GOVERNMENT COLLEGE FOR GIRLS

LUDHIANA

INCOME-TAX LAW AND ACCOUNTS P.Y. 2022-23 A.Y. 2023-24

CHAPTER- 7

INCOME FROM HOUSE PROPERTY

(Section 22 to 27)

INTRODUCTION

Any income earned by a person from the building or bungalows, godown or land appurtenant to the building, will be taxable under the head "Income from House Property", provided the assessee satisfies the following **two conditions** :-

- He is the **legal owner** of the property and not the beneficial owner.
- He is **not using** such property for the purpose of **his business** or profession.

The word building here means **residential as well as non-residential building** e.g. warehouses, auditoriums for entertainment programmed, cinema hall etc. etc.

The **land appurtenant to building includes compound, play-ground** etc. In case of non-residential building it includes car-parking, connecting road in factory area etc.

The **following points** must be kept in mind while calculating the income from House Property.

S no	Provisions
1.	Income from land, which is **not appurtenant to any building,** will not be taxable under this head.
2.	The word building does not include the **temporary hutments.** Income from temporary hutments will **not be taxable** under this head.
3.	Income from **subletting** will not be taxable under this head, it will be taxable under the head 'Income from Other Sources'
4.	Income from **property situated abroad** will be taxable only for ordinary residents.
5.	The property must **not be used by the asssessee for the purpose of his business** or profession. If the property is used by the assessee for his business or profession, then the annual value of such property is taken as nil.
6.	Income from property, which is situated in the **immediate vicinity of agricultural land** and used as a dwelling house or a store house, will be exempted from tax.(income from farm house).
7.	Income from house property generated by a **charitable trust falling u/s 11** or a registered trade union or a local authority or development authority or scientific research association or political party, sport association will be exempted from tax.
8.	Annual value of **self occupied house** property will be taken as **NIL** provided such property is not let out during any part of the year.

9.	Annual value of **one palace of ex-Indian** ruler will be taken as **NIL.**
10.	**Income of a statutory authority set up for marketing of commodities** from letting of godown or warehouses for storage etc. of the commodities meant for sale, will be exempted from tax.
11.	Income earned by the assessee from **paying guest accommodation,** will not be taxable under this head. It will be taxable under the head 'Income from Other Sources'
12.	If a person let out his building along with plant, machinery, tools, equipment, furniture etc. for a **composite rent** and it is difficult to find out the rent of building then in that situation such income will not be taxable under this head.
13.	If the assessee let out the **building or staff quarters to the employees** of the business, whose residence is in the interest of business, then such rental income will not be taxable under this head.
14.	If the building is **let out to authorities for locating bank, post office, police station** etc. in order to enable the assessee's to carry on business more efficiently and smoothly, and then the income earned from such building will not be taxable under this head.
15.	If the **title of ownership** of let out house property is **disputed** in the court of law, then the income from such property will be taxable in the hands of recipient of such income or the person who is in the possession of the property.
16.	If a property is **jointly owned** by two or more persons and their share in the property are definite then the income from such property will not be taxable as income of association of persons, but the share of each individual will be included in their income. If any part of such property is occupied by **any co-owner for his self-residence** then the value of that part will be taken as **NIL.**
17.	If a building is let out to a person **along with other facilities (e.g. electricity, cooler, lift, water pump etc.)** for a composite rent then the cost of these facilities provided by the landlord will be deducted from the composite rent for calculating fair rent of the building. If the **cost of these facilities can not be separated** from the composite rent, then the income from such property will be taxable under the **head 'Income from Other Sources'**
18.	If an individual **transfers his or her self acquired house property to his or her spouse or minor child** (not being a married daughter) without any or adequate consideration, then income from such property is taxable in the hands of transferor.
19.	The **holder of imparitible estate** is deemed to be the owner of all properties comprised in the estate and the income earned from such properties will be taxable in the hands of such holder.
20.	If **interest on loan** has been paid **outside India without deducting TDS** by the assessee then deduction of such interest will not be allowed under this head.
21.	Any **deposit received from tenant** for property is a capital receipt and thus it cannot

	be treated as income. Further, while determining the actual rent, **no notional interest on such deposit** should be considered.
22.	If a person takes a **land on lease** and construct a house upon it, then he will be treated as deemed owner of that property.

Property in a foreign country: - Income from property situated in foreign country is taxable for resident and ordinary resident assessee only. In other words, such income is not taxable for NOR or NR. Such income will be taxable for NOR or NR only in that case when it is received in India during the previous year.

DEEMED OWNERSHIP U/S 27

The following persons though not the legal owner of a property but deemed to be the owner for this purpose:

1. Transfer to a Spouse

If an individual transfers any house property to his or her spouse **without any or inadequate consideration** then such individual will be treated as deemed owner of the property so transferred. If such property is transferred to a spouse in connection with an agreement **to live apart** then such individual will not be treated as deemed owner of the property so transferred.

2. Transfer to a Child

If an individual transfers any house property to his or her minor child (**except minor married daughter**) without any or adequate consideration then such transferor will be treated as deemed owner of the property. **If the individual transfer cash to his or her spouse or minor child and the transferee acquires a house property out of such cash then the transferor shall not be treated as deemed owner of the house property. Such transaction will however, attract clubbing provisions.**

3. Holder of an Impartible Estate

The holder of an impartible estate shall be deemed owner of all properties comprised in the estate. (**The impartible estate is a property which is not legally divisible.**)

4. Member of a Co-operative Society etc.

If a house is **allotted or leased under a House Building Scheme** of society or company or association to the members of that society etc. then such member shall be treated as deemed owner of that house.

5. Person in Possession of Property

If a person is allowed to take or retain possession of **any building or part thereof u/s 53A of Transfer of Property Act** then such person shall be treated as deemed owner of that property although it is not registered in his name.

6. Person having Right in a Property for a Period not less than 12 years

If a person acquires any lease right in any building for **not less than 12 years** then such person shall be treated as deemed owner of that building.

Income from house property is exempt from tax

In the following cases, income from house property is not chargeable to tax:

a) Farm House:- Income from property by a farmer, which is situated in the immediate vicinity of agricultural land and used as a dwelling house or a store house, will be exempted from tax.

b) Property held for charitable purposes:- Income from house property generated by a charitable trust falling u/s 11, will be exempted from tax.

c) Property used for own business/profession:- Annual value of house property used by the assessee for his own business or profession will be taken as Nil. However, the assessee **can not claim any payment of rent** under the head 'Business Income'.

d) Self-occupied House:- Annual value of **TWO** self occupied house property will be taken as nil.

e) Property of registered trade union/local authority:- The income from house property held by a registered trade union/local authority is exempted from tax.

f) Palace of ex-ruler: - The annual value of any one palace in the occupation of an ex-ruler shall be exempted from tax.

A N N U A L V A L U E U/S 23

The definition of annual value is **very important** because income from house property is computed on the basis of its annual value. If the **annual value is not determined correctly** then taxable **income from house property will be wrong**.

The annual value of any property shall be the sum for which the property might reasonably be expected to be let out from year to year. It may **not be the actual rent derived** nor the municipal value of the property. In other words, it is the notional rent which could have been derived.

Annual value will be calculated in the following manner: -

COMPUTATION OF ANNUAL VALUE

Gross Annual Value Less: **Municipal Taxes paid by the Land-Lord (relating to any period) (paid within 1.4.2022 to 31.3.2023 for any period either previous years or future years)**	xxxxx (xxxx)
Annual Value	xxxx

Municipal Taxes includes conservancy tax imposed by Municipal Corporation

For the computation of Annual Value, it is very important to understand how to calculate Gross Annual Value of the House property.

