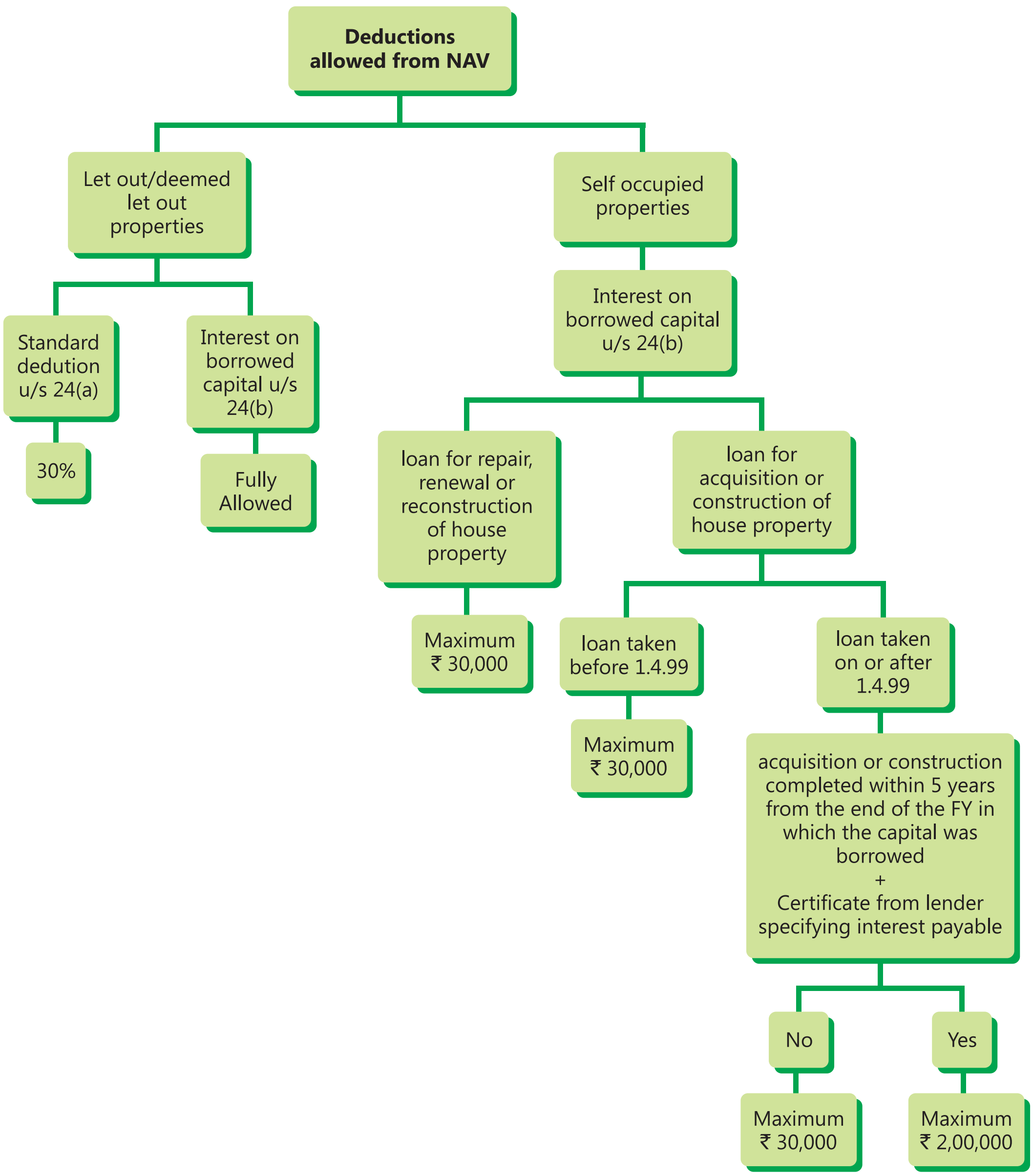
(1) The ceiling limit would not apply to let-out/deemed let-out property: The ceiling prescribed for one self-occupied property as above in respect of interest on loan borrowed does not apply to a deemed let-out property.

(2) Interest allowable on accrual basis: Deduction under section 24(b) for interest is available on accrual basis. Therefore interest accrued but not paid during the year can also be claimed as deduction.

(3) Unpaid purchase price would be considered as capital borrowed: Where a buyer enters into an arrangement with a seller to pay the sale price in installments along with interest due thereon, the seller becomes the lender in relation to the unpaid purchase price and the buyer becomes the borrower. In such a case, unpaid purchase price can be treated as capital borrowed for acquiring property and interest paid thereon can be allowed as deduction under section 24.

(4) Interest on unpaid interest is not deductible.

Deductions from Net Annual Value: At a Glance



2.7 COMPUTATION OF "INCOME FROM HOUSE PROPERTY" FOR DIFFERENT CATEGORIES OF PROPERTY

(I) PROPERTY LET OUT THROUGHOUT THE PREVIOUS YEAR

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

ILLUSTRATION 3

Anirudh has a property whose municipal valuation is ₹ 1,30,000 p.a. The fair rent is ₹ 1,10,000 p.a. and the standard rent fixed by the Rent Control Act is ₹ 1,20,000 p.a. The property was let out for a rent of ₹ 11,000 p.m. throughout the previous year. Unrealised rent was ₹ 11,000 and all conditions prescribed by Rule 4 are satisfied. He paid municipal taxes @10% of municipal valuation. Interest on borrowed capital was ₹ 40,000 for the year. Compute the income from house property of Anirudh for A.Y. 2018-19.

