5 INCOME FROM HOUSE PROPERTY [S. 22 - 27]

THEORY AND ILLUSTRATIONS

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1. INTRODUCTION

While income from employment is taxed under the head Salaries, income from property is taxed under the head "Income from House Property". Sections 22 to 27 deal with the computation of Income from House Property.

S.22 lays down what is taxable under this head.

S.23 states how the gross taxable amount, known as Annual Value, is computed.

S.24 lists the deductions allowed from the Annual Value to determine the taxable amount.

S.25 lists the items which are not deductible.

S.26 deals with the situation where the house property is jointly owned by more than one person.

S.27 contains definitions of relevant terms such as "owner" etc.

2. WHAT IS CHARGED UNDER THIS HEAD [S. 22]

Section 22 of the Income-tax Act defines the basis of charge of income under the head - Income from House Property. It states that the *"Annual value of the property, consisting of any buildings or lands appurtenant thereto, of which the assessee is the owner, shall be chargeable to Income-tax under the head " Income from House Property"*. This is, however, not applicable to the property occupied for the purpose of any business or profession carried on by the owner, profits of which are chargeable to income-tax.

3. WHEN CAN INCOME BE CHARGED UNDER THIS HEAD

An analysis of S. 22 indicates that the following three conditions must be satisfied before any income can be charged to tax as Income from House Property :

(1) The property must consist of any buildings or lands appurtenant thereto. This is called the *House Property*.

(2) The property must be *owned* by the assessee.

(3) The property must *not be occupied by the owner for the purpose of any business* or profession carried on by the owner, the profits of which are taxable.

When all the above conditions are satisfied, the *Annual Value* of the property is taxable under this head. All these conditions are explained in detail below.

3.1 PROPERTY SHOULD BE BUILDING / APPURTENANT LAND

(1) Meaning: The source from which the income arises and originates must be house property. House property means the building or the land appurtenant (connected) thereto. Thus income from vacant land or plot (ground rent) is taxed not as Income from house property, but as Income from other sources. "*Building*" includes residential houses as well as commercial premises given on rent such as offices, godowns, factories, cinema halls etc.

"*Land appurtenant thereto*" includes the approach roads from main street, garden, compounds, garages parking space etc.

(2) Foreign Property: If the house property is situated in a foreign country the taxability depends upon the residential status of the assessee. The annual value of the foreign property is taxable in case of an ordinary resident. In case of a not ordinary resident or a non- resident, it is taxable only if income is received in India. The annual value of any foreign property whose income is taxable, is computed as if it is situated in India.

Illustration 1 : (Answer the following in brief)

Mr. A owns a house property in U.K. Examine the taxability of income from this property (a) if A is a resident and ordinary resident (b) if A is a non-resident or (c) if A is a resident but not ordinary resident.

Solution :

(a) If A is a resident and ordinary resident, income from property is taxable whether the property is situated in India or outside India.

(b) If A is a non-resident, income from U.K. property is taxable, only if the income is received in India during the previous year.

(c) If A is a resident but not ordinary resident, income from U.K. property is taxable, only if received in India during the previous year.

3.2 ASSESSEE MUST BE OWNER OF PROPERTY

(1) Owner: The assessee must be the owner of the house property. Thus, if a tenant sub-lets a property and earns rent from the sub-tenant, the rent is taxed not as Income from house property but as Income from other sources.

(2) Deemed Owner: The term "owner" includes a deemed owner who may not be a legal owner. This is to prevent tax-evasion. S.27 states that following person is deemed to be owner of house property, and taxed accordingly -

(a) an individual who transfers any house property without adequate consideration to - (i) his or her spouse, otherwise than in connection with an agreement to live apart, or (ii) to a minor child not being a minor married daughter.

(b) the holder of an impartible estate; e.g. an indivisible estate inherited by the assessee as the eldest son in a Hindu Undivided Family governed by the Mitakshara law.

(c) a member of a company or of a co-operative society or of an association of persons to whom the house is allotted or leased under a House Building Scheme of the company, co-operative society or the association of persons.

(d) a person who takes or retains possession of the house in part performance of a contract under Section 53A of the Transfer of Property Act i.e. a person who has taken possession of a house after paying the full sale price on the basis of an agreement of sale of property, which is, however, not registered yet in his name.

(e) a person who acquires any rights in a building or part thereof under Section 269UA(f) of the Income-tax Act, e.g. under a lease for 12 years or more.

Illustration 2 : (Answer the following in brief)

Mr. A owns a house property in Mumbai. Examine whether the income from this property will be taxed in the hands of A under 'Income from House Property'-

(1) If rent for the house is received by A's father.

(2) If part of the purchase price of the house is paid out of the joint bank account of A and his wife.

(3) If A has let out the house to his employer-company, which, in turn, has provided it to A as rent-free accommodation.

(4) If A has transferred the house to his minor daughter as a gift.

(5) If A has been allotted the house as a member of ABC Co-perative Society Ltd. which owns the land and the building.

(6) If the land on which the house property is built, is not owned by A, but obtained on lease of 15 years from B, the owner of land.

Solution :

(1) Yes; as A is the owner of the house property.

(2) Yes; as the house property is owned by A (money provided by A's wife is a loan from her to A).

(3) Yes; as A is the owner of the house.

(4) Yes; as A is the deemed owner of the house.

(5) Yes; as A is the deemed owner of the house.

(6) Yes; A is the deemed owner of the house, as the house 'property' is acquired by A on lease; and the lease period is more than 12 years.

3.3 PROPERTY SHOULD NOT BE OCCUPIED FOR OWN BUSINESS

S.22 specifically excludes from its scope the annual value of such portions of property (a) as the owner may occupy for the purpose of any business or profession carried on by him (b) the profits of which are chargeable to income-tax. In the following cases, income is chargeable as Profits of Business and not as Income from House Property - (1) rent from staff quarters built by a company and let out to its employees. (2) income derived not so much because of letting of premises but because of services and facilities rendered e.g. (a) Hotel Rooms or Paying Guest Accommodation (b) Business Centres which provide temporary office rooms with services and facilities (c) rent from Safe Deposit Vaults.

4. WHAT IS ANNUAL VALUE [S. 23]

4.1 DEFINITION

Once all the conditions mentioned in S.22 are satisfied, the 'annual value' of the house property is taxed under the head 'Income for House property'. This is a peculiar head of income. It charges to tax a notional amount called annual value (AV), i.e. the estimated value of income expected if the property is rented. AV indicates the capacity of the property to produce income. Section 2(2) defines annual value in relation to any property, as its annual value determined by section 23.

4.2 ANNUAL VALUE IS RLV OR ACTUAL RENT

AV, broadly speaking, may be either of the following two amounts-

(1) Reasonable Lettable Value (RLV): This is the expected rent i.e. the sum for which the property might reasonably be expected to let from year to year.

(2) Actual Rent (AR): This is the actual rent received or receivable by the owner in respect of a property which is actually let.

4.3 REASONABLE LETTABLE VALUE (RLV)

(1) RLV is to be computed whether the property is actually let or not.

(2) RLV is a notional figure. But it is not a fictitious figure. It must be computed on some reasonable i.e. logical basis. It must be computed on a long term basis since it indicates the expected rent from year to year.

(3) RLV may be estimated on the basis of the (a) Fair Rent or (b) Municipal Valuation or (c) the Standard Rent fixed under the Rent Control Act.

(a) **Fair Rent** is the rent fetched by a similar house in the same locality.

(b) **Municipal Valuation** is the Gross Rateable Value fixed by the Municipality for levy of the property taxes. At times the Net Municipal Value is available which is after deduction of allowance of say, 10% from gross value. Thus, if Net Municipal Value is ₹ 9,000 after allowance of 10%, the Gross Municipal Value is ₹ 10,000 (i.e. ₹ 9,000 x 100/90.) The Gross Value is to be considered for ascertaining the Reasonable Lettable Value.

(c) **Standard Rent** is the rent fixed under the Rent Control Act, if any, applicable to the area in which the property is situated. Standard Rent is not mentioned in the Income-tax Act or Rules. However, as per Court Judgements, the Reasonable Lettable Value cannot exceed the Standard Rent fixed under the Rent Control Act, if applicable.

(4) RLV is computed as shown below :

Reasonable Lettable Value	₹
A. Fair Rent	xx
B. Municipal Value	xx
C. Higher of [A] and [B]	xx
D. Standard Rent, if any	xx
E. Lower of [C] and [D] = [RLV]	xx

Notes :

(1) If standard Rent is not applicable, RLV is equal to Higher of Fair Rent and Municipal Value.

(2) While RLV cannot exceed standard rent, RLV, may, however, be lower than the standard rent.

4.4 ACTUAL RENT (AR)

(1) Actual Rent is applicable only if the property is actually let. Thus Actual Rent is irrelevant in case the property is not rented but is self-occupied or is un-occupied or is deemed to be let.

(2) Actual Rent means the actual rent received or receivable. Actual Rent means the rent actually received or receivable in respect of the property let for the period of letting. Actual rent depends on (i) area or portion let and (ii) the period of letting. Actual rent will be different depending on whether the entire property is let throughout the year, or part of the property is let for part of the year and so on.

(3) The amount of Actual Rent would not include the amount of rent which the owner cannot realise to the extent allowable under the Income-tax Rules (i.e. unrealised rent or 'bad debts').

(4) Expenses, such as water charges, lift maintenance, etc., incurred by the owner on providing amenities to the tenant, are deducted from the actual rent received to arrive at the Actual Rent for property.

(5) Actual Rent is computed as shown below -

Actual Rent	₹
Rent Received/Receivable	xx
Less : Allowable Unrealised Rent	xx
= (AR)	xx

4.5 ANNUAL VALUE DEPENDS ON USE OF PROPERTY

Under S. 23, the annual value (AV) depends upon the use of the property i.e. whether the property is let out entirely, or let out but remains vacant partly, or self-occupied or un-occupied or is deemed to be let. This is briefly outlined below, and explained in detail subsequently in para 7 to 10.

(1) LOP : In case of a let out property (LOP), Annual Value is higher of the Reasonable Lettable Value or Actual Rent [S. 23(1)(b)].