COMPUTATION OF GROSS ANNUAL VALUE, WHEN RENT CONTROL ACT IS NOT APPLICABLE	
Step I	(a) or (b) whichever is **more,** (a) Municipal Rental Value (b) Fair Rental Value
Step II	Actual rent received or receivable after the deduction of unrealized rent only **(Annual Rent ---unrealised rent= Actual rent for step II without deducting Vacancy allowance)**
Step III	Compare Step I with Step II, whichever is more, will be considered as gross annual value as per Step III
Step IV	Loss due to **vacancy**
Step V	Deduct vacancy loss from Step III value **(Step III—Step IV)**

Note: De facto Rent: If owner provides **some extra facilities like lift, water pump, electricity, vehicle parking, swimming pool maintenance charges, gardener etc.** along with residential accommodation to a tenant at a **composite rent**, then actual rent received minus cost of providing such facility may be called de facto rent or real rental value.

> **Fair rent of the property: - Fair rent is the rent which a similar property can fetch in the same or similar locality, if it is let for a year.**

When the property is covered by the Rent Control Act

Rent fixed by Rent Control Act is called Standard Rent. When Standard rent is fixed for any property under Rent Control Act then the owner **cannot be expected to get a rent higher than the Standard Rent.** The Supreme Court has held that the gross annual value can be lower than the standard rent but it **cannot exceed the standard rent** except when the actual rent is higher than the standard rent. Gross Annual value in this case will be calculated in the following manner.

Step I	(a) or (b) whichever is **more,** but subject to **maximum of (c)** (a)Municipal Rental Value (b) Fair Rental Value (c) Standard Rent

Step II	Actual rent received or receivable after the deduction of unrealized rent only **(Annual Rent ---unrealized rent= Actual rent for step II without deducting Vacancy allowance)**
Step III	Compare Step I with Step II, whichever is more, will be considered as gross annual value as per Step III
Step IV	Loss due to **vacancy**
Step V	Deduct vacancy loss from Step III value **(Step III—Step IV)**

Example No 1. Rohit owns six houses in Delhi, details of which are as under: -

Particulars	**I**	**II**	**III**	**IV**	**V**	**VI**
Municipal value	20000	24000	36000	42000	48000	45000
Fair Rental value	24000	24000	40000	42000	50000	50000
Standard Rent	N.A.	24000	50000	30000	N.A,	48000
Actual Rent	18000	36000	48000	36000	54000	42000

Compute the gross annual value of the above houses.

Answer- Gross Annual Value

Particulars	**I**	**II**	**III**	**IV**	**V**	**VI**
(a) MRV (b) FRV (c) SR **STEP I** (a) or (b) whichever is more, but subject to max of (c)	20,000 24,000 NA 24,000	24,000 24,000 24,000 24,000	36,000 40,000 50,000 40,000	42,000 42,000 30,000 30,000	48,000 50,000 NA 50,000	45,000 50,000 48,000 48,000
STEP II Actual rent received or receivable after deducting UR	18,000	36,000	48,000	36,000	54,000	42,000
STEP III STEP I or STEP II whichever is more	24,000	36,000	48,000	36,000	54,000	48,000
STEP IV Vacancy allowance	NIL	NIL	NIL	NIL	NIL	NIL
Gross annual value As per **Step V**= Step III---Step IV	24,000	36,000	48,000	36,000	54,000	48,000

In case of III, the standard rent will not be considered because it is more than the maximum of other two factors.

Example No 2. Amit owns three houses in Delhi, particulars of which are as under:

Particulars	**House 1**	**House 2**	**House 3**
No. of residential units	**2**	**1**	**3**
Municipal value	120000	72000	60000
Fair Rental value	150000	75000	75000

Standard Rent	130000	80000	72000
Rent per unit p.a.	70000	84000	21000
Municipal taxes	12000(**due** But not paid)	8000 for last year paid in this year, and 9000 of current year due but not paid	60000 (it includes 54000 paid as advance for next 9 years)

Compute the annual value for the above three houses for the **assessment year 2023-24**

Answer-

Gross annual value	140000	84000	72000
Less: Municipal Taxes	-----	8000	60000
Net Annual value	140000	76000	12000

***Step II is applicable only in the case of let out property. If property is "deemed" as let out property, then Step II is not applicable*.**

For the reference only— (VVVV Very Important provision for sums)

Step I

Standard rent is considered only in that case when the value of Municipal rent or Fair rent is more than Standard Rent.

Annual Value = Gross Annual Value – Municipal Taxes (if paid by owner)

Question No.1 : Municipal value of a house is Rs. 90,000, Fair rent Rs. 1,40,000, Standard rent Rs. 1,20,000. This house property has been let for Rs. 12,000 p.m. and was vacant for one month during the previous year **2022-23.** Municipal taxes paid during the year were Rs.40,000. Compute the annual value for the **assessment year 2023-24.**

Answer—

Step I value	Rs 1,20,000
Step II Actual rent received	1,44,000
Step III Step I or Step II whichever is more	Rs. 1,44,000
Step IV Vacancy Allowance (12000 x1)	Rs 12,000
Step V Gross Annual Value Step III— Step IV	Rs 1,32,000

Gross Annual Value = Rs 1,32,000
Less: Municipal Taxes paid = Rs 40,000
Annual Value = 92,000

Question No.2 Take the above question no.1. Assume the property was **vacant for 3 months.** Determine the annual value for the assessment year 2023-24.

ANS 68,000

GROSS ANNUAL OF HOUSE PROPERTY WHICH IS PART OF THE YEAR LET OUT AND PART OF THE YEAR SELF OCCUPIED

If house property is part of the year let out and part of the year self occupied, then there is **no difference in the value of step I** i.e., Value of step I will be considered on full year basis. But the **value of Step II will be considered only for the period of let out and not for the period of self occupied.** In other words, value of Step II will be considered only let out period. **E.g.** If house property is let out for 8 months and self occupied for 4 months then take value of step I for 12 months and Value of Step II for 8 months. In this case, there is no vacancy allowance because **self occupation cannot be considered vacancy**.

Step I	(a) or (b) whichever is **more,** but subject to **maximum of (c)** (a)Municipal Rental Value (c) Fair Rental Value (c) Standard Rent
Step II	Actual rent received or receivable after the deduction of unrealized rent only for the period let out and **not for the period of self occupation**
Step III	Compare Step I with Step II, whichever is more, will be considered as gross annual value as per Step III
Step IV	Loss due to **vacancy**
Step V	Deduct vacancy loss from Step III value **(Step III—Step IV)**

In this case, the **period of occupation of property for own residence shall be irrelevant** and the annual value of such house property shall be determined as if it is let.

Question No.3 Sushil 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 Sushil from 1.4.2022 to 31.7.2022 W.e.f. 1.8.2022 it was let out at Rs.9,000 p.m. compute the annual value of the house property for the **assessment year 2023-24** if the municipal taxes paid during the year were Rs.20,000.