SOLUTION

Computation of Income from house property of Mr. Anirudh for A.Y.2018-19

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

(II) LET OUT PROPERTY VACANT FOR PART OF THE YEAR

Particulars		Amount
Computation of GAV		
Step 1	Compute ER	
	ER = Higher of MV and FR, but restricted to SR	
Step 2	Compute Actual rent received/receivable	
	Actual rent received/receivable for let out period *less* unrealized rent as per Rule 4	

Particulars			Amount
Step 3	Compare ER and Actual rent received/receivable computed for the let-out period		
Step 4	If Actual rent is lower than ER owing to vacancy, then Actual rent is the GAV. If Actual rent is lower than ER due to other reasons, then ER is the GAV. However, in spite of vacancy, if the actual rent is higher than the ER, then Actual rent is the GAV.		
Gross Annual Value (GAV)			A
Less:	Municipal taxes (paid by the owner during the previous year)		B
Net Annual Value (NAV) = (A-B)			C
Less:	**Deductions under section 24**		
	(a) 30% of NAV	D	
	(b) Interest on borrowed capital (actual without any ceiling limit)	E	
Income from house property (C-D-E)			F

ILLUSTRATION 4

Ganesh has a property whose municipal valuation is ₹ 2,50,000 p.a. The fair rent is ₹ 2,00,000 p.a. and the standard rent fixed by the Rent Control Act is ₹ 2,10,000 p.a. The property was let out for a rent of ₹ 20,000 p.m. However, the tenant vacated the property on 31.1.2018. Unrealised rent was ₹ 20,000 and all conditions prescribed by Rule 4 are satisfied. He paid municipal taxes @8% of municipal valuation. Interest on borrowed capital was ₹ 65,000 for the year. Compute the income from house property of Ganesh for A.Y.2018-19.

SOLUTION

Computation of income from house property of Ganesh for A.Y.2018-19

Particulars		Amount in ₹	
Computation of GAV			
Step 1	Compute ER		
	ER = Higher of MV of ₹ 2,50,000 p.a. and FR of ₹ 2,00,000 p.a., but restricted to SR of ₹ 2,10,000 p.a.	2,10,000	
Step 2	Compute Actual rent received/receivable		

Particulars		Amount in ₹	
	Actual rent received/receivable for let out period *less* unrealized rent as per Rule 4 = ₹ 2,00,000 - ₹ 20,000	1,80,000	
Step 3	Compare ER and Actual rent received/ receivable		
Step 4	In this case the actual rent of ₹ 1,80,000 is lower than ER of ₹ 2,10,000 owing to vacancy, since, had the property not been vacant the actual rent would have been ₹ 2,20,000 (₹ 1,80,000 + ₹ 40,000). Therefore, actual rent is the GAV.	1,80,000	
Gross Annual Value (GAV)			**1,80,000**
Less:	Municipal taxes (paid by the owner during the previous year) = 8% of ₹ 2,50,000		20,000
Net Annual Value (NAV)			**1,60,000**
Less:	Deductions under section 24		
	(a) 30% of NAV = 30% of ₹ 1,60,000	48,000	
	(b) Interest on borrowed capital (actual without any ceiling limit)	65,000	1,13,000
Income from house property			**47,000**

(III) SELF-OCCUPIED PROPERTY OR UNOCCUPIED PROPERTY

Particulars		Amount
Annual value under section 23(2)		Nil
Less:	**Deduction under section 24**	
	Interest on borrowed capital (i) Interest on loan taken for acquisition or construction of house on or after 1.4.99 and same was completed within 5 years from the end of the financial year in which capital was borrowed, interest paid or payable subject to a maximum of ₹ 2,00,000 (including apportioned pre-construction interest). (ii) In case of loan for acquisition or construction taken prior to 1.4.99 or loan taken for repair, renovation or reconstruction at any point of time, interest paid or payable subject to a maximum of ₹ 30,000.	E
Income from house property		-E

ILLUSTRATION 5

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 ₹ 25,000 p.m. The municipal valuation is ₹ 23,000 p.m. Municipal taxes paid is ₹ 8,000. The house construction began in February 2011 with a loan of ₹ 20,00,000 taken from SBI Housing Finance Ltd. The construction was completed on 30.11.2013. The accumulated interest up to 31.3.2013 is ₹ 1,50,000. During the previous year 2017-18, Poorna paid ₹ 2,40,000 which included ₹ 1,80,000 as interest. Compute Poorna's income from house property for A.Y. 2018-19.

SOLUTION

Computation of income from house property of Smt. Poorna for A.Y.2018-19

Particulars		Amount ₹
Annual Value of one house used for self-occupation under section 23(2)		Nil
Less:	**Deduction under section 24**	
	Interest on borrowed capital Interest on loan was taken for construction of house on or after 1.4.99 and same was completed within the prescribed time - interest paid or payable subject to a maximum of ₹ 2,00,000 (including apportioned pre-construction interest) will be allowed as deduction. In this case the total interest is ₹ 1,80,000 + ₹ 30,000 (Being 1/5th of ₹ 1,50,000) = ₹ 2,10,000. However, the interest deduction is restricted to ₹ 2,00,000.	2,00,000
Loss from house property		-2,00,000

(IV) HOUSE PROPERTY LET-OUT FOR PART OF THE YEAR AND SELF-OCCUPIED FOR PART OF THE YEAR

Particulars		Amount
Computation of GAV		
Step 1	Compute ER for the whole year	
	ER = Higher of MV and FR, but restricted to SR	
Step 2	Compute Actual rent received/receivable	
	Actual rent received/receivable for the period let out *less* unrealized rent as per Rule 4	
Step 3	Compare ER for the whole year with the actual rent received/receivable for the let out period	

Particulars			Amount
Step 4	GAV is the higher of ER computed for the whole year and Actual rent received/receivable computed for the let-out period		
Gross Annual Value (GAV)			A
Less:	Municipal taxes (paid by the owner during the previous year)		B
Net Annual Value (NAV) = (A-B)			C
Less:	**Deductions under section 24**		
	(a) 30% of NAV	D	
	(b) Interest on borrowed capital (actual without any ceiling limit)	E	
Income from house property (C-D-E)			F

ILLUSTRATION 6

Smt. Rajalakshmi owns a house property at Adyar in Chennai. The municipal value of the property is ₹ 5,00,000, fair rent is ₹ 4,20,000 and standard rent is ₹ 4,80,000. The property was let-out for ₹ 50,000 p.m. up to December 2017. Thereafter, the tenant vacated the property and Smt. Rajalakshmi used the house for self-occupation. Rent for the months of November and December 2017 could not be realised 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 ₹ 25,000 during the year for amount borrowed for repairs for the house property. Compute her income from house property for the A.Y. 2018-19.