(2) VLOP : In case of a let out property which was vacant for sometime during the year (VLOP), basically, the AV is the same as in (1) above i.e. Annual Value is higher of the Reasonable Lettable

Value or Actual Rent, but with one exception. The Annual Value is taken as the Actual Rent, if the actual rent is lower than the RLV due to such vacancy [S. 23(1)(c)].

(3) Two SOPs : The Annual Value will be taken as Nil, in respect of maximum two SOPs; i.e. whether a house in the occupation of the owner for his own residence, i.e. a Self-occupied house [SOP] [S. 23(2)(a)], or a house which cannot be occupied by the owner because of his working elsewhere. The AV cannot be taken as Nil, in case such house (or any part) is let during the year or any other benefit is derived from the property by the owner (S. 23(3)]. [Only a house remaining vacant due to employment elsewhere can be treated as SOP; a house remaining vacant due to any other reasons cannot be treated as an SOP.]

(4) Other SOP Treated as DLOP : In case more than two houses are used by the owner for self-occupation, he can choose only two houses whose annual value is to be taken as Nil as explained above. The income from other self-occupied house(s) is to be computed as if let out i.e. deemed to be let out property [DLOP] [S. 23(4)].

(5) Property held as stock-in-trade : 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 two years 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)]. Thus, in case of a house property held as stock-in-trade by assessee (which is not let out), income has to be computed on a notional basis by taking the Reasonable Lettable Value (RLV) as the GAV after two years from the end of the financial year in which certificate of completion of construction of the property is obtained from the competent authority.

Illustration 3 : (Computing RLV, AR and GAV)

Mr. Vaibhav owns five houses at Cochin. Compute the gross annual value of each house from the information given below:

Particulars	House-I	House-II	House-III	House-IV	House-V
Municipal value	1,20,000	2,40,000	1,10,000	90,000	75,000
Fair rent	1,50,000	2,40,000	1,14,000	84,000	80,000
Standard rent	1,08,000	N.A.	1,44,000	N.A.	78,000
Actual rent received/ receivable	1,80,000	2,10,000	1,20,000	1,08,000	72,000

Solution : ***(CA PCC May 2012, adapted)***

Particulars		House-I	House-II	House-III	House-IV	House-V
A.	Fair rent	1,50,000	2,40,000	1,14,000	84,000	80,000
B.	Municipal value	1,20,000	2,40,000	1,10,000	90,000	75,000
C.	Higher of A or B	1,50,000	2,40,000	1,14,000	90,000	80,000
D.	Standard rent	1,08,000	N.A.	1,44,000	N.A.	78,000
E.	Lower of C or D	1,08,000	2,40,000	1,14,000	90,000	78,000
F.	Actual rent received/ receivable	1,80,000	2,10,000	1,20,000	1,08,000	72,000
	GAV (Higher of E or F)	**1,80,000**	**2,40,000**	**1,20,000**	**1,08,000**	**78,000**

Illustration 4 : (GAV for Different Types of HP)

Mr. Gharwala owns 4 houses let to different tenants, details of which are as follows. Determine the Annual Value of each house.

Particulars	1	2	3	4
Municipal Valuation	90,000	90,000	90,000	90,000
Fair Rent (Rent of similar property)	1,40,000	1,10,000	1,10,000	1,40,000
Standard Rent under Rent Control Act...	1,20,000	1,20,000	1,20,000	1,20,000
Actual Rent per Month	12,000	8,000	12,000	12,000
Months Let Out	12	12	11	9
Months Vacant	Nil	Nil	1	3

Solution :

Particulars		1	2	3	4
A.	Municipal Value	90,000	90,000	90,000	90,000
B.	Fair Rent	1,40,000	1,10,000	1,10,000	1,40,000
C.	Higher of A and B	1,40,000	1,10,000	1,10,000	1,40,000
D.	Standard Rent	1,20,000	1,20,000	1,20,000	1,20,000
E.	Reasonable Lettable Value (RLV) = Lower of C and D	1,20,000	1,10,000	1,10,000	1,20,000
F.	Actual Rent Received/Receivable (AR)	1,44,000	96,000	1,32,000	1,08,000
G.	**Annual Value (see Notes)**	**1,44,000**	**1,10,000**	**1,32,000**	**1,08,000**

Working Notes :

(1) House 1 is entirely let out property (LOP). Its Reasonable Lettable Value (RLV) is the standard rent of ₹ 1,20,000 since the RLV cannot exceed Standard Rent. The Actual Rent (AR) is ₹ 1,44,000 (₹ 12,000 x 12). The Annual Value is the AR of ₹ 1,44,000, which is higher than the RLV of ₹ 1,20,000.

(2) House 2 is entirely let out property (LOP). Its Reasonable Lettable Value (RLV) is the fair rent of ₹ 1,10,000 (note that while the RLV cannot exceed Standard Rent, it can be lower than the standard rent). The Actual Rent (AR) is ₹ 96,000 (₹ 8,000 x 12). The Annual Value is the RLV of ₹ 1,10,000 which is higher than the AR of ₹ 96,000.

(3) House 3 is let out property, which was vacant for sometime during the year (VLOP). Its Reasonable Lettable Value is the fair rent of ₹ 1,10,000. The Actual Rent (AR) is ₹ 1,32,000 (₹ 12,000 x 11). The Annual Value is the AR of ₹ 1,32,000, which is higher than the RLV of ₹ 1,10,000. The AR, it should be noted, is higher than the RLV, inspite of the vacancy and hence is to be taken as the Annual Value.

(4) House 4 is let out property, which was vacant for sometime during the year (VLOP). Its Reasonable Lettable Value (RLV) is the standard rent of ₹ 1,20,000. The Actual Rent (AR) is ₹ 1,08,000 (₹ 12,000 x 9). The AR of ₹ 1,08,000 is lower than the RLV of ₹ 1,20,000, due to loss of ₹ 36,000 caused by vacancy and hence is to be taken as the Annual Value.

4.6 NET ANNUAL VALUE

(1) Deducting Municipal Taxes Paid: The Annual Value computed as above is known as the Gross Annual Value or GAV. From the GAV, the taxes levied by any *local authority* (Municipality etc.) in respect of the property, shall be *deducted*, in the previous year in which such taxes are *actually paid* by the owner. Such deduction can be made irrespective of the previous year in which the liability to pay such taxes was incurred by the owner according to the method of accounting employed by him. According to S.27(vi), such taxes include *service taxes* levied by the local authority in respect of the property.

(2) No Deduction: The taxes *cannot be deducted* to the extent-

(a) they are *not levied by a local authority* (Municipality, Gram Panchayat, Cantonment Board etc.) e.g. taxes levied by the State Government.

(b) they are *not paid by the owner* (e.g. borne by the tenant).

(c) they are *not actually paid* during the previous year.

(d) they relate to a SOP whose annual value is taken as nil.

(3) NAV = Gross Income from HP: After such municipal taxes borne and actually paid by the owner are deducted from the gross annual value, we arrive at the Net Annual Value [NAV]. Net Annual Value indicates the amount of *gross income* subjected to tax under the head 'Income from House Property'.

5. DEDUCTIONS [S. 24]

From the Net Annual Value, the following deductions are allowed under S. 24 : (1) Standard Deduction (2) Interest.

5.1 STANDARD DEDUCTION [S. 24(a)]

A lumpsum amount equal to 30% of the Net Annual Value (NAV), can be deducted on account of all expenses on property (repairs, collection charges, ground rent, insurance, land revenue, state taxes and so on, except interest explained below). Such deduction is allowed on notional basis, irrespective of who (owner or tenant) bears the expenses or the amount of actual expenses incurred. [Thus, Income from House Property is truly a deemed income - both the gross income (annual value) and expenses allowed (standard deduction) are deemed and not actual figures].

Illustration 5 :

Municipal valuation of a bungalow, constructed in 2009 is ₹ 24,000 and rent realised is ₹ 21,000. Municipal taxes borne by the owner Mr. Parekh are ₹ 4,000. Cost of repairs is ₹ 2,000 and collection charges are ₹ 1,000. Insurance premium on property is ₹ 2,000. Ground rent due is ₹ 5,000. Annual charge secured against the property is ₹ 3,000. Determine the income from house property.

Solution:

NAME OF OWNER : MR. PAREKH
PREVIOUS YEAR : 2021-22 **ASSESSMENT YEAR : 2022-23**
COMPUTATION OF INCOME FROM HOUSE PROPERTY

Particulars		₹
(A) Gross Annual Value		
Higher of R.L.V. (₹ 24,000) or Rent received (₹ 21,000)	... ...	24,000
Less : Municipal taxes paid by owner	... ...	4,000
(B) Net Annual Value	... ...	20,000
(C) Less : Deductions u/s 24		
(1) Standard Deduction (30% of 20,000)	... ...	6,000
(D) Net Income from House Property	... ...	**14,000**

Note: No other expenses can be claimed as standard deduction covers all expenses relating to property.

5.2 INTEREST [S. 24(b)]

(1) Interest Payable on Loan For Property

The interest payable on amounts borrowed for *(i) acquisition, (ii) construction, (iii) repairs, (iv) renewal, or (v) reconstruction of property* can be deducted from the Net Annual Value. This is the only deduction allowed from NAV, in addition to Standard Deduction. Interest is allowable on accrual basis, whether actually paid or not, irrespective of the method of accounting followed by the assessee. The purpose of borrowing must be related to the property i.e. its purchase, construction, repair, renewal or reconstruction. If loan is taken by mortgaging the house but for any other reason, e.g. daughter's marriage, the interest cannot be deducted.

(2) Interest Payable For Pre-construction Period **[S. 24(b)-Explanation]**

(1) Where property has been (i) constructed or (ii) purchased with borrowed funds, the interest payable for the period prior to *acquisition or construction*, can be deducted in 5 equal instalments beginning with the previous year in which property is acquired or constructed and 4 succeeding years.

(2) However, any amount already allowed as deduction under any other provision of the Act cannot be claimed again.

(3) Interest is to be aggregated from the date of borrowing till the *end of the previous year* prior to the year in which the house is completed (and *not till the date of completion of construction*).