ANS: **COMPUTATION OF ANNUAL VALUE**

(a) Municipal Rental Value (b) Fair Rental Value **Step I (a) or (b) whichever is more**, value as per Step I	1,00,000 1,20,000 1,20,000
Step II Actual rent received or receivable for the period let out **(self occupied period will not be considered)** (9000 X8)	72,000
Step III Compare Step I with Step II, whichever is more, will be considered as gross annual value as per Step III	1,20,000
Step IV Loss due to vacancy	NIL
Step V Deduct vacancy loss from Step III value (Step III—Step IV)	1,20,000
Gross Annual Value **Less:** Municipal Taxes	1,20,000 (20,000)
Annual Value	1,00,000

Question No.4 Take the Question no. 3. Determine the annual value assuming that the standard rent is fixed at Rs.1,08,000**.**

ANS 88,000

Computation of Annual Value of House Property which is self occupied for residential purposes or could not actually be self occupied owing to employment or business /profession, carried on at any other place

(i) Where the annual value of such house property shall be nil OR to be treated as deemed to be self occupied

When the property consists of a house or part of a house which is occupied by the owner for his own residence or **cannot actually be occupied** by owner **due to his employment,** business or profession carried on at any other place, he has to reside at other place in a building not belonging to him then the annual value of such house or part of house will be taken **as nil.**

(ii) Where the annual value of such house shall not be nil

If a part of house property is let out and other part is self occupied during the whole or **any part of previous year or any other benefit** is derived by the owner from self occupied property then annual value of such self occupied property **will not be taken as nil.** In this case, annual value will be determined as per provisions applicable for let out properties.

(iii) Where the assessee has more than two houses for self occupation

If the assessee occupies more than **two house properties for his self residential purposes** then two-house property as per option of the assessee shall be treated as self occupied and **remaining house properties** shall be treated as **deemed to be let out.** The assessee, in this case, should exercise his option in such a manner that his taxable income is the minimum. **Such option may be changed from year to year**. However, if an assessee has **one house property, which consist of two or more residential units** and **all** such units **are self occupied** then **annual value of entire house property shall be taken as nil because there is only one house property though it has more than one residential unit.**

Note: If the assessee **lets out his house to his employer** which in turn **allots the same to him, as rent-free accommodation** then such house will not be treated as self occupied for above purpose because he is not occupying his own house in the capacity of owner. (D.R. Sunderraj Vs CIT, 1980).

- **Step II** is **not applicable** in case of **deemed to be let out** House property.
- **Deemed to be let out** House property **arises only** in that case when the assessee holds **more than two residential house properties**. If the assessee has **holds more than one residential unit** in a house for self occupation then self occupation of

more than units **does not attract deemed to be let out** house properties provisions.

- **There is no vacancy concept** in case of **deemed to be let out** house property.
- If **part of the year house property is let out and part of the year house property is self occupied** then benefit of **vacancy allowance as per step IV is not** available because self occupied period can not be termed as vacant period.

DEDUCTIONS U/S 24

Deduction u/s 24

Statutory deduction--
@ **30% of annual value**

Interest on Borrowed capital
(For the construction & repair of HP)

While calculating the income under the head "Income from House Property" the following deductions are to be allowed out of annual value of the house property.

1. Statutory Deduction

30% of annual value shall be allowed as statutory deduction. If annual value is nil or negative, then such deduction will not be allowed.

2. Interest on Borrowed Capital

If property has been acquired or constructed, repaired or renewed from borrowed capital then interest paid on such loan will be fully allowed as deduction.

Interest for the period prior to the previous year in which the property has been acquired or constructed, will be allowed as deduction in **five equal installments** beginning from the year in which the completion or purchase has taken place.

Note: 1. ***Where a fresh loan has been raised to repay the original loan*** then the interest paid on ***second loan will also be allowed as deduction***.

2. Any **interest paid on outstanding amount of interest, will not be allowed as deduction.**

3. If capital is borrowed for the purpose of purchasing a plot of land, interest liability is deductible even if construction is financed out of own funds.

4. Interest on borrowed capital is deductible on "accrual" basis. It can be claimed as deduction on yearly basis, even if the interest is not actually paid during the year.

5. Interest on unpaid interest is not deductible.

6.Amount paid for **brokerage or commission for arrangement of loan will not be allowed** as deduction.

Interest is calculated on the basis of number of days. While the day of borrowing is included, the day of repayment of loan is excluded.

Conceptual clarity of deduction of interest on Loan

Loan taken by Mr. A for the construction of H.P of **Rs 10,00,000 dt 1.5.2015 @ 10% p.a**.
Completion of house as on 1.10.2018 or any date of the previous year 2018-19.
Date of repayment of loan = 1.5.2020
Solution—

Interest on loan of pre-construction period

2015-16 (10,00,000 x 10% x 11/12) = 91,667
2016-17 (10,00,000 x 10%) = 1,00,000
2017-18 (10,00,000 x 10%) = 1,00,000
Total interest of pre-construction period = 2,91,667
Deduction of interest of pre-construction period = 291667/5 = 58,333
Deduction of interest for the year 2018-19 = 58333 + 1,00,000 = 1,58,333
Deduction of interest for the year 2019-20 = 58,333 + 1,00,000 = 1,58,333
Deduction of interest for the year 2020-21 = 58,333 + 8,333(100000/12) = 66,666
Deduction of interest for the year 2021-22 = 58,333
Deduction of interest for the year 2022-23 = 58,333

Case II –Loan taken by Mr. A for the construction of H.P. of **Rs 10,00,000 dt 5.5.2016 @ 10% p.a.**
Date of completion of house = 1.10.2019
Repayment of loan = 30.12.2018
Answer—In this case, **interest of pre-construction period** will be calculated upto 29.12.2018 and deduction will be started in the year of completion i.e., in the present case, loan has been repaid before the completion of house property, therefore deduction of pre- construction period will be started from the year 2019-20 onwards for five years.

Interest on loan of pre-construction period

Interest for 2016-17 (10,00,000 x 10% x 331/365) = 90,685
Interest for 2017-18 (10,00,000 x 10%) = 1,00,000
Interest for 2018-19 (10,00,000 x 10% x 273/365) = 74,795
Total interest of pre-construction period 2,65,480

Deduction of pre-construction period == 265480/5 = 53096 to be started as deduction from the previous year 2019-20 onwards for five years.

Question No. 5 The assessee took a loan of Rs. 6,00,000 on 01-04-2020 from a bank for construction of a house on a piece of land, he owns in Delhi. The loan carries an interest @ 10% p.a. The construction is completed on 15-06-2022. The entire loan is still outstanding. Compute the interest allowable for A.Y. 2023-24.
Answer--

Interest of pre-construction period i.e. 1.4.2020 to 31.3.2022

Interest on Rs 600000 @ 10% p.a. from 1.4.2020 to 31.3.2022 (6,00,000 X 10% x 2) = 120000
Interest of pre-construction period will be **allowed in 5 equal instalment** and deduction will be started from the year of completion i.e., in this case, 1,20,000/5=24000 will be allowed in five consecutive years starting from previous year 2022-23 onwards.

Deduction of interest for the previous year 2022-23

Interest on loan of pre construction period == 24,000
Add: Interest for the previous year == 60,000
ANS- Rs 84,000

Although the property is completed on 15-6-22, the interest for the entire previous year i.e. 1-4-2022 to 31-3-2023 will be treated as current year's expenditure.

Deduction in respect of one self occupied house where annual value is nil

In case of self occupied house property **only deduction of interest (including 1/5th of the accumulated interest of pre acquisition period) shall be allowed,** in the following manner: -

a)	If house property has been acquired, constructed, repaired, renewed or reconstructed with borrowed capital **before 01-04-1999**	Actual interest payable subject to **maximum of Rs. 30,000/-**
b)	If house property has been acquired, or constructed with borrowed capital **on or after 01-04-1999** and **such acquisition or construction is completed within 5 years of the end of the financial year in which the capital is borrowed.**	Actual interest payable subject to **maximum of Rs. 2,00,000/-**
c)	In any other case i.e. money is borrowed **after 31-03-1999** for repairs & renewal	Actual interest payable subject to maximum of Rs. 30,000/-

Note: The deduction of interest of **Rs. 30,000 is allowed for purpose of construction or repair** or renewal or reconstruction of house property whereas **deduction of interest of Rs. 2,00,000/- is allowed for acquisition or construction of house property.**

For getting deduction of interest of **maximum of Rs 2,00,000,** it will now be necessary to obtain certificate from the person to whom such interest is payable specifying the amount of interest payable by the assessee for the purpose of acquisition/construction.