SOLUTION

Computation of income from house property of Smt. Rajalakshmi for the A.Y.2018-19

Particulars		Amount in ₹	
Computation of GAV			
Step 1	Compute ER for the whole year		
	ER = Higher of MV of ₹ 5,00,000 and FR of ₹ 4,20,000, but restricted to SR of ₹ 4,80,000	4,80,000	
Step 2	Compute Actual rent received/receivable		

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

(V) DEEMED TO BE LET OUT PROPERTY

Particulars			Amount
Gross Annual Value (GAV) ER is the GAV of house property ER = Higher of MV and FR, but restricted to SR			A
Less:	Municipal taxes (paid by the owner during the previous year)		B
Net Annual Value (NAV) = (A-B)			C
Less:	**Deductions under section 24**		
	(a) 30% of NAV	D	
	(b) Interest on borrowed capital (actual without any ceiling limit)	E	
Income from house property (C-D-E)			F

ILLUSTRATION 7

Ganesh has two houses, both of which are self-occupied. The particulars of the houses for the P.Y. 2017-18 are as under:

Particulars	*House I*	*House II*
Municipal valuation p.a.	*1,00,000*	*1,50,000*
Fair rent p.a.	*75,000*	*1,75,000*
Standard rent p.a.	*90,000*	*1,60,000*
Date of completion	*31.3.1999*	*31.3.2001*
Municipal taxes paid during the year	*12%*	*8%*
Interest on money borrowed for repair of property during the current year	-	*55,000*

Compute Ganesh's income from house property for A.Y.2018-19 and suggest which house should be opted by Ganesh to be assessed as self-occupied so that his tax liability is minimum.

SOLUTION

Computation of income from house property of Ganesh for the A.Y.2018-19

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

Particulars		Amount in ₹	
		House I	House II
Gross Annual Value (GAV) ER is the GAV of house property ER = Higher of MV and FR, but restricted to SR		90,000	1,60,000
Less:	Municipal taxes (paid by the owner during the previous year)	12,000	12,000
Net Annual Value (NAV)		**78,000**	**1,48,000**
Less:	**Deductions under section 24**		
	(a) 30% of NAV	23,400	44,400
	(b) Interest on borrowed capital	-	55,000
Income from house property		**54,600**	**48,600**

OPTION 1 (House I – self-occupied and House II – deemed to be let out)

If House I is opted to be self-occupied, the income from house property shall be –

Particulars	Amount in ₹
House I (Self-occupied)	Nil
House II (Deemed to be let-out)	48,600
Income from house property	**48,600**

OPTION 2 (House I – deemed to be let out and House II – self-occupied)

If House II is opted to be self-occupied, the income from house property shall be –

Particulars	Amount in ₹
House I (Deemed to be let-out)	54,600
House II (Self-occupied) (interest deduction restricted to ₹ 30,000)	-30,000
Income from house property	**24,600**

Since Option 2 is more beneficial, Ganesh should opt to treat House II as self-occupied and House I as deemed to be let out. His income from house property would be ₹ 24,600 for the A.Y. 2018-19.

(VI) HOUSE PROPERTY, A PORTION LET OUT AND A PORTION SELF-OCCUPIED

ILLUSTRATION 8

Prem owns a house in Madras. During the previous year 2017-18, 2/3rd portion of the house was self-occupied and 1/3rd portion was let out for residential purposes at a rent of ₹ 8,000 p.m. Municipal value of the property is ₹ 3,00,000 p.a., fair rent is ₹ 2,70,000 p.a. and standard rent is ₹ 3,30,000 p.a. He paid municipal taxes @10% of municipal value during the year. A loan of ₹ 25,00,000 was taken by him during the year 2013 for acquiring the property. Interest on loan paid during the previous year 2017-18 was ₹ 1,20,000. Compute Prem's income from house property for the A.Y.2018-19.

SOLUTION

There are two units of the house. Unit I with 2/3rd area is used by Prem for self-occupation throughout the year and no benefit is derived from that unit, hence it will be treated as self-occupied and its annual value will be Nil. Unit 2 with 1/3rd area is let-out throughout the previous year and its annual value has to be determined as per section 23(1).

Computation of income from house property of Mr. Prem for A.Y.2018-19

Particulars	Amount in ₹	
Unit I (2/3rd area – self-occupied)		
Annual Value		Nil

Particulars		Amount in ₹	
Less: Deduction under section 24(b) 2/3rd of ₹ 1,20,000			80,000
Income from Unit I (self-occupied)			**-80,000**
Unit II (1/3rd area – let out)			
Computation of GAV			
Step I	Compute ER		
	ER = Higher of MV and FR, restricted to SR However, in this case, SR of ₹ 1,10,000 (1/3rd of ₹ 3,30,000) is more than the higher of MV of ₹ 1,00,000 (1/3rd of ₹ 3,00,000) and FR of ₹ 90,000 (1/3rd of ₹ 2,70,000). Hence the higher of MV and FR is the ER. In this case, it is the MV.	1,00,000	
Step 2	Compute actual rent received/ receivable ₹ 8,000×12 = ₹ 96,000	96,000	
Step 3	Compare ER and Actual rent received/ receivable		
Step 4	GAV is the higher of ER and actual rent received/receivable i.e. higher of ₹ 1,00,000 and ₹ 96,000	1,00,000	
Gross Annual Value(GAV)			**1,00,000**
Less:	Municipal taxes paid by the owner during the previous year relating to let-out portion 1/3rd of (10% of ₹ 3,00,000) = ₹ 30,000/3 = ₹ 10,000		10,000
Net Annual Value(NAV)			**90,000**
Less:	Deductions under section 24		
	(a) 30% of NAV = 30% of ₹ 90,000	27,000	
	(b) Interest paid on borrowed capital (relating to let out portion) 1/3 rd of ₹ 1,20,000	40,000	67,000
Income from Unit II (let-out)			**23,000**
Loss under the head "Income from house property" = ₹ -80,000 + ₹ 23,000 = ₹ -57,000			

2.8 INADMISSIBLE DEDUCTIONS [SECTION 25]

Interest chargeable under this Act which is payable outside India shall not be deducted if –

(a) tax has not been paid or deducted from such interest and

(b) there is no person in India who may be treated as an agent[3].