(4) Thus, if a loan is taken on 1st April, 2019 and the construction is complete on 15th March, 2022 : (i) interest from 1st April, 2019 (the date of borrowing) to 31st March, 2020 (the previous year prior to the year in which the construction is completed) will be treated as interest for pre-construction period whose 1/5th amount will be allowed in current previous year 2021-22 and (b) entire interest from 1st April, 2021 to 31st March, 2022 will be treated as interest for the current previous year 2021-22 even though the house is completed only towards the end of the year.

(5) It should be noted that (a) for purchase/construction explained above. (b) If i interest cannot be deduc deducted. (d) Only simpl the lender specifying the

WORKSHEET 1 : COMPU

Particulars	
a.	Loan Amount
b.	Date Loan Taken
c.	Date Construction Cor
d.	End of P.Y. Preceding
e.	Period of Loan [Month
f.	Rate of Interest P.A.
g.	Pre-acquisition Interes
	1/5th Pre-acquisitior

(3) Amount Deductible

In case of the houses (ma occupation or lying vac interest can be claimed u or renewals; or (ii) upto from the end of the finar 1st April, 1999. [Note th *or construction*; and not any amount of interest

Illustration 6 : (Answer th

Mr. X took a loan of ₹ 1,00, construction of his house. of interest from the annua

Solution :

(1) Since the loan is taker well as the pre-constr

(2) Interest for current yea so far).

(3) Pre-construction inter

(a) The previous yea

(b) Pre-construction financial year prec i.e. in the above c ₹ 30,000.

(c) 1/5th of ₹ 30,000

OR CALCULATIONS U

(a) Loan Amount

(b) Date Loan Ta

(c) Date Constru

(d) End of P.Y. Pr

(e) Period of Loa

(f) Rate of Intere

(g) Pre-acquisitio

1/5th Pre-acquisi

(4) The total interest d pre-construction int

5.1 STANDARD DEDUCTION [S. 24(a)]

A lumpsum amount equal to 30% of the Net Annual Value (NAV), can be deducted on account of all expenses on property (repairs, collection charges, ground rent, insurance, land revenue, state taxes and so on, except interest explained below). Such deduction is allowed on notional basis, irrespective of who (owner or tenant) bears the expenses or the amount of actual expenses incurred. [Thus, Income from House Property is truly a deemed income - both the gross income (annual value) and expenses allowed (standard deduction) are deemed and not actual figures].

Illustration 5 :

Municipal valuation of a bungalow, constructed in 2009 is ₹ 24,000 and rent realised is ₹ 21,000. Municipal taxes borne by the owner Mr. Parekh are ₹ 4,000. Cost of repairs is ₹ 2,000 and collection charges are ₹ 1,000. Insurance premium on property is ₹ 2,000. Ground rent due is ₹ 5,000. Annual charge secured against the property is ₹ 3,000. Determine the income from house property.

Solution:

NAME OF OWNER : MR. PAREKH
PREVIOUS YEAR : 2021-22 **ASSESSMENT YEAR : 2022-23**
COMPUTATION OF INCOME FROM HOUSE PROPERTY

Particulars		₹
(A) Gross Annual Value		
Higher of R.L.V. (₹ 24,000) or Rent received (₹ 21,000)	... ...	24,000
Less : Municipal taxes paid by owner	... ...	4,000
(B) Net Annual Value	... ...	20,000
(C) Less : Deductions u/s 24		
(1) Standard Deduction (30% of 20,000)	... ...	6,000
(D) Net Income from House Property	... ...	**14,000**

Note: No other expenses can be claimed as standard deduction covers all expenses relating to property.

5.2 INTEREST [S. 24(b)]

(1) Interest Payable on Loan For Property

The interest payable on amounts borrowed for *(i) acquisition, (ii) construction, (iii) repairs, (iv) renewal, or (v) reconstruction of property* can be deducted from the Net Annual Value. This is the only deduction allowed from NAV, in addition to Standard Deduction. Interest is allowable on accrual basis, whether actually paid or not, irrespective of the method of accounting followed by the assessee. The purpose of borrowing must be related to the property i.e. its purchase, construction, repair, renewal or reconstruction. If loan is taken by mortgaging the house but for any other reason, e.g. daughter's marriage, the interest cannot be deducted.

(2) Interest Payable For Pre-construction Period **[S. 24(b)-Explanation]**

(1) Where property has been (i) constructed or (ii) purchased with borrowed funds, the interest payable for the period prior to *acquisition or construction*, can be deducted in 5 equal instalments beginning with the previous year in which property is acquired or constructed and 4 succeeding years.

(2) However, any amount already allowed as deduction under any other provision of the Act cannot be claimed again.

(3) Interest is to be aggregated from the date of borrowing till the *end of the previous year* prior to the year in which the house is completed (and *not till the date of completion of construction*).

(4) Thus, if a loan is taken on 1st April, 2019 and the construction is complete on 15th March, 2022 : (i) interest from 1st April, 2019 (the date of borrowing) to 31st March, 2020 (the previous year prior to the year in which the construction is completed) will be treated as interest for pre-construction period whose 1/5th amount will be allowed in current previous year 2021-22 and (b) entire interest from 1st April, 2021 to 31st March, 2022 will be treated as interest for the current previous year 2021-22 even though the house is completed only towards the end of the year.

(5) It should be noted that (a) a new loan can be taken specifically to repay the original loan taken for purchase/construction of a house. The interest on such new loan can also be deducted as explained above. (b) If interest is not paid in time, the late payment charges or interest on interest cannot be deducted. (c) Brokerage paid for arranging the housing loan cannot be deducted. (d) Only simple, and not compound, interest can be deducted. (e) a certificate from the lender specifying the amount of interest should be furnished by the assessee.

WORKSHEET 1 : COMPUTING PRE-ACQUISITION INTEREST

	Particulars	Date / Period	₹
a.	Loan Amount		xx
b.	Date Loan Taken	xx-xx-xxxx	
c.	Date Construction Complete/ Loan Repaid (whichever is earlier)	xx-xx-xxxx	
d.	End of P.Y. Preceding "c"	31-03-xxxx	
e.	Period of Loan [Months : d - b]	xxx	
f.	Rate of Interest P.A.	xx%	
g.	Pre-acquisition Interest [a x e/12 x f]		xx
	1/5th Pre-acquisition Interest [g/5]		xx

(3) Amount Deductible

In case of the houses (max. two) whose annual value is taken as Nil (being a house used for self-occupation or lying vacant due to the owner residing at work-place away from such house), interest can be claimed upto (i) ₹ 30,000, if the loan is taken for acquisition, construction, repairs or renewals; or (ii) upto ₹ 2,00,000, if such property is acquired or constructed within 5 years from the end of the financial year in which the capital was borrowed, with loan taken on or after 1st April, 1999. [Note that higher limit of ₹ 2,00,000 applies only to loans taken for *acquisition or construction*; and not for repairs, renewal, re-construction etc.]. In any other type of property, any amount of interest can be claimed.

Illustration 6 : (Answer the following in brief)

Mr. X took a loan of ₹ 1,00,000 @15% interest p.a. from H.D.F.C. on 1-4-2018 for the purpose of the construction of his house. The house was completed on 20-3-2021. Calculate the deductible amount of interest from the annual value for the previous year 2021-22 if the house is let out.

Solution :

(1) Since the loan is taken for construction of the house, interest for the previous year 2021-22 as well as the pre-construction interest is deductible u/s 24.

(2) Interest for current year is 15% x ₹ 1,00,000 = ₹ 15,000. (It is assumed that the loan is not repaid so far).

(3) Pre-construction interest is computed as follows -

(a) The previous year in which the construction of the property is complete is 2019-20.

(b) Pre-construction interest means the interest from the date of loan to the last date of the financial year preceding the previous year in which the construction of the property is complete, i.e. in the above case interest from 1-4-2018 to 31-3-2020, i.e. ₹ 1,00,000 x 15% x 2 years = ₹ 30,000.

(c) 1/5th of ₹ 30,000 i.e. ₹ 6,000 will be allowed in the previous year 2021-22.

OR CALCULATIONS USING WORKSHEET 1

(a)	Loan Amount	₹ 1,00,000
(b)	Date Loan Taken	1-4-2018
(c)	Date Construction Complete	20-3-2021
(d)	End of P.Y. Preceding "c"	31-3-2020
(e)	Period of Loan [Months : d - b]	24 Months
(f)	Rate of Interest P.A.	15%
(g)	Pre-acquisition Interest [a x e/12 x f]	$1,00,000 \times \frac{24}{12} \times 15\% =$ **₹ 30,000**
	1/5th Pre-acquisition Interest [g/5]	1/5 x 30,000 = **₹ 6,000**

(4) The total interest deductible in the previous year 2020-21 is interest for current year + 1/5th of pre-construction interest i.e. ₹ 15,000 + ₹ 6,000 = **₹ 21,000**.

Note : Interest during 2019-20 (the year of construction) would have been claimed as current interest during that previous year.

5.3 INTEREST NOT DEDUCTIBLE [S. 25]

Any interest payable outside India on which tax has not been paid or deducted and in respect of which there is no person in India who may be treated as an agent under S. 163, shall not be deducted in computing Income from house property. (This is to prevent avoidance of tax by the person receiving the amount of interest. Thus A can deduct interest payable to B outside India, only if tax on such interest has been paid or deducted or recoverable from an agent of B, in India.)

6. COMPUTATION OF INCOME FROM HOUSE PROPERTY

6.1 HOW INCOME FROM HP IS COMPUTED & SHOWN IN I.T. RETURN

Income from House Property is computed as shown below (Income-tax Return Form No. ITR-2 Schedule HP) :

ITR - 2

Schedule HP	**Details of Income from House Property**					
Address of Property	Town / City	State		PIN Code		
Is the Property Let Out?	Name of Tenant			PAN of Tenant (optional)		
a.	Annual lettable value / rent received or receivable				a	
b.	The amount of rent which cannot be realized		b			
c.	Tax paid to local authorities		c			
d.	Total (b + c)		d	0		
e.	Balance (a - d)				e	
f.	30% of e		f	0		
g.	Interest payable on borrowed capital (Cannot exceed 2 lacs if not let out)		g			
h.	Total (f + g)				h	
i.	Income from House Property (e - h)				i	

6.2 ARREARS / UNREALISED RENT RECEIVED SUBSEQUENTLY [S. 25A]

1. 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.
2. Section 25A(2) provides a deduction of 30% of arrears of rent or unrealised rent realised subsequently by the assessee.
3. **Summary :**

	Section 25A
	Arrears of Rent / Unrealised Rent
1.	Taxable in the year of receipt / realisation
2.	Deduction @ 30% of rent received / realised
3.	Taxable even if assessee is not the owner of the property in the financial year of receipt / realisation.