Q no. 6 Assessee has one house property at Vasant Kunj in Delhi. He stays with his family in this house. The rent of similar property in the neighbourhood is Rs. 56,000 p.a. The municipal valuation is Rs. 28,000. Municipal tax paid in respect of property are Rs. 5000 (including Rs. 1000 for an earlier year). The house was constructed in 1998 with a loan of Rs. 12,00,000 taken from HDFC. During the previous year 2022-23, the assessee refunded Rs 4,30,000 which includes Rs 2,68,000 as current year interest. Compute the income from house property for A. Y. 2023-24.

b) What would be the deductions on account of interest if the loan was taken on or after 01-04-2007 and property was completed in December, 2011.

ANS (a) -30000 (b) -2,00,000

- **Annual Value in case of Self occupied** House Property is always taken as **NIL.**
- **Only deduction of interest** on loan for the purpose of purchase, construction, repairs etc is to be **allowed in case of self occupied house property.**

T R E A T M E N T O F U N R E A L I S E D R E N T

Actual rent recovered or receivable shall not include the amount of rent which the owner can not realize, subject to the following rules

Rules for Unrealized Rent :

The **amount of rent which the owner can not realize** shall be equal to the amount of rent payable but not paid by a tenant of the assessee and **so proved to be lost and irrecoverable**, where: -

1	The tenancy is **bonafide.**
2	The defaulting **tenant has vacated or steps have been taken to compel him to vacate** the property.
3	The defaulting tenant is **not in occupation of any other property** of the assessee
4	Assessee has **taken all reasonable steps to institute legal proceedings** for the recovery of unpaid rent or satisfies the assessing officer that legal proceeding would be useless.

Question No. 7 Vinay furnishes the following particulars in respect of a house owned by him in Delhi.

	Rs.
Municipal Value	2,00,000
Fair Rent	2,40,000
Actual Rent (per month)	21,000
Municipal tax paid during the year	20,000

The tenant vacated the property on 31-10-2022 and thereafter the property was let out for Rs. 25,000 per month. Vinay could not realize the rent for the month of September and October, 2022 due to death of earlier tenant.

Compute the annual value of the property for the A.Y. 2023-24.

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

ANS (a) 2,20,000 (b) 2,31,000

S P E C I A L P R O V I S I O N S F O R A R R E A R S O F R E N T R E C E I V ED OR UNREALISED RENT IS REALISED SUBSEQUENTLY U/S 25A

If the owner of the house property has received arrears of rent from such property OR subsequently realized unrealized rent then such amount of rent will be **taxable after allowing statutory deduction @ 30%** under the head income from house property.

Further, it will be **charged in that previous year in which such arrears of rent is received or subsequently realized unrealized rent** whether the assessee is the owner of that property in that year or not.

Provision Illustrated

Question (25A) – X owns a residential property in Chennai. It is let out to A Ltd. (rent being Rs 40,000 p.m.) Municipal value of the property is Rs 2,20,000, fair rent is Rs 4,80,000. A Ltd. pays municipal tax. On April 7, 2022 rent is increased from Rs 40,000 per month to Rs 45,000 per month with retrospective effect from April 1, 2021. X gets Rs 60,000 (being arrears of rent for the financial year 2021-22) on April 20, 2022. Find out the net income of X for the assessment year 2023-24 on the assumption that his income from other source is Rs 5,00,000.

Answer—

COMPUTATION OF TOTAL INCOME OF MR X

For the Assessment Year 2023-24

Particular	Detail	Amount
Income from house property		
a) Municipal Rental Value	2,20,000	
b) Fair Rent	4,80,000	
Step I (a) or (b) whichever is more		
Reasonable expected rent of the property	4,80,000	
Step II Actual Rent received or receivable	5,40,000	
Step III Step I or Step II Whichever is more	5,40,000	
Step IV Vacancy allowance	Nil	
Step V Step III –Step IV Value		
Gross Annual Value	5,40,000	
Less: Municipal Taxes paid by landlord	Nil	
Annual Value	5,40,000	
Less: Deduction u/s 24		
Standard Deduction @ 30%	1,62,000	
Income from let out house property	3,78,000	
Arrears of rent (pertaining to earlier year) received in the previous year 2022-23		
Arrears received (Rs 5000X12)	60,000	
Less: Standard deduction u/s 25A (2) (30% of 60000)	(18000)	
Arrear of rent chargeable to tax	42,000	
Income under the head "Income from house property" (i.e. Rs 3,78,000+ Rs 42000)		4,20,000
Income from Other Sources		5,00,000
Gross Total Income		**9,20,000**
Less: Deduction u/s 80C		**NIL**
Total Income		**9,20,000**

PROPERTY OWNED BY CO-OWNERS U/S 26

When the property consisting of buildings or lands is **owned by two or more persons**, then such persons are **known as co-owners.** In such cases, if their **respective shares are definite and ascertainable** then such persons shall **not be assessed as an AOP** in respect of such property, but the share of each such person in the income from the property, as per the provisions of house property, shall be included in his total income.

Where the **house property owned by the co-owners is self occupied by each of the co-owner**, then the **annual value of the property** for each of such co-owner shall be taken as **Nil**.

As regards, **the property or part of the property which is owned by co-owners is let out**, the income from such property or part thereof shall be first computed as if this property/part is owned by one owner and thereafter the **income so computed shall be apportioned amongst each co-owner as per their definite share.**

Q No 8 Three brothers A,B and C having equal share are co-owners of a house property consisting of six identical units, the property was constructed on 31st May,1994. Each of them occupies one unit for his residence and the other three units are let out at a rent of Rs 5000 per month per unit. The Municipal value of the house property is Rs 3,00,000 and the **Municipal Taxes are 40% of such Municipal Value**, which were paid during the year. The other expenses were as follows:

i) Repairs Rs 20,000
ii) Collection charges Rs 5000
iii) Insurance premium paid Rs 11000
iv) interest payable on loan taken for construction of house Rs 1,20,000

One of the let-out units remained vacant for three months during the year. A could not occupy his unit for **six months** as he was transferred to Mumbai. He does not own any other house. The other income of A, B and C are Rs 50,000; Rs 60,000 and Rs 70,000 respectively.

Compute the income under the head "Income from House Property" and the total income of the three brothers for **assessment year 2023-24.**

Answer—

Income from Let out property (i.e. 50% or 3 units)

(a) Municipal Rental Value = Rs 1,50,000
(b) Fair Rental Value =Rs 1,80,000

Step I (a) or (b) whichever is more, is Step I value = Rs 1,80,000
Step II Actual rent received without considering vacancy (15000 x 3 x 12) = 1,80,000
Step III Step I or Step II whichever is more i.e., Rs 1,80,000
Step IV Vacancy allowance = Rs 15,000

Step V Gross annual value (1,80,000—15,000)	1,65,000
Less: Municipal Tax (300000 x 40% x 50%)	60,000
Net annual Value	1,0,5000
Less: Deduction u/s 24	
Statutory deduction @ 30%	(31,500)
Interest on loan @ 50%	(60,000)
Income from let out house property	13,500

Therefore, share of each co-owner is 1/3rd of 13,500 =Rs 4,500

Self occupied property	A	B	C
Annual Value	NIL	NIL	NIL
Less: Deduction u/s 24 (b)			
Interest on loan (60000/3)	(20,000)	(20,000)	(20,000)
Income from self occupied property	(20,000)	(20,000)	(20,000)

Computation of the total income of the three brothers

	A	B	C
Income from House property			
Let out portion	4500	4500	4500
Self occupied portion	(20,000)	(20,000)	(20,000)
Net income from house property	(15,500)	(15,500)	(15,500)
Other income	50,000	60,000	70,000
Total Income	34,500	44,500	54,500

LOSS FROM HOUSE PROPERTY

Loss from house property **can be set off from income under any other head** if loss from house property remain unadjusted then such loss can be **carried forward for eight succeeding previous years** and to be set off against the **head house property only**.