2.9 PROVISION FOR ARREARS OF RENT AND UNREALIZED RENT RECEIVED SUBSEQUENTLY [SECTION 25A]

(i) As per section 25A(1), the amount of rent received in arrears from a tenant or the amount of unrealised rent realised subsequently from a tenant by an assessee shall be deemed to be income from house property in the financial year in which such rent is received or realised, and shall be included in the total income of the assessee under the head "Income from house property", whether the assessee is the owner of the property or not in that financial year.

(ii) Section 25A(2) provides a deduction of 30% of arrears of rent or unrealised rent realised subsequently by the assessee.

(iii) **Summary:**

Section 25A	
	Arrears of Rent / Unrealised Rent
(i)	Taxable in the year of receipt/realisation
(ii)	Deduction@30% of rent received/realised
(iii)	Taxable even if assessee is not the owner of the property in the financial year of receipt/realisation.

ILLUSTRATION 9

Mr. Anand sold his residential house property in March, 2017.

In June, 2017, he recovered rent of ₹ 10,000 from Mr. Gaurav, to whom he had let out his house for two years from April 2011 to March 2013. He could not realise two months rent of ₹ 20,000 from him and to that extent his actual rent was reduced while computing income from house property for A.Y.2013-14.

Further, he had let out his property from April, 2013 to February, 2017 to Mr. Satish. In April, 2015, he had increased the rent from ₹ 12,000 to ₹ 15,000 per month and the

3 under section 163

same was a subject matter of dispute. In September, 2017, the matter was finally settled and Mr. Anand received ₹ 69,000 as arrears of rent for the period April 2015 to February, 2017.

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

Since the unrealised rent was recovered in the P.Y. 2017-18, the same would be taxable in the A.Y. 2018-19 under section 25A, irrespective of the fact that Mr. Anand was not the owner of the house in that year. Further, the arrears of rent was also received in the P.Y. 2017-18, and hence the same would be taxable in the A.Y. 2018-19 under section 25A, even though Mr. Anand was not the owner of the house in that year. A deduction of 30% of unrealised rent recovered and arrears of rent would be allowed while computing income from house property of Mr. Anand for A.Y. 2018-19.

Computation of income from house property of Mr. Anand for A.Y.2018-19

Particulars		₹
(i)	Unrealised rent recovered	10,000
(ii)	Arrears of rent received	69,000
		79,000
Less:	Deduction@30%	23,700
Income from house property		**55,300**

2.10 TREATMENT OF INCOME FROM CO-OWNED PROPERTY [SECTION 26]

(i) Where property is owned by two or more persons, whose shares are definite and ascertainable, then the income from such property cannot be taxed as income of an AOP.

(ii) The share income of each such co-owner should be determined in accordance with sections 22 to 25 and included in his individual assessment.

(iii) Where the house property owned by co-owners is self occupied by each of the co-owners, the annual value of the property of each co-owner will be Nil and each co-owner shall be entitled to a deduction of ₹ 30,000 / ₹ 2,00,000, as the case may be, under section 24(b) on account of interest on borrowed capital.

(iv) Where the house property owned by co-owners is let out, the income from such property shall be computed as if the property is owned by one owner and thereafter the income so computed shall be apportioned amongst each co-owner as per their specific share.

2.11 DEEMED OWNERSHIP [SECTION 27]

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

(i) **Transfer to a spouse [Section 27(i)] –** In case of transfer of house property by an individual to his or her spouse otherwise than for adequate consideration, the transferor is deemed to be the owner of the transferred property.

Exception– *In case of transfer to spouse in connection with an agreement to live apart, the transferor will not be deemed to be the owner. The transferee will be the owner of the house property.*

(ii) **Transfer to a minor child [Section 27(i)] –** In case of transfer of house property by an individual to his or her minor child otherwise than for adequate consideration, the transferor would be deemed to be owner of the house property transferred.

Exception– *In case of transfer to a minor married daughter, the transferor is not deemed to be the owner.*

Note - Where cash is transferred to spouse/minor child and the transferee acquires property out of such cash, then the transferor shall not be treated as deemed owner of the house property. However, clubbing provisions will be attracted.

(iii) **Holder of an impartible estate [Section 27(ii)] –** The impartible estate is 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.

After enactment of the Hindu Succession Act, 1956, all the properties comprised in an impartible estate by custom is to be assessed in the status of a HUF. However, section 27(ii) will continue to be applicable in relation to impartible estates by grant or covenant.

(iv) **Member of a co-operative society etc. [Section 27(iii)] –** A member of a co-operative society, company or other association of persons to whom a building or part thereof is allotted or leased under a House Building Scheme of a society/ company/association, shall be deemed to be owner of that building or part thereof allotted to him although the co-operative society/company/ association is the legal owner of that building.

(v) **Person in possession of a property [Section 27(iiia)] –** A person who is allowed to take or retain the possession of any building or part thereof in part performance of a contract of the nature referred to in section 53A of the Transfer of Property Act shall be the deemed owner of that house property. This would include cases where the –

(1) possession of property has been handed over to the buyer

(2) sale consideration has been paid or promised to be paid to the seller by the buyer

(3) sale deed has not been executed in favour of the buyer, although certain other documents like power of attorney/agreement to sell/will etc. have been executed.