Illustration 7 : (Answer the following in brief)

A tenant paying rent of ₹ 2,200 from 1-4-2018, agrees in March 2022 to revise the rent @ ₹ 2,800 right from 1-4-2018. He pays the arrears for 2018-19 in March 2022 amounting to ₹ 7,200. Discuss the taxability.

Solution :

Arrears for 2017-18 received in 2021-22 (600 x 12)	7,200
Less : Standard Deduction (30%)	2,160
Taxable under S. 25B in 2021-22	5,040

Illustration 8 :

Mr. Anand sold his residential house property in March, 2021.

In June, 2021, he recovered rent of ₹ 10,000 from Mr. Gaurav, to whom he had let out his house for two years from April 2015 to March 2017. 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. 2017-18.

Further, he had let out his property from April, 2017 to February, 2021 to Mr. Satish. In April, 2019, he had increased the rent from ₹ 12,000 to ₹ 15,000 per month and the same was a subject matter of dispute. In September, 2021, the matter was finally settled and Mr. Anand received ₹ 69,000 as arrears of rent for the period April 2019 to February 2021.

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. 2021-22, the same would be taxable in the A.Y. 2022-23 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. 2021-22, and hence the same would be taxable in the A.Y. 2022-23 under section 25A, eventhough 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. 2022-23.

Computation of Income from House Property of Mr. Anand for A.Y. 2022-23

Particulars	₹
1. Unrealised Rent recovered	10,000
2. Arrears of Rent received	69,000
... ...	79,000
Less : Deduction @ 30%	23,700
Income from House Property	**55,300**

6.3 PROPERTY MAY BE LET OUT, SELF-OCCUPIED OR VACANT

Computation of annual value is the first step in the computation of income from house property. This indicates the Gross income taxable as Income from House Property. The next step is to compute the deduction of standard allowance and interest from the annual value, to arrive at the net taxable income. Income from house property arises whether the property is let out or self-occupied or vacant. The annual value and various deductions allowed depend upon whether the property is let-out or self occupied or vacant during the previous year, either entirely or partly. The computation of income under the head Income from house property is, therefore, discussed under the following categories -

(A) Any Let Out Property (LOP)

(B) Let Out Property Partly Vacant (VLOP)

(C) Self-occupied Property (SOP), upto two houses

(D) Additional SOP Deemed to Be Let (DLOP)

7. LET OUT PROPERTY (LOP)

The income from a property let throughout the year, is computed in the following manner -

7.1 WORKSHEET 2 : COMPUTATION OF INCOME FROM LOP

STEP	WHAT IS TO BE COMPUTED	HOW IT IS TO BE COMPUTED	PARA	RESULT
(1)	**Reasonable Lettable Value**	Fair Rent		[A]
		Municipal Value		[B]
		Higher of [A] and [B]		[C]
		Standard Rent, if any		[D]
		Lower of [C] and [D]	**4.3**	= [RLV]
(2)	**Actual Rent**	Rent Received/Receivable		
		Less: Allowable Unrealised Rent	**4.4**	= [AR]
(3)	**Gross Annual Value**	RLV or AR, whichever is higher	**4.5**	= [GAV]
(4)	**Less : Municipal Taxes**	Paid By Owner during Previous Year		= [MT]
(5)	**Net Annual Value**	GAV less MT [3 - 4]	**4.6**	= [NAV]
(6)	**Less : Deductions u/s 24**	6.1 Standard deduction [30% of NAV]	**5.1**	
		6.2 Interest Payable	**5.2**	
(7)	**Income from LOP**	NAV Less Deductions [5 - 6]		**=[Income from HP]**

7.2 EXPLANATION

(1) Standard Rent: RLV cannot exceed standard rent but can be lower than the standard rent.

(2) Exclude Other Charges: Actual Rent means amount paid towards property; it excludes amounts paid towards other benefits provided by the owner to the tenant such as electricity, lift maintenance etc.

(3) Let Out Independent Unit/Portion: The computation of income, in case of independent units (flat, floor etc.) or separate portions (25% let out etc.) which are let out is also to be done as shown above (See Para 13).

7.3 ILLUSTRATIONS

Illustration 9 : (Interest)

Mr. Mehra owns a house at Delhi, which is let-out. Fair rent of the house is ₹ 24,000 whereas actual rent received is ₹ 30,000. He also received ₹ 10,000 from the tenant for charges towards lift, generator and security. He makes the following expenditure in respect of the house property -

Particulars	₹	Particulars	₹
Municipal taxes paid by Mehra	4,000	Repairs	2,000
Fire Insurance	2,400	Land revenue	3,800
Collection charges	500	Ground rent paid	2,000

Interest on borrowed capital during the previous year 2021-22 is ₹ 4,000. Funds borrowed on April 1, 2018, ₹ 40,000 @ 10% interest p.a. were used for construction of the house which was completed on March 31, 2022. Compute the income earned by Mr. Mehra from his let-out house property during the assessment year 2022-23.

Solution :

INCOME FROM HOUSE PROPERTY OF MR. MEHRA

PREVIOUS YEAR : 2021-22 **ASSESSMENT YEAR : 2022-23**

Particulars		₹	₹
(A)	**Gross Annual Value**		
	Higher of R.L.V. (₹ 24,000) or Rent received (₹ 30,000; Note 1)		30,000
(B)	**Less :** Municipal taxes paid	... ...	4,000
(C)	**Net Annual Value**	(A - B)	26,000

(D)	**Less : Deductions u/s 24**		
	(1) Standard Deduction (30% of 26,000)	... ...	7,800
	(2) Interest on borrowed funds during P.Y.	... ...	4,000
	(3) Interest on borrowed funds during pre-construction period (Note 2)		2,400
	Total Deductions	... ...	14,200
(E)	**Net Income from House Property**	(C - D)	11,800

Working Notes :

(1) **'Rent'** includes only charges for house property. Charges received for lift etc. are taxed not as 'income from house property' but as 'income from other sources'.

(2) **Pre-construction Interest** is computed as follows:

(a) Construction completed in previous year 2021-22.

(b) Pre-construction Period = Period from date of borrowing to End of Preceding Financial Year = 1-4-2018 to 31-3-2021.

(c) Pre-construction Interest = ₹ 40,000 x 10% x 3 years = ₹ 12,000.

(d) Pre-construction Interest Allowable during current previous Year = 1/5 x 12,000 = ₹ 2,400.

8. PARTLY VACANT LET OUT PROPERTY (VLOP)

8.1 WORKSHEET 3 : COMPUTATION OF INCOME FROM VLOP

STEP	WHAT IS TO BE COMPUTED	HOW IT IS TO BE COMPUTED	PARA	RESULT
(1)	**Reasonable Lettable Value**	Fair Rent		[A]
		Municipal Value		[B]
		Higher of [A] and [B]		[C]
		Standard Rent, if any		[D]
(2)	**Actual Rent**	Lower of [C] and [D] Rent received/receivable for let out part/period	**4.3**	= [RLV]
(3)	**Gross Annual Value**	Less: Allowable Unrealised Rent RLV or AR, whichever is higher; But AR, if it is lower than RLV due to loss caused by vacancy.	**4.4**	= [AR]
(4)	**Less : Municipal Taxes**	Paid By Owner during PreviousYear	**4.5**	= [GAV]
(5)	**Net Annual Value**	GAV less MT [3 - 4]		= [MT]
(6)	**Less : Deductions u/s 24**	6.1 Standard deduction [30% of NAV]	**4.6**	= [NAV]
		6.2 Interest Payable	**5.1**	
(7)	**Income from VLOP**	NAV Less Deductions [5 - 6]	**5.2**	**= Income from HP**

8.2 EXPLANATION

(1) **Applicability:** The above rules of computation apply if the following conditions are satisfied-

(a) if the property is let out; and

(b) if the property (or any part) is vacant during the whole or part of the year.

(2) **AR & Extent of Vacancy:** Actual rent is to be computed when (i) the entire property is vacant for part of the year; or (ii) part of property is vacant for the entire or part of the year. If the entire property is vacant for the entire year, Annual Value is to be computed as explained either under Para 9 [Self-occupied Property] or Para 10 [Deemed Let Out], depending on the facts.

(3) **Loss Due to Vacancy :**

(a) If AR is less than RLV due to loss caused by vacancy, AR is taken as GAV.

(b) If AR is less than RLV for reasons other than vacancy, RLV is taken as GAV. This situation will arise (due to, say, undercharging of rent) if RLV is more than the total of AR + Loss caused by vacancy.

8.3 ILLUSTRATIONS

Illustration 10 : (AR Less than RLV due to vacancy)

A has a residential property, details of which are given below :

Particulars	₹
Municipal valuation	1,15,000
Rent receivable p.m.	10,000

The following expenses were paid by A: (1) Municipal taxes ₹ 10,000. (2) Collection charges ₹ 8,000. (3) Insurance ₹ 10,000. The house remained vacant for one month during the year. Compute his income from house property for the assessment year 2022-23.

Solution:

INCOME FROM HOUSE PROPERTY OF A **ASSESSMENT YEAR : 2022-23**
PREVIOUS YEAR : 2021-22

Particulars	₹
(A) Gross Annual Value (GAV)	1,15,000
(1) Reasonable Lettable Value (RLV)	1,10,000
(2) Actual Rent (AR) [10,000 x 11]	1,10,000
GAV = AR as it is less than RLV due to loss of ₹ 10,000 caused by vacancy	10,000
(B) Less: Municipal Taxes Paid By Owner	1,00,000
(C) Net Annual Value [NAV]	
(D) Less: Deduction U/S.24	30,000
Standard Deduction [30% of NAV]	70,000
(E) INCOME FROM LET OUT PROPERTY	

Illustration 11 : (AR More than RLV inspite of vacancy)

Refer above Illustration. Compute A's income from house property for the assessment year 2022-23, if the Municipal Valuation of his property is ₹ 1,00,000.