Important Points: -

1	**Advance rent is not to be considered.**
2	**Interest on loan from relative** for housing is also eligible for deduction.
3	**Amount withdrawn from NSS 1987** is fully taxable in the hands of investor and fully exempted in the hands of legal representative in case of death.
4	**Subletting income (O.S)**, **composite Rent (if not separated, O.S.)**, paying guest (O.S.), Let out building to staff only (B. I.), Let out building to police station, post office, bank (B.I.)
5	**HP used for his own business—**not considered in HP Head.
6	**Annual value for self occupied HP full year** –NIL, only deduction of interest on loan for purchase/ construction of HP is allowed. Maximum deduction Rs 30,000 or Rs **2,00,000, if loan is taken on or after 1.4.1999 and HP is completed within 5 years.**
7	**Interest on loan taken** for the payment of Municipal Taxes will not be considered.
8	**Municipal Taxes paid by landlord** relating to any period (must be paid within1.4.2020 to 31.3.2021) must be deducted from GAV. **Municipal Taxes paid by tenant must not be considered.**
9	**Step I (a) MRV (b) FRV whichever is more** will be considered but cannot be more than (c) Standard Rent. **Always take for 12 months except in case HP purchased or construction** during the year or sold.
10	**Step II—Actual Rent received or receivable** –Take full year rent and deduct unrealized

	rent but before deducting vacancy allowance. If HP is part of year let out and part of the year self occupied then take rent for let out period only.
11	**Deduction from let out house property**—Only two deductions **(1) Statutory deduction @ 30% of annual value (2) Interest on loan for the purchase,** construction, repair or renovation. The assessee shall **not be allowed any other deduction on account of any expenses incurred in relation to such house property** .e.g. insurance of house property, ground rent, repairs expenses etc. etc. will not be allowed.
12	The **benefit of exemption of one or two self-occupied house is available only to an individual/HUF only.**

QUESTIONS FOR PRACTICE

Q No 9 R owns a house property in Delhi. From the particulars given below compute the income from house property for the **assessment year 2023-24.**

Municipal value	2,00,000	Municipal taxes	20% of municipal value
Fair rent	2,52, 000	M.Taxes **paid during the year 50% of tax levied**	
Standard rent	2,40,000	Expenses of repairs	20,000
Actual rent (per month)	23,000	Insurance premium	5,000

R had borrowed a sum of Rs 12,00,000 @ 10% p.a. on **1-7-2020** and the construction of the property was completed on **28-2-2022**.

Answer—

Computation of Income from House Property of Mr R

For Assessment Year 2023-24

Step 1 (a) or (b) whichever is more, but subject to maximum of (c)		
(a) Municipal Value		2,00,000
(b) Fair Rent		2,52,000
(c) Standard Rent		2,40,000
Step 1 Value		2,40,000
Step 2 Actual rent received or receivable (23000 x12)		276000
Step 3 Higher of the step 1 and Step 2 Therefore the Value of Step 3		276000
Step 4 Vacancy Allowance		NIL
Step 5 GAV of the House property (Step 3—Step 4)		276000
Gross Annual Value		276000
Less: Municipal Taxes (Paid) (20% of 200000= 40000 X50%)		(20000)
Annual Value		256000
Less: Deduction u/s 24		
St. Deduction (30% of the annual value)	76800	
Interest on loan (18000+120000)	138000	214800
Income from House property		41200

Calculation of Interest on Loan

Interest of pre construction period (1.7.2020 to 31.3.2021) (1200000X10% x9/12) = 90000

Deduction of pre-construction period = 90000/5 =18000

Interest on loan for the current period (1200000X10%) = 120000

Q No 10 Mr Rohit has a house property in Delhi whose particulars are as under: -

Municipal Value	3,00,000
Fair Rental Value	3,40,000
Standard rent	3,12,000
Municipal taxes paid	50,000
Municipal Taxes outstanding	20,000
Interest on money borrowed for acquiring the house after 1-4-2016	1,60,000
Period of occupation for own residence	2 months
Actual rent for 10 months	35,000 p.m.

Compute the income from house property for assessment year **2023-24.**

Answer--- Computation of Income From House Property of Mr. Rohit

For Assessment Year 2023-24

Step 1 (a) or (b) whichever is more, but subject to maximum of (c)		
(a) Municipal Value		3,00,000
(b) Fair Rent		3,40,000
(c) Standard Rent		3,12,000
Step 1 Value		3,12,000
Step 2 Actual rent received or receivable (35000 x10)		3,50,000
Step 3 Higher of the step 1 and Step 2 Therefore the Value of Step 3		3,50,000
Step 4 Vacancy Allowance		NIL
Step 5 GAV of the House property (Step 3—Step 4)		3,50,000
Gross Annual Value		3,50,000
Less: Municipal Taxes **(Paid)**		(50,000)
Annual Value		3,00,000
Less: Deduction u/s 24		
St. Deduction (30% of the annual value)	90,000	
Interest on loan	160000	2,50,000
Income from House property		50,000

Q No 11 X has a house which has two identical units. One of the units is self-occupied throughout the previous year and the other units is let out throughout the previous year on a rent of Rs. 5,000 p.m. Municipal taxes for the complete house amounting to Rs 6,000 have been paid during the previous year. Fair rental value of the house is Rs 1,20,000. The construction of the property was completed on 1-1-2007. Determine the income from house property for the assessment year 2023-24.

Answer-- Computation of Income from House Property of X

For the assessment year 2023-24

Particular	**Detail**	**Amount**
Unit 1 (Self occupied)		
Annual Value	NIL	
Less: Deduction u/s 24	(NIL)	
Income from House property		NIL

	NIL	
Unit 2 (Let out House property) Gross Annual Value Less: Municipal Taxes Annual Value **Less: Deduction u/s 24** Statutory Deduction @ 30% of a	 60,000 (3000) 57,000 (17,100)	 39,900
Income from House Property		39,900

Q No 12 In question no 11 if the **self occupied portion was let out for three months** @ Rs 5000 p.m. Then what will be the income from house property?

Answer-- Computation of Income from House Property of X
For the assessment year 2023-24

Particular	**Detail**	**Amount**
Unit 1 (Part of the year Self occupied and part of the year let out) Step 1 (a) or (b) whichever is more (a) Municipal Rental Value (b) Fair Rental Value Step 2 Actual rent received (only for let out period) (5000X3) Step 3 Value (Step 1 or Step 2 whichever is more) Step 4 Vacancy allowance Step 5 GAV (step 3—step 4) Less: Municipal Taxes (6000/2) Annual value **Less: Deduction u/s 24** St deduction @ 30% of the annual value	 60,000 15,000 60,000 NIL 60,000 3,000 57,000 (17,100)	 39,900
Unit 2 (Let out House property) Gross Annual Value Less: Municipal Taxes Annual Value **Less: Deduction u/s 24** Statutory Deduction @ 30% of annual value	 60,000 (3000) 57,000 (17,100)	 39,900
Income from House Property		79,800

Q No 13 R owns a house property in Delhi which is let out for Rs 10,000 p.m., the municipal value of which is Rs 1,00,000 and municipal taxes were 25% of municipal valuation. R paid during the previous year **municipal tax of 6 years which relate to past 5 years as well as for the current year.** The other expenses of the property were as under: -

Repairs	5,000
Insurance premium	2,000
Interest for purchase of house	11,000
Ground rent due	2,000

Compute income of R from house property for the assessment year **2023-24.**

Answer— **Computation of Income from House Property**

For the Assessment Year 2023-24

Gross Annual Value		1,20,000
Less: Municipal Taxes Paid during the year (25000X6)		(1,50,000)
Annual Value		(30,000)
Less: Deduction u/s 24		
Statutory Deduction	NIL	
Interest on loan	11000	(11,000)
Loss from House Property		(41,000)

NOTE—If annual value is negative, then statutory deduction will not be allowed.