In all the above cases, the buyer would be deemed to be the owner of the property although it is not registered in his name.

(v) Person having right in a property for a period not less than 12 years [Section 27(iiib)] – A person who acquires any rights in or with respect to any building or part thereof, by virtue of any transaction as is referred to in section 269UA(f) i.e. transfer by way of lease for not less than 12 years, shall be deemed to be the owner of that building or part thereof.

Exception – *In case the person acquiring any rights by way of lease from month to month or for a period not exceeding one year, such person will not be deemed to be the owner.*

EXERCISE

Question 1

Mr. Raman is a co-owner of a house property along with his brother holding equal share in the property.

Particulars	₹
Municipal value of the property	*1,60,000*
Fair rent	*1,50,000*
Standard rent under the Rent Control Act	*1,70,000*
Rent received	*15,000 p.m.*

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

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

Compute the income from this property chargeable in the hands of Mr. Raman for the A.Y. 2018-19.

Answer

Computation of income from house property of Shri Raman for A.Y. 2018-19

Particulars	₹	₹
Gross Annual Value **(See Note 1 below)**		1,80,000
Less: Municipal taxes – paid by the tenant, hence not deductible		Nil

Net Annual Value (NAV)		1,80,000
Less: Deductions under section 24		
(i) 30% of NAV	54,000	
(ii) Interest on housing loan **(See Note 2 below)**		
- Interest on loan taken from bank	25,000	
- Interest on fresh loan to repay old loan for this property	5,000	84,000
Income from house property		**96,000**
50% share taxable in the hands of Shri Raman **(See Note 3 below)**		**48,000**

Notes:

1. Computation of Gross Annual Value (GAV)

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

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

2. Interest on housing loan is allowable as a deduction under section 24 on accrual basis. Further, interest on fresh loan taken to repay old loan is also allowable as deduction. However, interest on unpaid interest is not allowable as deduction under section 24.

3. Section 26 provides that where a house property is owned by two or more persons whose shares are definite and ascertainable, the share of each such person in the income of house property, as computed in accordance with sections 22 to 25, shall be included in his respective total income. Therefore, 50% of the total income from the house property is taxable in the hands of Mr. Raman since he is an equal owner of the property.

Question 2

Mr. X owns one residential house in Mumbai. The house is having two identical units.

First unit of the house is self-occupied by Mr. X and another unit is rented for ₹ 8,000 p.m. The rented unit was vacant for 2 months during the year. The particulars of the house for the previous year 2017-18 are as under:

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

Compute income from house property of Mr. X for the A.Y. 2018-19.

Answer

Computation of Income from house property for A.Y. 2018-19

Particulars	₹	₹
(A) Rented unit (50% of total area–See Note 1 below) **Step I - Computation of Expected Rent** Municipal valuation (₹ 1,90,000 x ½)	95,000	
Fair rent (₹ 1,85,000 x ½)	92,500	
Standard rent (₹ 1,62,000 x ½)	81,000	
Expected Rent is higher of municipal valuation and fair rent, but restricted to standard rent	81,000	
Step II - Actual Rent		
Rent receivable for the whole year (₹ 8,000 x 12)	96,000	
Step III – Computation of Gross Annual Value		
Actual rent received owing to vacancy (₹ 96,000 – ₹ 16,000)	80,000	
Since, owing to vacancy, the actual rent received is lower than the Expected Rent, the actual rent received is the Gross Annual Value		
Gross Annual Value		**80,000**
Less: Municipal taxes (15% of ₹ 95,000)		14,250
Net Annual value		**65,750**
Less : Deductions under section 24 -		

Particulars	₹	₹
(i) 30% of net annual value	19,725	
(ii) Interest on borrowed capital (₹ 750 x 12)	9,000	28,725
Taxable income from let out portion		**37,025**
(B) Self occupied unit (50% of total area – See Note 1 below)		
Annual value	Nil	
Less : Deduction under section 24 -		
Interest on borrowed capital (₹ 750 x 12)	9,000	9,000
Income from house property		**28,025**

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

Question 3

Mr. Vikas owns a house property whose Municipal Value, Fair Rent and Standard Rent are ₹ 96,000, ₹ 1,26,000 and ₹ 1,08,000 (per annum), respectively.

During the Financial Year 2017-18, one-third of the portion of the house was let out for residential purpose at a monthly rent of ₹ 5,000. The remaining two-third portion was self-occupied by him. Municipal tax @ 11 % of municipal value was paid during the year.

The construction of the house began in June, 2010 and was completed on 31-5-2013.

Vikas took a loan of ₹ 1,00,000 on 1-7-2010 for the construction of building.

He paid interest on loan @ 12% per annum and every month such interest was paid.

Compute income from house property of Mr. Vikas for the Assessment Year 2018-19.

Answer

Computation of income from house property of Mr. Vikas for the A.Y. 2018-19

Particulars	₹	₹
Income from house property		
I. Self-occupied portion (Two third)		
Net Annual value		Nil
Less: Deduction under section 24(b)		
Interest on loan **(See Note below)** (₹ 18,600 x 2/3)		12,400
Loss from self occupied property		**(12,400)**
II. Let-out portion (One third)		
Gross Annual Value		

Particulars		₹	₹
(a) Actual rent received (₹ 5,000 x 12) (b) Expected rent [higher of municipal valuation (i.e.,₹ 96,000) and fair rent (i.e., ₹ 1,26,000) but restricted to standard rent (i.e., ₹ 1,08,000)] = ₹ 1,08,000 x 1/3	₹ 60,000 ₹ 36,000		
Higher of (a) or (b) *Less:* Municipal taxes (₹ 96,000 x 11% x 1/3)		60,000 3,520	
Net Annual Value *Less:* Deductions under section 24 (a) 30% of NAV (b) Interest on loan**(See Note below)** (₹ 18,600x1/3)		**56,480** 16,944 6,200	 **33,336**
Income from house property			**20,936**

Note: Interest on loan taken for construction of building

Interest for the year (1.4.2017 to 31.3.2018) = 12% of ₹ 1,00,000 = ₹ 12,000

Pre-construction period interest = 12% of ₹ 1,00,000 for 33 months (from 1.07.2010 to 31.3.2013) = ₹ 33,000

Pre-construction period interest to be allowed in 5 equal annual installments of ₹ 6,600 from the year of completion of construction i.e. from F.Y. 2013-14 till F.Y. 2017-18.