Solution :

INCOME FROM HOUSE PROPERTY OF A **ASSESSMENT YEAR : 2022-23**
PREVIOUS YEAR : 2021-22

Particulars	₹
(A) Gross Annual Value (GAV)	1,00,000
(1) Reasonable Lettable Value (RLV)	1,10,000
(2) Actual Rent (AR) [10,000 x 11]	1,10,000
GAV = AR, since AR is more than RLV in spite of vacancy	10,000
(B) Less: Municipal Taxes Paid By Owner	1,00,000
(C) Net Annual Value [NAV]	
(D) Less: Deduction U/S.24	30,000
Standard Deduction [30% of NAV]	70,000
(E) INCOME FROM LET OUT PROPERTY	

Illustration 12 : (Unrealised Rent + Arrears)

Compute the Income from House Property from the following particulars in respect of a new property owned by M which was let out from 1-4-2016 onwards :

Particulars	₹
Fair Rent	60,000
Actual rent receivable	7,500 p.m.
Rent actually received (for 10 months only due to vacancy period of 2 months)	75,000
Municipal taxes paid (including arrears for earlier years)	14,400
Interest on borrowal paid during the year	23,000
Interest on borrowal paid prior to 1-4-2016	20,000
Collection charges	3,400

Unrealised rent claimed as deduction in earlier year, but received during the year 2021-22	... ...	11,000
Arrears of rent for earlier years received during the year	... ...	8,000
Expenditure on repairs to property	... ...	3,000
Ground rent paid	... ...	4,500
Insurance premium paid, relating to the property	... ...	2,200
Expenditure incurred on collecting unrealised rent	... ...	3,500

Solution :

INCOME FROM HOUSE PROPERTY OF M

PREVIOUS YEAR : 2021-22 **ASSESSMENT YEAR : 2022-23**

Particulars		₹	₹
(A) Reasonable Lettable Value (RLV)			
Fair Rent	... ...	60,000	
(B) Actual Rent (AR)			
Rent receivable for let-out period	... ...	75,000	
(C) Gross Annual Value (WN 1)	... ...		75,000
AR, as it is higher than RLV (inspite of vacancy)			
(D) Less : Municipal Taxes Paid (WN 2)	... ...		14,400
(E) Net Annual Value (NAV)	... ...		60,600
(F) Less : Deductions u/s 24			
1. Standard Deduction (30% of 60,600)	... ...	18,180	
2. Interest Payable (WN 4)	... ...	23,000	41,180
(G) Income from House Property (VLOP)			19,420
(F) Add : Unrealised rent, realised now		11,000	
(I) Add : Arrears of rent received	... ...	8,000	
		19,000	
Less : Standard Deduction (30%) [S. 25A]	... ...	5,700	13,300
(J) Income taxable under House Property			32,720

Working Notes :

(1) AR (₹ 75,000) is taken as GAV since it is more than RLV (₹ 60,000), inspite of loss caused by vacancy (₹ 15,000).

(2) Municipal taxes are deducted on payment basis, even if they are for earlier years.

(3) No separate deduction is allowed for repairs, insurance, ground rent etc.

(4) Only interest for the current year is claimed. The five-year period for claiming pre-acquisition interest paid before 1-4-2016 is over by 31-3-2021. Hence pre-acquisition interest cannot be claimed.

(5) Expenses incurred for the purpose of realising unrealised rent cannot be claimed.

Illustration 13 : (Standard Rent)

M has a residential property, details of which are given below :

Particulars		₹
Municipal valuation	... ...	1,00,000
Fair Rent p.m.	... ...	15,000
Standard Rent p.m.	... ...	9,600
Municipal Taxes paid @ 20% of municipal valuation		
Interest on loan for purchase of this house	... ...	20,000
Rent receivable p.m.	... ...	10,000

The house property was vacated by the tenant on the last day of October, 2021. It could then be let out only from 1st of January, 2022 at ₹ 14,000 p.m. Rent for March 2020 could not be realised (the conditions under the relevant income-tax rules were satisfied). Compute his income from house property for the assessment year 2022-23.

Solution:

INCOME FROM HOUSE PROPERTY OF M

PREVIOUS YEAR : 2021-22 **ASSESSMENT YEAR : 2022-23**

PARTICULARS	₹	₹	₹
(A) Gross Annual Value (GAV)			
1.1 Reasonable Lettable Value (RLV)			
(1) Fair Rent (15,000 x 12)	1,80,000		
(2) Municipal Value	1,00,000		
(3) Higher of (1) and (2)	1,80,000		
(4) Standard Rent (9,600 x 12)	1,15,200		
Lower of (3) and (4)		1,15,200	
1.2 Actual Rent Receivable (AR)			
(10,000 x 7)	70,000		
(14,000 x 3)	42,000		
	1,12,000		
Less: Unrealised rent for March	(14,000)	98,000	
GAV = AR, as it is less than RLV due to vacancy			98,000
(B) Less: Municipal Taxes Paid By Owner (20% x 1,00,000)			20,000
(C) Net Annual Value [NAV]			78,000
(D) Less: Deduction U/S.24			
(1) Standard Deduction [30% of NAV]		23,400	
(2) Interest		20,000	43,400
(E) INCOME FROM LET OUT PROPERTY...			34,600

9. TWO HOUSES SELF-OCCUPIED (SOP)

9.1 WORKSHEET 4 : COMPUTATION OF INCOME FROM TWO SOPs

STEP	WHAT IS TO BE COMPUTED	HOW IT IS TO BE COMPUTED	PARA	RESULT
(1)	**Net Annual Value**	1 Self-occupied House or 1 Un-occupied House due to employment elsewhere	4.5	= Nil
(2)	**Less : Deductions u/s 24**	Interest Payable a. Loan upto 31-3-1999 b. Loan after 1-4-1999	5.2	Max. ₹ 30,000 Max. ₹ 2,00,000
(3)	**Income from SOP/UOP**	Loss due to interest		**= Loss from HP**

9.2 EXPLANATION

(1) No Deduction for Municipal Tax : In respect of such house(s), deduction for municipal taxes paid is not allowed, as the Annual Value itself is Nil (i.e. GAV = NAV = Nil).

(2) No Standard Deduction: In respect of such house(s), the standard deduction @ 30% cannot be claimed, as the annual value itself is Nil.

(3) Applicable to Only Two SOPs [S. 23(4)(a)]: The above concession is available for only two houses (either self-occupied or lying un-occupied due to employment etc.). Where there are three or more such houses, income from only two houses, as selected by the owner, is computed in the above manner applicable to a SOP. Other houses are "deemed to be let out" and the taxable income is computed as explained below (see para 10). The assessee should select the two houses having the highest Annual Value for this purpose, to minimise his tax liability.

(4) Provisions Not Applicable: The above provisions for taking Nil Annual Value do not apply to

(1) an assessee other than an individual (e.g. HUF, Firm etc.).

(2) more than two such houses.

(3) a house remaining un-occupied not due to employment etc. elsewhere.

(4) a house or part whereof which was actually let anytime during the year.

(5) a house from which any other benefit is derived by the owner.

(6) a house occupied not by the owner himself for his residence e.g. a house occupied by the owner's brother.

(7) an individual who lives at his place of employment away from his residence but in a house belonging to him.

In such cases, income is computed as if from a house deemed to be let out (see Para 10, below).

(5) Types of Self-Occupation : Various ways in which a house may be self occupied and its computation is explained in the following worksheet.

WORKSHEET 5 : SELF-OCCUPATION : TYPES & COMPUTATION

No.	*Type of SOP*	*How Income from HP is Computed*
(1)	A house self-occupied throughout the year.	Annual Value can be taken as Nil
(2)	Part of house self-occupied throughout the year; and the remaining part let out	*(i) Self-occupied Part :* Annual Value can be taken as Nil. *(ii) Let out Part :* Annual value can be computed as LOP etc.
(3)	House self-occupied for part of the year; and let out for remaining part of the year.	Annual Value will be computed as LOP and cannot be taken as Nil.

(6) Interest : Maximum Interest allowable in respect of SOP is shown in the following worksheet:

WORKSHEET 6 : MAXIMUM INTEREST ON SOP

No.	*What is to be computed*	*Paid*	*Allowed*
(1)	Interest on loans taken after 1-4-1999 for (i) acquiring or (ii) constructing SOP	xx	Max. ₹ 2,00,000
(2)	2.1 Interest on loans taken after 1-4-1999 for (i) repairing (ii) renewing (iii) reconstructing the SOP	xx	
	2.2 Interest on loans taken before 1-4-1999 for (i) acquiring (ii) constructing (iii) repairing (iv) renewing or (v) reconstructing the SOP	xx	
	Total	xx	
	Limited to		Max. ₹ 30,000
	All Interest (1 + 2) limited to		Max. ₹ 2,00,000

9.3 ILLUSTRATIONS

Illustration 14 : (Loss Due to Interest : SOP)

X, has a house in Mumbai, which he used for his own residence in the previous year 2020-21. Due to his transfer to Nagpur, he could not occupy this house in the previous year 2021-22. He stays in a rented house in Nagpur. Following further information is available in connection with Mumbai house.

Particulars		₹
(1) Reasonable letting value of Mumbai house	... ...	36,000
(2) Repairs expenditure	... ...	1,000
(3) Interest for above house (loan taken in March, 1999)	... ...	30,970

Calculate house property income of Mr. X assuming that X has derived no benefit from Mumbai house during the assessment year 2022-23.

Solution :

NAME OF OWNER : Mr. X

PREVIOUS YEAR : 2021-22 **ASSESSMENT YEAR: 2022-23**

Mumbai house, is not let-out during the previous year 2021-22; it is an SOP (i.e. a house remaining un-occupied due to employment elsewhere).