Q No 14 Mr. X owns a house in Delhi. During the previous year **2022-23, 3/4th** portion of the house was self-occupied for full year and 1/4th portion was let out for residential purposes from **1-4-2022 to 31-12-2022** on a rent of Rs 700 p.m. From **1-1-2023** this portion was also used for own residence. Municipal valuation of the house is Rs 20,000. He incurred the following expenditure in respect of the house property.

Municipal taxes due Rs 6,000; Repairs Rs 2,000; Fire Insurance Premium Rs 3,500; Land Revenue Rs 4,000; Ground Rent Rs 200 were paid during the year. **A loan of Rs 100,000 was taken on 1-4-2020 @ 9% p.a. for the construction of the house which was completed on 28-3-2021**. Nothing was repaid on loan account so far. Find out his income from house property for the **assessment year 2023-24.**

ANS—(-)6750+3630=(-)3120

No interest for pre-construction period is allowed, as the loan was taken in the previous year 2020-21 and the property was also **completed in the same previous year**. The **entire interest of previous year 2020-21 must have been allowed**, as **current interest** in the previous year 2020-21 itself.

Q No 15 R is a Sales-tax Officer at Jaipur. He owns two residential houses. The first is in Delhi and was constructed on **31-12-1991.** This has been let out on a rent of Rs. 3,000 p.m. to a company for its office. The second house is in Jaipur which was constructed on **1-3-2022** and has been occupied by him for his own residence since then. He took a loan of Rs 90,000 on **1-8-2020** @ 8% per annum interest for the purpose of construction of this house. The entire loan is still outstanding.

Other relevant particulars in respect of these houses are given below:

	1st house	**2nd house**
Municipal valuation	24,000	18,000
Municipal taxes	10% of M. Value	8% of M. Value
Expenses on repairs	2,000	6,000
For insurance premium	200	--
Ground rent	175	130
Land revenue	1000	650

Interest on Loan -- 7200

The ground rent of the Delhi house and the municipal tax and land revenue of the Jaipur house are unpaid.

R was transferred to Bombay on **1-12-2022** where he resides in a house at a monthly rent of Rs 4,000 and his house at Jaipur was let out on the same day on a rent of Rs 2,000 p.m.

Compute the income from house property for the assessment year **2023-24.**

Answer-- **Computation of Income from House Property**

House No 1 (let out)		
GAV of the HP	36,000	
Less: Municipal Taxes (10% of 24000)	(2400)	
Annual Value	33,600	
Less: Deduction u/s 24		
Statutory deduction @ 30% of the annual value	(10080)	
Interest on Loan	NIL	23,520
House No 2 (Part of the year let out and part of the year self occupied)		
GAV of the HP	24,000	
Less: Municipal Taxes	(NIL)	
Annual Value	24,000	
Less: Deduction u/s 24		
Statutory Deduction @ 30% of the annual value (24000X30%)	(7200)	
Interest on Loan (7200+960)	(8160)	
Interest of pre-construction period		
Interest from 1.8.2020 to 31.3.2021 (90000X8%X8/12)4800		8640
Deduction in 5 equal installments = 4800/5=960		
Income from House Property		32160

Q 16 R has a house property situated in Delhi. From the following particulars submitted to you. Compute the income from house property for the assessment year **2023-24**.

Municipal valuation 90,000

Fair rent 1,10,000

Standard rent 1,00,000

The house property was let out w.e.f. 1-4-2022 for Rs 8,000 p.m. which was vacated by tenant on **30-9-2022** It remained **vacant for 2 months**. W.e.f. 1-12-2022, it was let out for Rs 11,000 p.m.

Municipal taxes paid **20% of municipal value**

Insurance premium paid 3,000

Interest on money borrowed for the purchase of house property 30,000

Answer—

Computation of Income from House Property

For the Assessment Year 2023-24

Step 1 (a) or (b) whichever is more, but subject to maximum of (c)	
(a) Municipal Rental Value	90,000
(b) Fair Rental Value	1,10,000
(c) Standard Rent	1,00,000

Step 1 Value Step 2 Actual rent realized or realizable (48000+66000) Step 3 Step 1 or Step 2 whichever is more Step 4 Vacancy Allowance (11000X2) Step 5 Gross Annual Value (Step 3 –Step 4)	1,00,000 1,14,000 1,14,000 (22,000) 92,000
Gross Annual Value Less: Municipal Taxes	92,000 (18000)
Annual Value **Less: Deduction u/s 24** Statutory Deduction @ 30% Interest on Loan	74,000 (22,200) (30,000)
Income from House Property	21,800

Can Annual Value (Net Annual Value) be negative?
Answer- yes, net annual value can be negative only when the municipal taxes paid by the owner are more than gross annual value.

Q 17 (72-E4)—X (age 50 years) owns a big house (erection completed on March 1, 2018). The house has three independent residential units. **Unit I** (50% of the floor area) is let out for residential purposes on monthly rent of Rs 16000 (this unit is however, used by X from January 15, 2023 to March 15, 2023 for residential purposes). A sum of Rs 1000 could not be collected from the tenant. **Unit 2** (25% of the floor area) is used by X for the purpose of his residence, **while unit 3** (the remaining 25%) is used by him for the purpose of his business. Other particulars of the house are: municipal valuation: Rs 3,84,000; municipal taxes (paid) Rs 32,000; repairs Rs 40,000; ground rent Rs 16,000; land revenue (paid) Rs 9,800, insurance premium Rs 16,000 and interest on capital borrowed for payment of municipal tax: Rs 14,000. **Income of X from business** is Rs 4,61,200 (without debiting house rent and other incidental expenditure including admissible depreciation of Rs 1,600 on the one fourth portion of house used for business). Determine the taxable income and tax liability of X for the assessment year 2023-24 X contributes Rs 18,000 towards Home Loan Account of the National Housing Bank. Ignore section 115BAC pertaining to alternative tax regime.