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

Question 4

Mrs. Rohini Ravi, a citizen of the U.S.A., is a resident and ordinarily resident in India during the financial year 2017-18. She owns a house property at Los Angeles, U.S.A., which is used as her residence. The annual value of the house is $20,000. The value of one USD ($) may be taken as ₹ 60.

She took ownership and possession of a flat in Chennai on 1.7.2017, 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 31.3.2018. The municipal valuation is ₹ 32,000 p.m. and the fair rent is ₹ 4,20,000 p.a. She paid the following to Corporation of Chennai:

Property Tax ₹ 16,200

Sewerage Tax ₹ 1,800

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

	₹
Period prior to 1.4.2017	*49,200*

	₹
1.4.2017 to 30.6.2017	*50,800*
1.7.2017 to 31.3.2018	*1,31,300*

She had a house property in Bangalore, which was sold in March, 2014. In respect of this house, she received arrears of rent of ₹ 60,000 in March, 2018. This amount has not been charged to tax earlier.

Compute the income chargeable from house property of Mrs. Rohini Ravi for the assessment year 2018-19, exercising the most beneficial option available.

Answer

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

She possesses a self-occupied house at Los Angeles as well as at Chennai. At her option, one house shall be treated as self-occupied, whose annual value will be nil. The other self-occupied house property will be treated as "deemed let out property".

The annual value of the Los Angeles house is ₹ 12,00,000 and the Chennai flat is ₹ 3,15,000. 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 under section 25A. It is not essential that the assessee should continue to be the owner. 30% of the arrears of rent shall be allowed as deduction.

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

	Particulars	₹	₹
1.	**Self-occupied house at Los Angeles**		
	Annual value	Nil	
	Less: Deduction under section 24	Nil	
	Chargeable income from this house property		Nil
2.	**Deemed let out house property at Chennai**		
	Annual value (Higher of municipal value and fair rent) [₹ 4,20,000 x 9/12]		3,15,000
	Less: Municipal Taxes (Property tax + Sewerage tax)		18,000

	Particulars	₹	₹
	Net Annual Value (NAV)		2,97,000
	Less: Deductions under section 24		
	30% of NAV	89,100	
	Interest on borrowed capital **(See Note below)**	1,91,940	2,81,040
			15,960
3.	**Arrears in respect of Bangalore property(Section 25A)**		
	Arrears of rent received	60,000	
	Less: Deduction @ 30%u/s 25A(2)	18,000	42,000
Income chargeable under the head "Income from house property"			**57,960**

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

Question 5

Two brothers Arun and Bimal are co-owners of a house property with equal share. The property was constructed during the financial year 1998-1999. The property consists of eight identical units and is situated at Cochin.

During the financial year 2017-18, each co-owner occupied one unit for residence and the balance of six units were let out at a rent of ₹ 12,000 per month per unit. The municipal value of the house property is ₹ 9,00,000 and the municipal taxes are 20% of municipal value, which were paid during the year. The other expenses were as follows:

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

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

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

The other income of Mr. Arun and Mr. Bimal are ₹ 2,90,000 and ₹ 1,80,000, respectively, for the financial year 2017-18.

Compute the income under the head 'Income from House Property' and the total income of two brothers for the assessment year 2018-19.

Answer

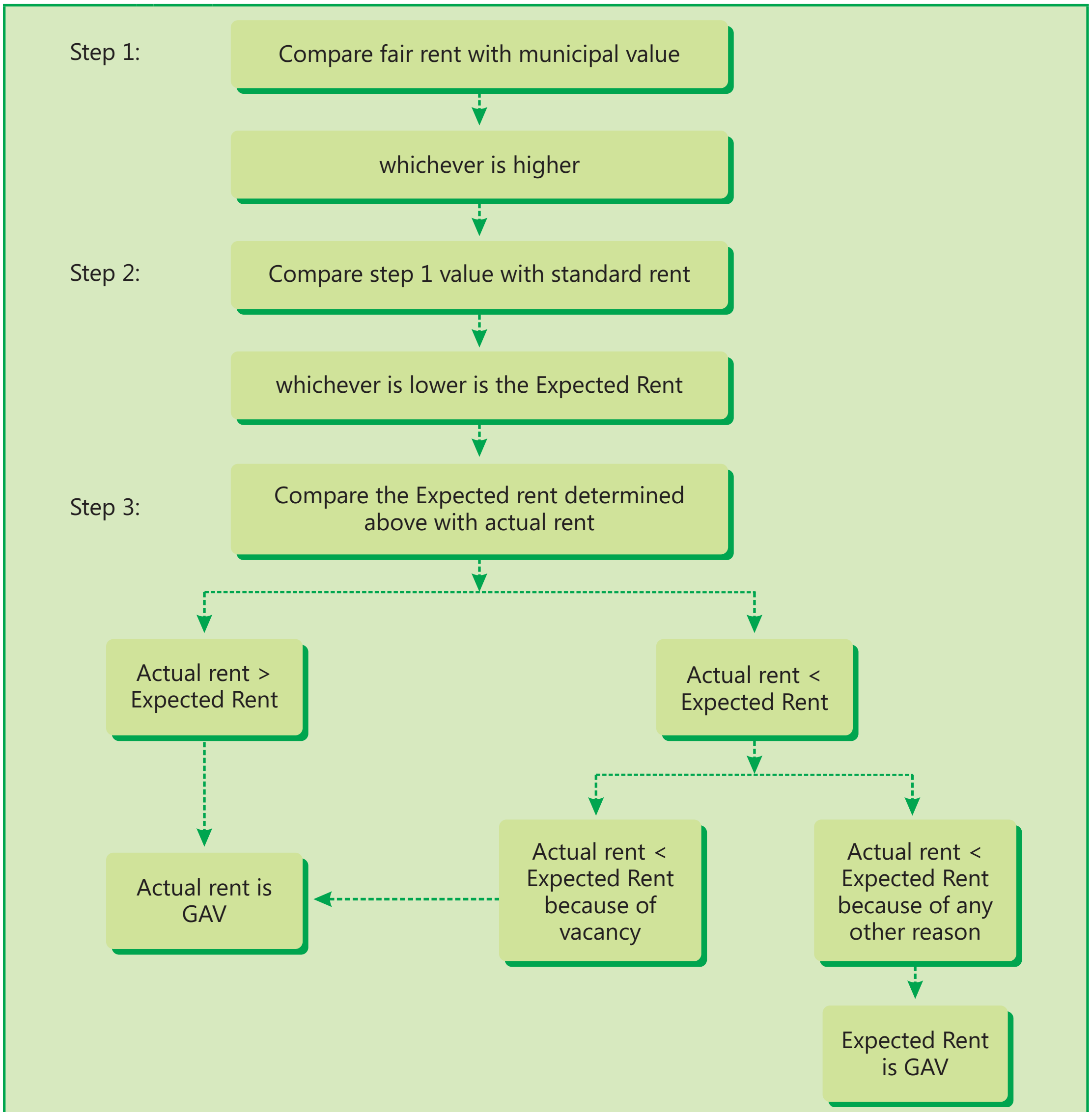
Computation of total income for the A.Y. 2018-19