Particulars	₹
(A) Gross Annual Value	NIL
(B) Less : Deduction u/s 24 (Interest)	30,000
(C) Income from House Property (Loss)	(30,000)

Note : Interest is limited to ₹ 30,000 because the loan is taken before 1-4-1999.

Illustration 15 : (Limits on Claim for Interest)

Ascertain the deduction for interest on loans taken in respect of a self-occupied property from the following details -

Particulars	₹
(i) Interest on loan taken before 1-4-1999 for construction	21,000
(ii) Interest on loan taken after 1-4-1999 for repairs	11,000
(iii) Interest on loan taken after 1-4-1999 for acquisition	94,000

Solution :

Interest	Paid	Maximum Allowed
(A) (i) Interest on loan taken before 1-4-1999 for construction	21,000	
(ii) Interest on loan taken after 1-4-1999 for repairs	11,000	
	32,000	
Allowable upto ₹ 30,000		30,000
(B) (iii) Interest on loan taken after 1-4-1999 for acquisition	94,000	
allowable upto ₹ 1,50,000		94,000
(C) Total allowable upto ₹ 1,50,000		1,24,000

Illustration 16 :

Refer above Illustration 15. Re-work your answer if (i) above is ₹ 62,000; (ii) above is Nil and (iii) above is ₹ 1,73,000.

Solution :

Interest	Paid	Maximum Allowed
(A) (i) Interest on loan taken before 1-4-1999 for construction	62,000	
(ii) Interest on loan taken after 1-4-1999 for repairs	Nil	
Allowable upto ₹ 30,000		30,000
(B) (iii) Interest on loan taken after 1-4-1999 for acquisition	1,73,000	
allowable upto ₹ 1,50,000		1,73,000
		2,03,000
(C) Maximum Overall Deduction only upto ₹ 2,00,000		2,00,000

Illustration 17 :

Mr. Manas owns two properties one at Mumbai, wherein his family resides and the other at Delhi, which in unoccupied. He lives in Chandigarh for his employment purposes in a rented house. For acquisition of house property at Mumbai, he has taken a loan of ₹ 30 lakh @ 10% p.a. on 1-4-2020. He has not repaid any amount so far. In respect of house property at Delhi, he has taken a loan of ₹ 5 lakh @ 11% p.a. on 1-10-2020 towards repairs. Compute the deduction which would be available to him under section 24(b) for A.Y. 2022-23 in respect of interest payable on such loan.

Solution : ***(CA, adapted)***

Mr. Manas can claim benefit of Nil Annual Value in respect of his house property at Mumbai and Delhi, since no benefit is derived by him from such properties, and he cannot occupy such properties due to reason of his employment at Chandigarh, where he lives in a rented house.

Computation of Deduction u/s 24(b) for A.Y. 2022-23

Particulars	₹
I. Interest on loan taken for acquisition of residential house property at Mumbai 3,00,000 x 10% = ₹ 3,00,000 Restricted to ₹ 2,00,000	2,00,000
II. Interest on loan taken for repair of residential house property at Delhi ₹ 5,00,000 x 11% = ₹ 55,000 Restriced to ₹ 30,000	30,000
Total Interest	2,30,000
Deduction under Section 24(b) in respect of (I) and (II) above to be restricted to	2,00,000

10. DEEMED TO BE LET OUT PROPERTY (DLOP)

10.1 WORKSHEET 7 : COMPUTATION OF INCOME FROM DLOP

STEP	WHAT IS TO BE COMPUTED	HOW IT IS TO BE COMPUTED	PARA	RESULT
(1)	**Annual Value** (= RLV)	Fair Rent		[A]
		Municipal Value		[B]
		Higher of [A] and [B]		[C]
		Standard Rent, if any		[D]
		Lower of [C] and [D]	4.3	= [RLV]
(2)	**Less : Municipal Taxes**	Paid By Owner during Previous Year		= [MT]
(3)	**Net Annual Value**	GAV less MT [3 - 4]	4.6	= [NAV]
(4)	**Less : Deductions u/s 24**	4.1 Standard deduction [30% of NAV]		
		4.2 Interest Payable		
(5)	**Income from DLOP**	NAV Less Deductions [3 - 4]		**= Income from HP**

10.2 EXPLANATION

(1) **Applicable:** In case more than two houses are used by the owner for self-occupation or are unoccupied, he can choose only two houses whose annual value is to be taken NIL as explained above. The income from other self-occupied/un-occupied house(s) is to be computed as if let out. The income from such house(s) deemed to be let out (DLOP) is computed in the following manner.

(2) **Gross Annual Value [S. 23(4)(b)]:**

(1) The *Annual Value* of a DLOP is the Reasonable Lettable Value [RLV].

(2) The *Reasonable Lettable Value* will be the higher of Fair Rent or Gross Municipal Value. However, if the property is subject to Rent Control Act, the Reasonable Lettable Value cannot exceed the Standard Rent fixed under Rent Control Act. However, the RLV may be less than such Standard Rent.

(3) **Deduct Municipal Taxes [S. 23(1), Proviso]:** The Municipal Taxes actually paid by the owner are deducted from the Gross Annual Value to arrive at the Net Annual Value.

(4) **Deductions [S. 24]:** From the Net Annual Value, the following deductions under S.24 (as already explained in Para 5) can be made -

(1) Standard Deduction (30% of Net Annual Value)

(2) Interest Payable. [Note that the interest on loans taken for construction etc. of such DLO house will be allowed fully without any limit, if other conditions are fulfilled; while the interest for SOP will be allowed only upto ₹ 30,000 or ₹ 1,50,000].

11. PROPERTY OWNED BY CO-OWNERS [S. 26]

(1) Where the property is owned by two or more persons, each person is called a co-owner.

(2) If the share of each co-owner in the property and in the income is known (i.e. it is definite and ascertainable, e.g. heirs inheriting a house in equal shares), the income from house property is computed as explained below:

(a) The income from house property is computed in the manner explained earlier, depending upon whether the property is let out, self-occupied or vacant.

(b) The net income so computed is divided among the co-owners according to their respective shares. Each co-owner can further deduct from his share of such income, deductions allowable under S. 24, i.e. interest on loan taken by him for acquiring his share in such property etc.

(c) Where the house property is used for self-occupation by the co-owners, each such co-owner can show income from SOP (or VSOP) as Nil and further claim upto ₹ 30,000 or ₹ 2,00,000 as interest, if other conditions are met.

(d) The final share of each co-owner is included in his gross income under the head Income from house property, and taxed.

(3) On the other hand, if the share of each co-owner in the property and in the income is not known, the income from house property is taxed in the hands of the association of persons made up of all co-owners.

Illustration 18 :

Mr. Pedro and his 3 sons Congo, Bongo and Chongo are equal co-owners of a house property consisting of 20 (Twenty) residential flats. Out of the above one flat each is occupied by Pedro and his sons for own residential purpose (self-occupied). The balance 16 (Sixteen) flats are let out at the rent of ₹ 2,000 per month per flat.

The reasonable letting value of each flat is ₹ 10,000 per annum. The municipal taxes paid for each flat is @ 50% of the reasonable letting value.

The following expenses were incurred by them during the year ended 31st March, 2022 in respect of the property.

(1) Fire Insurance Premium ₹ 12,000 (for 20 flats)

(2) Interest on Money Borrowed for Construction of Property ₹ 60,000 (for 20 flats)

Compute the income from house property chargeable in the hands of all the co-owners for the Assessment Year 2022-23. ***(T.Y.B.Com., Oct. 2005, adapted)***

Solution :

NAME OF OWNER : MR. PEDRO & HIS 3 SONS (CO-OWNERS)

PREVIOUS YEAR : 2021-22 **ASSESSMENT YEAR : 2022-23**

Computation of Total Income	₹	₹	₹
[I] 16 Flats [LOP] :			
(A) Gross Annual Value			
Reasonable Letting Value (16 x 10,000)	1,60,000		
Annual Rent (16 x 12 x 2,000)	3,84,000		
Gross Annual Value (higher)	3,84,000		
Less : Municipal Taxes borne by owner (16 x 5,000)	80,000		
(B) Net Annual Value		3,04,000	
(C) Less : Deductions u/s 24			
(1) Standard Deduction (30% of 3,04,000)	91,200		
(2) Interest on Borrowed Funds (60,000 ÷ 20 x 16)	48,000	1,39,200	
(D) Net Income from Mumbai House Property		1,64,800	
Share of Each Co-owner (1,64,800 ÷ 4)			41,200
[II] Each SOP Flat :			
(E) Annual Value [SOP]		Nil	
(F) Less : Interest Deducted u/s 24 (60,000 ÷ 20)		3,000	
(G) Net Income of Each Co-owner from SOP Flat			(-) 3,000
(H) Net Income of Each Co-owner from House Property (D - G)			38,200

Working Note :

Each co-owner can independently claim ₹ 3,000 as interest in respect of SOP Flat and claim loss on this account from his share of income of ₹ 41,200 from Mumbai House. Thus, Mr. Pedro and each of his sons has the same total income of ₹ 38,200 each.

12. EXEMPT INCOME [S. 10]

The following incomes are excluded while computing Income from House Property -

(1) Income from farm house [S.10(1), explained in Chapter 8].

(2) Income from property belonging to a local authority [S.10(20)].

(3) Income from property belonging to an authority constituted for the purpose of planning, development or improvement of cities, towns and villages [S.10(20A)].

(4) Income from property belonging to an approved scientific research association [S.10(21)].

(5) Income from property belonging to a games association [S.10(23)].

(6) Income from property belonging to a university or educational institution [S.10(23C)].

(7) Income from property belonging to a hospital or other medical institution [S.10(23C)].

(8) Income from property belonging to a trade union [S.10(24)].

(9) Income from letting of godowns or warehouses for storage, processing or facilitating the marketing of commodities by an authority constituted under any law [S.10(29)].

13. HOUSE(S) WITH MANY USES

13.1 MANY HOUSES

A person owning many houses may use different houses for different purposes (e.g. House 1 may be let out; House 2 may be self-occupied; and House 3 may be un-occupied). In such case income from each house is first computed separately as per applicable rules. Income of these houses is then added up (see worksheet 7) to ascertain the total income under the head Income from House Property. It should be noted that only a person owning many houses can have a Deemed Let Out Property.