Answer— **COMPUTATION OF TOTAL INCOME OF MR X**

For the Assessment Year 2023-24

Particular	**Detail**	**Amount**
Income from house property **Unit I (50%)** a) Municipal Rental Value c) Fair Rent **Step I** (a) or (b) whichever is more Step I Value **Step II** Actual Rent received or receivable (160000-1000)	 192,000 192,000 192,000 159000	

Step III Step I or Step II Whichever is more		1,92,000	
Step IV Vacancy allowance		**NIL**	
Step V Step III –Step IV Value		1,92,000	
Gross Annual Value		1,92,000	
Less: Municipal Taxes (50% of 32000)		(16000)	
Annual Value		1,76,000	
Less: Deduction u/s 24			
Standard Deduction @ 30%		52,800	1,23,200
UNIT II (25% Self occupied)		NIL	
Unit III (25% for **own business**)		NA	
Business Income			
Net Profit as per P & L A/c		461,200	
Less: Expenses			
M Tax (32000 X 25%)	8000		
Repair (40000 X25%)	10,000		
Ground Rent (16000 X 25%)	4,000		
Land Revenue (9800 X 25%)	2450		
Insurance Premium (16000 X 25%)	4000		
Interest on Capital borrowed for MT(25%)	3500		
Depreciation	1600	(33550)	427650
Gross Total Income			**550850**
Less: Deduction u/s 80C (Home Loan A/c)			**(18000)**
Total Income			**532850**

Computation of Tax Liability

Upto 250,000	NIL
2,50,001 to 5,00,000 @ 5%	12,500
5,00,001 to 532850 @ 20%	6570
	19070
Add: Health and Education Cess @ 4%	763
Total Tax	19830

Q 18 (72 –E1) Mrs X (age: 22 years) has occupied two houses for her residential purposes, particulars of which are as follows:

	House 1	**House 2**
Municipal value	30,000	90,000
Fair rent	28,000	95,000
Standard Rent under the Rent Control Act	20,000	80,000
Municipal taxes paid	3,000	9,000
Interest on borrowed capital	400	1,200
Repairs	NIL	100

Business income of Mrs X is Rs 11,26,000. Besides Mrs X is employed by a private limited company on monthly salary of Rs 68,500. Mrs X contributes Rs 1,22,000 towards provident fund. Determine the taxable income and tax liability of Mrs X for the assessment year 2023-24. Ignore section 115BAC.

COMPUTATION OF TOTAL INCOME OF MRS X

For the Assessment Year 2023-24

Particular	Detail	Amount
Salary Income		
Basic Salary (68,500 x12)	8,22,000	
Less: Deduction u/s 16(ia)	(50,000)	
	7,72,000	7,72,000
Income from house property		
House No 1 and House 2 (Self occupied)		
Annual Value	Nil	
Less: Deduction u/s 24		
Interest on Loan (400+1200)	1,600	
	(1,600)	(1,600)
Business Income		11,26,000
Gross Total Income		**18,96,400**
Less: Deduction u/s 80C(PPF)		**(1,22,000)**
Total Income		**17,74,400**

Computation of Tax Liability

Upto 250,000	NIL
2,50,001 to 5,00,000 @ 5%	12,500
5,00,001 to 10,00,000 @ 20%	1,00,000
10,00,001 to 17,74,400 @ 30%	2,32,320
	3,44,820
Add: Health and Education Cess @ 4%	13,793
Total Tax	3,58,610

Q 20 (72-P1) X (age: 24 years, resident) has occupied two houses for his residential purposes, particulars of which are as follows:-

	House 1	House 2
Municipal value	60,000	30,000
Fair rent	85,000	32,000
Standard Rent under the Rent Control Act	65,000	36,000
Municipal taxes paid	10%	10%
Fire insurance	600	360
Interest on capital borrowed for construction of houses (loan was taken in 2016-17 and construction within one year)	1,40,000	1,70,000

Income of X from business is Rs 9,30,000. Determine the taxable income and tax liability for the assessment year 2023-24 on the assumption that he contributes Rs 1,40,000 towards PPF.

Answer— COMPUTATION OF TOTAL INCOME OF

FOR THE ASSSESSMENT YEAR 2023-24

Income from House Property		
Annual Value of both houses	NIL	

Less: Deduction u/s 24 Interest on loan (140000+170000 but subject to max of 2,00,000 Loss from house property	(2,00,000) (2,00,000)	(2,00,000)
Business Income		9,30,000
Gross Total Income Less: Deduction u/s 80C		7,30,000 (1,40,000)
Total Income		**5,90,000**

Computation of Tax Liability

Upto 250,000 2,50,001 to 5,00,000 @ 5% 5,00,001 to 5,90,000 @ 20%	NIL 12,500 18,000
 Add: Health and Education Cess @ 4%	30,500 1220
Total Tax	31,720

Q 21 (72 –E2) X (age 36 years), a salaried employee (drawing Rs 60,000 per month as salary) has occupied three houses for these residential purposes, particulars of which are as follows: -

	I	II	III
Standard rent under the Poona Rent Control Act	33,000	55,000	40,000
Municipal Valuation	40,000	60,000	40,000
Fair rent	43,000	58,000	48,000
Municipal Taxes paid	3,000	6,000	4,000
Repairs	NIL	NIL	NIL
Ground Rent due but outstanding	200	--	300
Insurance premium due but outstanding	300	400	500

X borrows from a relative Rs 10,000 @ 12% p.a. for construction of house II (date of borrowing June 1, 2017, date of repayment of loan May 31, 2022).

Construction of all the houses is completed in August 2019. Determine the taxable income and tax liability of X for the assessment year 2023-24 on the assumption that X contributes Rs 1,06,000 towards SPF and Rs 2000 towards National Relief Bonds. Ignore section 115BAC.

Answer—

COMPUTATION OF TOTAL INCOME OF

FOR THE ASSESSMENT YEAR 2023-24

Income From Salary (720000—50000 St ded)		6,70,000
Income from House Property House I House II House III	 21,000 (640) NIL	 (20,360)
Gross Total Income Less: Deduction u/s 80C		6,90,360 (1,06,000)
Total Income		5,84,360

Computation of Tax Liability

Upto 2,50,000 2,50,000 to 5,00,000 @ 5% 5,00,001 to 584360 @ 20%	NIL 12,500 16,872
 Add: Health and Education Cess @ 4%	29,372 1175

Total Tax	30550

Working Note: - Calculate income from house property

X has occupied 3 properties for these own residential purposes. Only two houses (according to the choice of X) will be treated as self-occupied properties. Other remaining property will be “deemed to be let out”. He has the following options—

Different options	Houses to be treated as self-occupied	Houses deemed to be let out
Option 1	House 1 and House 2	House 3
Option 2	House 1 and House 3	House 2
Option 3	House 2 and House 3	House 1

In order to minimize taxable income (and maximize loss to be carried forward), one may proceed as follows-

Step 1- Find out income of 3 houses as if these are treated as “self-occupied property”

Step 2- Find out income of 3 houses as if these are “deemed to be let out”

Step 3- Find out the difference between income of each house computed under Step 1 and Step 2

Step 4 Two houses (reporting highest difference as per Step 3) may be taken as “self-occupied properties”. Other remaining house will be “deemed to be let out”

	House 1	House 2	House 3
Step 1 Computation of income if these are self-occupied properties Annual Value Less: Interest on loan	 NIL NIL	 NIL 640	 NIL NIL
Income From property	NIL	(640)	NIL
Step 2- Computation of income if these are deemed to be let out— Gross annual value (being municipal value or fair rent, whichever is lower but subject to maximum of standard rent) Less: Municipal Tax	 33,000 (3000)	 55,000 (6000)	 40,000 (4000)
Annual Value Less: Deduction u/s 24 Standard Deduction Interest on loan	30,000 9,000	49,000 14,700 640	36,000 10,800
Income From property	21,000	33,660	25,200
Step 3 Step 1 minus Step 2	(21,000)	(33020)	(25,200)
Step 4 Selection: House 2 and House 3 (to be taken as SO) Income of House 2 and House 3 (Self-occupied properties) Income of House 1 (deemed to be let out property)	 -- 21,000	 NIL (640)	 NIL NIL
Income from House Properties	21,000	(640)	NIL

<u>Interest of Pre-Construction period (1.6.2017 to 31.3.2019)</u>

Interest for the period (1.6.2017 to 31.3.2018) (10,000 x 12% x10/12) = 1000

Interest from 1.4.2018 to 31.3.2019 (10,000 x 12%) = <u>1200</u>

Total Interest of pre-construction period = <u>2200</u>

Deduction in 5 years = 2200/5 = 440

Deduction for the year 2020-21 = 10000 x 12% x2/12=200 +440=640

Q 22 (72-P2) (Good Question) X (age 61 years) has occupied three houses for his residential purposes, particulars of which are as follows:

	I	II	III
Standard rent under Rent Control Act	15000	20000	NA
Municipal Valuation	10000	30000	30000
Fair rent	18000	18000	35000
Municipal Taxes paid	1200	2400	3600
Repairs	NIL	NIL	NIL
Ground Rent	1800	7000	400
Insurance premium	1200	1300	600

X borrows Rs 90,000 @ 20% p.a. for construction of House III (date of borrowing: June 1, 2012, date of repayment of loan: May 10, 2022).