Particulars	Arun (₹)	Bimal(₹)
Income from house property		
I. Self-occupied portion (25%)		
Annual value	Nil	Nil
Less: Deduction under section 24(b)		
Interest on loan taken for construction ₹ 37,500 (being 25% of ₹ 1.5 lakh) restricted to maximum of ₹ 30,000 for each co-owner since the property was constructed before 1.04.1999. Hence, it is assumed that loan was taken before 1.4.1999	30,000	30,000
Loss from self occupied property	(30,000)	(30,000)
II. Let-out portion (75%) – See Working Note below	1,25,850	1,25,850
Income from house property	**95,850**	**95,850**
Other Income	2,90,000	1,80,000
Total Income	**3,85,850**	**2,75,850**

Working Note – Computation of Income from Let-Out Portion of House Property

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

LET US RECAPTILUATE		
Section	**Contents**	
22	**Basis of Charge** The annual value of any property comprising of building or land appurtenant thereto, of which the assessee is the owner, is chargeable to tax under the head "Income from house property".	
	(i)	**Property should consist of any building or land appurtenant thereto** Income from letting out of vacant land is, however, taxable under the head "Income from other sources
	(ii)	**Assessee must be the owner of the property**
	(iii)	The property may be used for any purpose, but it should **not be used by the owner for the purpose of any business or profession carried on by him,** the profit of which is chargeable to tax. Further, the income earned by an assessee engaged in the business of letting out of properties on rent would be taxable as business income.
	(iv)	**Property held as stock-in-trade etc.** Annual value of house property will be charged under the head "Income from house property", where it is held by the assessee as stock-in-trade of a business also.
23(1)	**Annual Value of the let-out property** Annual value is the amount arrive after deducting the Municipal taxes **actually paid by the owner** during the previous year from the Gross Annual Value (GAV). The GAV of Let-out property would be determined in the following manner:	



23(2)	**Annual Value of the self-occupied property** Where the property is self-occupied for own residence or unoccupied throughout the previous year, its Annual Value will be Nil, provided no other benefit is derived by the owner from such property.

23(5)	**<u>Annual value where the property held as stock-in-trade etc</u>** Where property consisting of any building or land appurtenant thereto is held as stock-in-trade and the whole or any part of the property is not let out during the whole or any part of the previous year, the annual value of such property or part of the property for the period upto 1 year from the end of the financial year in which certificate of completion of construction of the property is obtained from the competent authority shall be taken as "Nil".
24	**Deductions from Annual Value** 1. 30% of Annual Value [section 24(a)] 2. Interest on borrowed capital [section 24(b)]: Interest payable on loans borrowed for the purpose of acquisition, construction, repairs, renewal or reconstruction can be claimed as deduction. Interest for Pre-construction Period: **(a) Let out property:** Whole of the amount of interest on borrowed capital payable during the previous year and interest for Pre-construction Period. without any ceiling limit would be allowed as deduction. **(b) Self-occupied property:** **(i) Loan taken on or after 1.4.99:** Interest on loan taken for acquisition or construction of house on or after 1.4.99 and same was completed within 5 years from the end of the financial year in which capital was borrowed, interest paid or payable subject to a maximum of ₹ 2,00,000 (including apportioned pre-construction interest). **(ii) Loan taken before 1.4.99:** In case of loan for acquisition or construction taken prior to 1.4.99 or loan taken for repair, renovation or reconstruction at any point of time, interest paid or payable subject to a maximum of ₹ 30,000. (Including apportioned Pre-construction interest)
25	**Inadmissible deductions** Interest chargeable under this Act which is payable outside India shall not be deducted if – (a) tax has not been paid or deducted from such interest and (b) there is no person in India who may be treated as an agent
25A	**Taxability of recovery of unrealised rent & arrears of rent received** (i) Taxable in the year of receipt/realisation (ii) Deduction@30% of rent received/realised (iii) Taxable even if assessee is not the owner of the property in the financial year of receipt/realisation