13.2 HOUSE WITH MANY USES

A house may be used differently in two ways :

(i) a person may use the same house for different purposes during *different periods* in the same year. For example, the house may be self-occupied for 3 months, let out for 4 months and remain vacant for rest of the year. For the purpose of computation of income chargeable to tax under the head "Income from house property", such a property will be treated as let-out throughout the year and income will be computed accordingly. However, while computing the GAV and the taxable income in case of such a property, actual rent (AR) will be considered only for the let-out period.

(ii) a person may physically divide the house into many parts and use *different parts* for different purposes. Such division may be based on, say, units (e.g. 5 flats self-occupied, 4 flats let out, 3 flats vacant) or floors (e.g. ground floor self-occupied, first floor let out) or portions (25% self-occupied, 75% let out - which indicate the ratio of the area occupied by the respective units). The "house property" (which is the unit of taxation) in such cases will be one but made up of many parts. Let us suppose that a house is divided into many flats and each flat is used differently. In such case, the income should be computed as explained below -

(b) *if flat no. 2 is let for sometime but is vacant for rest of time during the year* its income is computed as a Let Out Property Vacant for sometime (VLOP, as per Para 8).

(c) *if flat no. 3, 4 and 5 were throughout the year either self-occupied or un-occupied* due to employment elsewhere, income of any two (say flat no. 3 and 4) is computed as a SOP, as discussed in Para 9; and income of flat no. 5 will be computed as Deemed Let Out Property [DLO, as explained in Para 10].

(d) *if flat no. 6 was, for part of the period self-occupied and let out for anytime during the year*, its income should be computed as a Let Out Property (LOP, as explained in Para 7). Its GAV cannot be taken as Nil, because it is not self-occupied throughout the year. Its GAV cannot be taken as the actual rent, if lower than Reasonable Lettable Value, because the shortfall in actual rent is not due to vacancy (but due to self-occupation).

(e) *if flat no. 7 was used for business*, it is to be ignored, while computing income under the head-Income from House Property [as explained in Para 3(3)].

14. RAPID REVISION

WORKSHEET 8 : COMPUTING INCOME FROM HOUSE PROPERTY

ASSESSEE :

PREVIOUS YEAR : 1-4-2021 TO 31-3-2022 **ASSESSMENT YEAR : 2022-23**

	Particulars	LOP	VLOP	2 SOPs	DLOP	TOTAL
(1)	**Income From House Property**					
1.1	**Ascertain Gross Annual Value (GAV)**					
(a)	**Reasonable Lettable Value (RLV)**					
	(A) Fair Rent					
	(B) Municipal Value					
	(C) Higher of [A] & [B]					
	(D) Standard Rent, if any					
	(E) Lower of [C] & [D]					
(b)	Annual Rent (AR)					
	Rent Received/Receivable					
	Less: Allowable Unrealised rent					
	GAV =	Higher of RLV & AR	Higher of RLV & AR but AR if < RLV due to Vacancy	NIL	RLV	
1.2	**Deduct Municipal Taxes Paid By Owner**	Yes	Yes	No	Yes	
1.3	**Ascertain Net Annual Value (NAV)**	1.1 - 1.2	1.1 - 1.2	NIL	1.1 - 1.2	
1.4	**Reduce Deductions u/s 24**					
	(a) Standard deduction [30% of NAV]	Yes	Yes	No	Yes	
	(b) Interest Payable					
	- Entire	Yes	Yes	No	Yes	
	- Loans taken upto 31-3-1999			Max. ₹ 30,000		
	- Loans taken after 1-4-1999			Max. ₹ 2,00,000		
	Total Income from HP [1.3 Less 1.4] [LOP + VLOP - SOP + DLOP]					xxx
(2)	**Add : [S. 25A]**					
	2.1 Unrealised rent, now received or					xxx
	2.2 Arrears of rent					xxx
	Less: Standard deduction : 30%					xxx
(3)	**Total Income from House Property [1 + 2]**					xxx

Working Note: LOP = Let Out Property; VLOP = Partly Vacant Let Out Property; SOP = Self-occupied Property; DLOP = Deemed Let Out Property.

15. ILLUSTRATIONS

15.1 HOUSE WITH MANY USES

Illustration 19 : (Not SOP throughout the year)

Ram owned a house property at Madras which was occupied by him for the purpose of his residence. He was transferred to Delhi in June 2021 and therefore he let out the property with effect from July 1, 2021 on a monthly rent of ₹ 3,000. The municipal tax payable in respect of property @ 25 % of the rateable value was ₹ 6,000 of which 50 percent was paid by him before March 31, 2022. Fair rent of the property is ₹ 20,000. Interest on money borrowed for the construction of the property amounted to ₹ 20,000. Compute the Income from house property for the assessment year 2022-23.

Solution :

INCOME FROM HOUSE PROPERTY OF MR. RAM

PREVIOUS YEAR : 2021-22 **ASSESSMENT YEAR : 2022-23**

Particulars		₹	₹
(A) Gross Annual Value			
(1) Reasonable Lettable Value (RLV)			
(a) Fair Rent	... ...	20,000	
(b) Municipal Value (6,000 x 100 ÷ 25)	... ...	24,000	
RLV, higher of (a) & (b)	... ...	24,000	
(2) Actual Rent (3,000 x 9) (AR)	... ...	27,000	
GAV is AR which is higher than RLV	... ...		27,000
Less : Municipal Tax Paid By Owner (50% of 6,000)	... ...		3,000
(B) Net Annual Value [NAV]	... ...		24,000
Less : Deductions u/s 24			
(1) Standard Deduction (30% of 24,000)	... ...	7,200	
(2) Interest Payable	... ...	20,000	27,200
(C) Income from House Property [Loss]	(A - B)		(-) 3,200

Working Note :

House owned by Mr. Ram is let-out for nine months and is self-occupied for three months. Annual value of house cannot be taken as Nil, as the house has been let for some time during the year. Since the above house was let during the year, its annual value will be computed u/s 23(1)(b). It will be the Reasonable Lettable Value or its Actual Rent, whichever is higher. The Reasonable Lettable Value is ₹ 24,000 (₹ 6,000 tax x 100 ÷ 25). Hence, the GAV will be the Actual Rent.

Illustration 20 : (Partly for Business; Partly Let Out; Partly Vacant)

Mr. Suneet is the owner of a house property. One-third of the house is used for business and the remaining is let-out at the rate of ₹ 3,000 per month. The property was vacant for 4 months. Following additional information is available to you.

Particulars		₹
(1) Municipal Taxes paid	... ...	1,500
(2) Interest on funds borrowed for repairs	... ...	6,000
(3) Repairs (borne by tenant)	... ...	2,000
(4) Municipal rateable value	... ...	48,000

Mr. Suneet receives during the year unrealised rent of the previous year i.e. 2017-18 ₹ 1,000.

You are required to ascertain the income chargeable to tax under the head 'Income from House Property' of Mr. Suneet for the assessment year 2022-23.

Solution :

NAME OF OWNER : MR. SUNEET

PREVIOUS YEAR : 2021-22 **ASSESSMENT YEAR : 2022-23**

Particulars		₹	₹
(A)	**Gross Annual Value** (Let out Part)		
	Municipal Value (₹ 48,000 x 2/3)	32,000	
	Actual Rent (3,000 x 8)	24,000	
	GAV under S. 23(1)(c) in respect of 2/3 property chargeable under S. 22		24,000
(B)	**Less :** Municipal taxes (1,500 x 2/3)		1,000
(C)	**Net Annual Value**		23,000
(D)	**Less : Deductions u/s 24**		
	(1) Standard Deduction (30% of 23,000)	6,900	
	(2) Interest on borrowed funds (6,000 x 2/3)	4,000	
	Total deductions		10,900
(E)	**Income from House Property**		12,100
(F)	**Add : Unrealised rent received during the year (S. 25A)**	1,000	
	Less : Deduction @ 30%	300	700
(G)	**Income from House Property**		12,800

Working Notes :

(1) One third of the House owned by Mr. Suneet used for business is not chargeable under the head 'Income from House property u/s 22'.

(2) Remaining house (2/3) will be charged under the head 'Income from House property u/s 22. This portion is partly let out (for 8 months) and partly vacant. Hence its annual value will be computed as in the case of a partly vacant let out property [VLOP] u/s 23(1)(c), i.e. the Pro-rata Actual rent of such portion (₹ 24,000) if it is lower than the pro-rata annual value of such portion (₹ 32,000) due to loss caused by vacancy (₹ 12,000).

(3) The municipal taxes and interest would also be deducted pro-rata related to such portion of property chargeable under Income from HP only. The remaining amount of municipal tax and interest can be deducted under the head 'Income from business'.

15.2 MANY HOUSES

Illustration 21 : (SOP + LOP + Business)

B, owns a building consisting of three identical units whose construction was completed on March 31, 2021. The building was occupied from April 1, 2021 onwards. The particulars pertaining to the three units for the year ended March 31, 2022 are given below:

Particulars	Unit I ₹	Unit II ₹	Unit III ₹
Fair rent			
Rent received	60,000	60,000	60,000
Municipal taxes :	-	72,000	-
- paid			
- due but not yet paid	3,000	5,000	3,000
Land revenue due but outstanding	3,000	5,000	3,000
Ground rent due, not yet paid	1,200	1,200	1,200
	2,400	2,400	2,400

Nature of occupation : Unit I - Self occupied for residence; Unit II - Let out for residence; Unit III - Used for own business.

On April 1, 2019 he had borrowed a sum of ₹ 5,00,000 bearing interest at 12 per cent per annum for construction of this building. The total cost of construction of the building - ₹ 12,00,000.

Compute the income from house property of B for the assessment year 2022-23.