Construction of all the houses is completed in May 2018. X is a salaried employee, drawing Rs 14,30,680 p.a.as salary. Determine the taxable income and tax liability of X for the assessment year 2023-24 on the assumption that he contributes Rs 1,34,160 towards recognized provident fund. Ignore section 115BAC.

Answer— **COMPUTATION OF TOTAL INCOME OF**
FOR THE ASSESSMENT YEAR 2023-24

Income From Salary (1430680—50000 St ded)		13,80,680
Income from House Property		
House I	NIL	
House II	NIL	
House III	(20,620)	(20,620)
Gross Total Income		13,60,060
Less: Deduction u/s 80C		(1,34,160)
Total Income		12,25,900

Computation of Tax Liability

Upto 3,00,000	NIL
3,00,000 to 5,00,000 @ 5%	10,000
5,00,001 to 10,00,000 @ 20%	1,00,000
10,00,001 to 1225900 @ 30%	67,770
	1,77,770
Add: Health and Education Cess @ 4%	7,111
Total Tax	1,84,880

Working Note: - Calculate income from house property

X has occupied 3 properties for these own residential purposes. Only two houses (according to the choice of X) will be treated as self-occupied properties. Other remaining property will be “deemed to be let out”. He has the following options—

Different options	**Houses to be treated as self-occupied**	**Houses deemed to be let out**
Option 1	House 1 and House 2	House 3
Option 2	House 1 and House 3	House 2
Option 3	House 2 and House 3	House 1

In order to minimize taxable income (and maximize loss to be carried forward), one may proceed as follows-

Step 1- Find out income of 3 houses as if these are treated as "self-occupied property"

Step 2- Find out income of 3 houses as if these are "deemed to be let out"

Step 3- Find out the difference between income of each house computed under Step 1 and Step 2

Step 4 Two houses (reporting highest difference as per Step 3) may be taken as "self-occupied properties". Other remaining house will be "deemed to be let out"

	House 1	**House 2**	**House 3**
Step 1 Computation of income if these are self-occupied properties			
Annual Value	NIL	NIL	NIL
Less: Interest on loan(18000+24600= 42600, subject to maximum of Rs 30,000as construction is completed after 5 years	NIL	NIL	(30,000)
Income From property	NIL	NIL	(30,000)
Step 2- Computation of income if these are deemed to be let out—			
Gross annual value (being municipal value or fair rent, whichever is lower but subject to maximum of standard rent)	15,000	20,000	35,000
Less: Municipal Tax	(1200)	(2400)	(3600)
Annual Value	13,800	17,600	31,400
<u>Less: Deduction u/s 24</u>			
Standard Deduction	(4140)	(5280)	(9420)
Interest on loan (18000+42600)	NIL	NIL	(42,600)
Income From property	9,660	12,320	(20,620)
Step 3 Step 1 minus Step 2	(9660)	(12320)	(9380)
Step 4 Selection: House 1 and House 2 (to be taken as SO)			
Income of House 1 and House 2 (Self-occupied properties)	NIL	NIL	--
Income of House 3 (deemed to be let out property)	--	--	(20,620)
Income from House Properties	NIL	NIL	(20,620)

<u>Interest of Pre-Construction period (1.6.2011 to 31.3.2018)</u>

Interest for the period (1.6.2011 to 31.3.2012) (90,000 x 20% x10/12) = 15000

Interest from 1.4.2012 to 31.3.2018 (90,000 x 20% x 6) = <u>108000</u>

Total Interest of pre-construction period = <u>123000</u>

Deduction in 5 years = 123000/5 = 24,600

Q 23 (72-E7) X (age 28 years, resident) is owner of a house property in Chennai which is let out for Rs 1,44,000 (**which includes Rs 16,800 for maintenance of lift and garden**). Municipal valuation: Rs 1,20,000; Fair rent: Rs 1,24,000; Standard Rent: Rs 1,23,200; rent of ½ month could not be collected (**1/24 of Rs 144000**): Rs 6000. The local taxes, payable by the owner, amounts to Rs 12,000 but the tenant has undertaken to pay it. The tenant has also undertaken to bear cost of repairs. However, X bears the following expenditure during the previous year 2022-23:
Annual charges Rs 3,000; insurance of house Rs 5,800; ground rent Rs 1,400; lift maintenance Rs 15,200; salary of gardener Rs 2,200; interest on borrowed capital Rs 2,700.

Assuming that business income is Rs 23,46,000, determine the income (and tax thereon) for the assessment year 2023-24. The construction of the house was completed on March 31, 1996. During the previous year 2011-2012. X had claimed and allowed a deduction of unrealized rent of Rs 20,000. On March 10, 2023 X recovers Rs 18,000 from the defaulting tenant (legal expenditure on recovery of rent Rs 19000). X contributes Rs 1,20,000 towards National Savings Certificates VIII Issue on April 1, 2023.

Answer— **COMPUTATION OF TOTAL INCOME OF X**
FOR THE ASSESSMENT YEAR 2023-24

Income from House Property			
Step 1 (a) or (b) whichever is more but subject to max of (c)			
(a) MRV	1,20,000		
(b) FRV	1,24,000		
(c) Standard Rental Value	1,23,200		
Step 1 Value	1,23,200		
Step 2 Actual Rental Value (144000—16800=127200-5300=121900			
Step 3 Step 1 or Step 2 whichever is more i.e., 123200			
Step 4 Vacancy Allowance NIL			
Step 5 Step 3- Step 4 i.e., Gross Annual Value	123200		
Less: Municipal Taxes paid by the owner	Nil		
Annual Value	123200		
Less: Deduction u/s 24			
St. Deduction @ 30%	(36960)		
Interest on borrowed capital	(2700)		
	83540		
Add: Recovery of Rent (18000 –30% of 18000)	12600		96140
Business Income			2346000
Income from Other Source			
Amount received (16800—700)		16100	
Less: Expenditure incurred (15200+2200)		(17400)	(1300)
Gross Total Income			24,40,840
Less: Deduction u/s 80			NIL
Total Income			24,40,840

Computation of Tax Liability

Upto 250,000	NIL
2,50,001 to 5,00,000 @ 5%	12,500
5,00,001 to 10,00,000 @ 20%	1,00,000
10,00,001 to 2440840 @ 30%	4,32,252
	5,44,752
Add: Health and Education Cess @ 4%	21,790
Total Tax	5,66,540

Q No.1 What do you mean by Income from House Property? How is it computed? (Imp.)

Q No.2 Define Annual Value. How is it calculated? What are deductions available from annual value of a house property? (V. Imp.)

"Locks are never manufactured without a key. Similarly, God never gives problems without solutions. Only we need to have patience to unlock them."

A Smooth Sea never made a skillful mariner.

Hard work gives profits- idle talks gives wants

Life is like a coin. You can spend it any way you wish, but you only spend it once.