26	**Co-owned property** **(i) Self-occupied property:** The annual value of the property of each co-owner will be Nil and each co-owner shall be entitled to a deduction of ₹ 30,000 / ₹ 2,00,000, as the case may be, on account of interest on borrowed capital. **(ii) Let-out property:** The income from such property shall be computed as if the property is owned by one owner and thereafter the income so computed shall be apportioned amongst each co-owner as per their specific share.
27	**<u>Deemed Ownership</u>:** The following persons, though not legal owners of a property, are deemed to be the owners: (i) Transferor of the property, where the property is transferred to the spouse or to minor child except minor married daughter, without adequate consideration (ii) Holder of an impartible estate (iii) Member of a co-operative society etc. (iv) Person in possession of a property (v) Person having right in a property for a period not less than 12 years
<u>Other important points</u>	
(i)	The Actual rent received/receivable should not include any amount of rent which is not capable of being realized i.e., unrealized rent while determining gross annual value in case let-out property, provided the conditions specified in Rule 4 are satisfied.
(ii)	If the assessee has occupied more than one house for his own residential purposes, only one house (according to his own choice) is treated as self-occupied and all other houses will be "deemed to be let out".
(iii)	In case of a house property which is deemed to be let-out, the Expected Rent would be the gross annual value. All deductions permissible to a let-out property would be allowable in case of a "deemed to be let out" property.
(iv)	If a portion of a property is let-out and a portion is self-occupied, then, the income will be computed separately for let out and self occupied portion.

TEST YOUR KNOWLEDGE

1. *Vacant site lease rent is taxable as*
   (a) *Income from house property*
   (b) *Business income always*
   (c) *Income from other sources or business income, as the case may be*
   (d) *Income from other sources or income from house property, as the case may be*

2. *Treatment of unrealized rent for determining income from house property*
   (a) *To be deducted from expected rent*
   (b) *To be deducted from actual rent*
   (c) *To be deducted under section 24 from annual value*
   (d) *To be deducted from both expected rent and actual rent*

3. *Municipal taxes to be deducted from GAV should be*
   (a) *Paid by the tenant during the previous year*
   (b) *Paid by the owner during the previous year*
   (c) *Accrued during the previous year*
   (d) *Paid during the previous year either by tenant or owner*

4. *Deduction under section 24(a) is*
   (a) *1/3rd of NAV*
   (b) *repairs actually incurred by the owner*
   (c) *30% of NAV*
   (d) *Interest on borrowed capital*

5. *Interest on borrowed capital accrued up to the end of the previous year prior to the year of completion of construction is*
   (a) *allowed as a deduction in the year of completion of construction*
   (b) *allowed in 5 equal annual installments from the year of completion of construction*
   (c) *allowed in the respective year in which the interest accrues*
   (d) *not allowed*

6. *The ceiling limit of deduction under section 24(b) in respect of interest on loan taken on 1.4.2017 for repairs of a self-occupied house is*
   (a) *₹ 30,000 p.a.*
   (b) *₹ 1,50,000 p.a.*

(c) ₹ 2,00,000 p.a.

(d) No limit

7. *Where an assessee has two house properties for self-occupation, the benefit of nil annual value will be available in respect of -*

(a) Both the properties

(b) The property which has been acquired/constructed first

(c) Any one of the properties, at the option of the assessee

(d) Any one of the properties and once option adopted cannot be changed in subsequent years

8. *Leena received ₹ 30,000 as arrears of rent during the P.Y. 2017-18. The amount taxable under section 25A would be -*

(a) ₹ 30,000

(b) ₹ 21,000

(c) ₹ 20,000

(d) ₹ 15,000

9. *Vidya received ₹ 90,000 in May, 2017 towards recovery of unrealised rent, which was deducted from actual rent during the P.Y. 2015-16 for determining annual value. Legal expense incurred in relation to unrealized rent is ₹ 20,000. The amount taxable under section 25A for A.Y.2018-19 would be -*

(a) ₹ 90,000

(b) ₹ 63,000

(c) ₹ 60,000

(d) ₹ 49,000

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

(a) ₹ 2,05,000

(b) ₹ 1,02,500

(c) ₹ 2,00,000

(d) ₹ 1,00,000

11. *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 ₹ 12,000 p.m. The rented unit was vacant for three months during the year. The particulars of the house for the previous year 2017-18 are as under:*

Standard rent	*₹ 2,20,000 p.a.*
Municipal valuation	*₹ 2,44,000 p.a.*
Fair rent	*₹ 2,35,000 p.a.*
Municipal tax paid by mr. Krishna	*12% of the municipal valuation*
Light and water charges	*₹ 800 p.m.*
Interest on borrowed capital	*₹ 2,000 p.m.*
Insurance charges	*₹ 3,500 p.a.*
Painting expenses	*₹ 16,000 p.a.*

Compute income from house property of Mr. Krishna for the A.Y.2018-19.

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

	(Value in ₹)	
Particulars	**House - I**	**House - II**
Municipal Valuation per annum	*1,20,000*	*1,15,000*
Fair Rent per annum	*1,50,000*	*1,75,000*
Standard rent per annum	*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	*-*	*55,000*

Compute Nisha's income from house property for the Assessment Year 2018-19 and suggest which house should be opted by Nisha to be assessed as self-occupied so that her tax liability is minimum.

13. *Mr Rajesh owns a residential house, let out for a monthly rent of ₹ 15,000. The fair rental value of the property for the let out period is ₹ 1,50,000. The house was self-occupied by him from 1st January, 2018 to 31st March, 2018.He has taken a loan from bank of ₹ 20 lacs for the construction of the property, and has repaid ₹ 1,05,000 (including interest ₹ 40,000) during the year.*

Compute Rajesh's income from house property for the Assessment Year 2018-19

Answers

1. *(c)* **2.** *(b)* **3.** *(b)* **4.** *(c)* **5.** *(b)* **6.** *(a)*
7. *(c)* **8.** *(b)* **9.** *(b)* **10.** *(c)* **11.** *₹ 41,352* **12.** *₹ 40,000*
13. *₹ 1,00,000*