Solution : ***(SYBAF, Mar. 18, adapted)***

INCOME FROM HOUSE PROPERTY OF B

PREVIOUS YEAR : 2021-22 **ASSESSMENT YEAR: 2022-23**

Particulars	WN	₹	₹	₹
(A) INCOME FROM SOP				
(Unit 1- Fully SOP)				
Gross Annual Value (GAV)				
Less: Deduction U/S 24	1		NIL	
Interest payable	2		24,000	(24,000)
(B) INCOME FROM LOP	1			
(Unit 2- LOP)				
Gross Annual Value (GAV)				
(1) Reasonable Lettable Value (RLV) - Fair Rent		60,000		
(2) Actual Rent (AR)		72,000		
GAV = AR which is more than RLV.			72,000	
Less: Municipal Taxes Paid By Owner			5,000	
Net Annual Value [NAV]			67,000	
Less: Deduction U/S 24				
(a) Standard Deduction [30% of NAV]..		20,100		
(b) Interest payable	2	24,000	44,100	22,900
(C) TOTAL INCOME [LOSS] FROM HP	(A + B)			(1,100)

Working Notes :

(1) House Property has three units. Income from Unit III, used for business is not taxable under the head Income from House Property. Income from Units I and II will be computed according to provisions of Sec. 23(2)(a) [SOP] and Sec. 23(1) [LOP] respectively.

(2) Interest on loan for Unit I & II is calculated as follows :

(a) Interest for current year = 5,00,000 x 12% x 1 ÷ 3	20,000	
(b) Interest for pre-construction period = 20,000 x 1 ÷ 5	4,000	24,000

EXERCISES

OUTLINE

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16. THEORY QUESTIONS [15 MARKS]

16.1 DESCRIPTIVE QUESTIONS [7 OR 8 MARKS]

1. Explain clearly the term 'Annual Value' under section 23(1) of the Income-tax Act. ***[Ans.: Para 4]***
2. State various expenses and allowances that are deductible under the Income-tax Act, 1961 to compute 'Income from House Property'. ***[Ans.: Para 5]***
3. What are the incomes chargeable under the head 'Income from House Property'? Discuss briefly the specific deductions allowed while computing income from house property. ***[Ans.: Para 4 & 5]***
4. How would you determine the annual value of a property which is (i) Entirely Let-out (ii) Partly Vacant Let Out (iii) Self-occupied for residence (iv) Self-occupied for business purpose ? ***[Ans.: (i) Para 7 (ii) Para 8 (iii) Para 9 (iv) Para 3.3]***
5. Discuss briefly the following as allowable deductions while computing house-property income: (i) Standard Deduction (ii) Interest. ***[Ans.: Para 5]***
6. How would you compute income of a property jointly owned by co-owners. ***[Ans.: Para 11]***
7. Explain briefly, when is a house property deemed to be let out. How would you determine income from such house property. ***[Ans.: Para 10]***

16.2 SHORT NOTES [5 MARKS]

Write a short note on :

1. Annual value ***[Ans.: Para 4]***
2. Standard deduction from income from house property ***[Ans.: Para 5.1]***
3. Interest deduction from income from house property ***[Ans.: Para 5.2]***
4. Income from Let Out Property ***[Ans.: Para 7]***
5. Income from Self-occupied Property ***[Ans.: Para 9]***
6. Income from Deemed to be Let Out Property ***[Ans.: Para 10]***

17. OBJECTIVE QUESTIONS

17.1 MULTIPLE CHOICE QUESTIONS

1. M has taken a house on rent and sublets the same to A. Income of M from such house property shall be taxable under the head.
   (a) Income from house property (b) Income from other sources
   (c) Business income (d) None of the above
2. Municipal valuation of the house is ₹ 1,00,000 fair rent ₹ 1,20,000, standard rent ₹ 1,10,000 and actual rent received or receivable is ₹ 1,40,000. The Gross Annual Value in this case shall be
   (a) ₹ 1,10,000 (b) ₹ 1,20,000
   (c) ₹ 1,40,000 (d) None of the above
3. Municipal valuation of the house is ₹ 1,20,000, fair rent 1,40,000, standard rent ₹ 1,30,000 and actual rent received or receivable is ₹ 1,25,000. The gross annual value in this case shall be
   (a) 1,30,000 (b) 1,25,000
   (c) 1,40,000 (d) None of the above
4. A has two house properties. Both are self-occupied. The annual value of
   (a) Both house shall be nil (b) One house shall be nil
   (c) No house shall be nil (d) None of the above
5. An assessee has borrowed money for purchase of a house & Interest is payable outside India. Such interest shall :
   (a) Be allowed as deduction
   (b) Not to be allowed as deduction
   (c) Be allowed as deduction if the tax is deducted at source
   (d) None of the above
6. Municipal tax is deducted from
   (a) Net Annual Value (b) Gross Annual Value
   (c) Municipal Valuation (d) None of the above
7. In case the property is owned by co-owners and it is self occupied by all co-owners. The annual value of such house property
   (a) be nil (b) For each co-owner shall be nil
   (c) Only for co-one owner will be nil (d) None of the above
8. A house property with fair rent ₹ 1,20,000 is neither let out nor self occupied through out the previous year. Its annual value shall be
   (a) ₹ 1,20,000 (b) Nil
   (c) ₹ 60,000 (d) None of the above
9. Unrealised rent is a deduction from
   (a) Gross annual value (b) Net annual value
   (c) Municipal Value (d) None of the above
10. A property is owned by co-owners and it is self occupied by all co-owners. In this case interest on money borrowed after 1-4-2013 for acquiring the house shall be allowed.
    (a) To the extent of ₹ 2,00,000 as the case may be for the total property income
    (b) To each co-owner, to the extent of ₹ 2,00,000 as the case may be
    (c) No deduction of interest shall be allowed
    (d) None of the above
11. Dhanesh is a member of a house building co-operative society. The society is the owner of the flats constructed by it. One of the flats is allotted to Dhanesh. The income from that flat will be assessed in the hands of
    (a) Co-operative Society (b) Dhanesh
    (c) Neither of the above (d) Society and Dhanesh equally
12. Following will be taxable as Income from house property
    (a) sub-letting of a house
    (b) letting of an office building
    (c) sale of house at profit
    (d) rent from open land used for wedding functions

13. 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) Accrued or paid by owner whichever is lower

14. Standard Deduction under section 24(a) from Income from House Property is
(a) 1/3 rd of NAV
(b) repairs actually incurred by the owner
(c) 30% of NAV
(d) ₹ 30,000

15. Interest on borrowed capital accrued up to the end of the previous year prior to the year of completion of construction is allowed
(a) as a deduction in the year of completion of construction
(b) in 5 equal annual installments from the year of completion of construction
(c) In the respective year in which the interest accrues
(d) upto ₹ 30,000 or ₹ 2,00,000

16. The maximum limit of deduction under section 24(b) in respect of interest on loan taken on 1-4-2018 for repairs of a self-occupied house is
(a) ₹ 30,000 p.a.
(b) ₹ 2,00,000 p.a.
(c) No limit
(d) Nil

17. 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) None of the properties

18. Municipal valuation of the house is ₹ 1,00,000 whereas the fair rent of house property ₹ 1,15,000 and standard rent is ₹ 1,20,000; actual rent receivable is ₹ 1,40,000; municipal taxes paid 10%. Net Annual Value is
(a) ₹ 90,000
(b) ₹ 1,05,000
(c) ₹ 1,40,000
(d) ₹ 1,30,000

19. Municipal valuation of the house is ₹ 1,30,000, fair rent is ₹ 1,50,000 standard rent is ₹ 1,40,000 whereas actual rent receivable is ₹ 1,35,000; municipal taxes paid are ₹ 40,000. Net Annual Value is
(a) ₹ 1,10,000
(b) ₹ 90,000
(c) ₹ 95,000
(d) ₹ 1,00,000

20. Fair rental value of a house is ₹ 2,50,000, standard rent ₹ 2,20,000, actual rent ₹ 2,30,000 Municipal taxes paid for 7 years in advance ₹ 2,80,000. Net Annual Value is
(a) ₹ 10,000
(b) Loss ₹ 50,000
(c) ₹ 2,50,000
(d) ₹ 2,10,000

21. Municipal value of a house is ₹ 9,000, Fair rent ₹ 14,000, Standard rent ₹ 12,000. The house property has been let for ₹ 1,200 p.m. and was vacant for one month during the previous year Municipal taxes paid during the year were ₹ 4,000. Net Annual Value is
(a) ₹ 5,000
(b) ₹ 10,000
(c) ₹ 9,200
(d) ₹ 8,000

22. Municipal value of a house is ₹ 9,000, Fair rent ₹ 14,000, Standard rent ₹ 12,000. The house property has been let for ₹ 1,200 p.m. and was vacant for three months during the previous year. Municipal taxes paid during the year were ₹ 4,000. Net Annual Value is
(a) ₹ 5,000
(b) ₹ 10,000
(c) ₹ 6,800
(d) ₹ 8,000

23. M has a house property in Mumbai whose Municipal Value is ₹ 10,000 and the Fair Rental Value is ₹ 12,000. It was self-occupied by M from 1-4-2021 to 31-7-2021. W.e.f. 1-8-2021 it was let out at ₹ 900 p.m. The municipal taxes paid during the year were ₹ 2,000. Net Annual Value is
(a) ₹ 12,000
(b) ₹ 10,000
(c) ₹ 10,800
(d) Nil

24. M furnishes the following particulars in respect of a house property owned by him in Mumbai.
Municipal Value ₹ 20,000
Fair Rent ₹ 24,000
Actual Rent (per month) ₹ 2,100
Municipal tax paid during the year ₹ 2,000
M could not realise the rent for the months of September and October, 2021. The tenant vacated the property on 31-10-2021 and thereafter the property was let out for ₹ 2,500 p.m. Net Annual Value is
(a) ₹ 18,000 (b) ₹ 22,000
(c) ₹ 28,000 (d) ₹ 21,000

25. Municipal value ₹ 90,000; Fair rental value ₹ 1,40,000; Municipal taxes ₹ 40,000. The entire house remained self-occupied throughout the previous year. Net Annual Value is
(a) ₹ 90,000 (b) ₹ 1,40,000
(c) ₹ 1,00,000 (d) Nil

26. Municipal value ₹ 90,000; Fair rental value ₹ 1,40,000; Municipal taxes ₹ 40,000. The entire house was let out throughout the year @ ₹ 12,000 p.m. Net Annual Value is
(a) ₹ 50,000 (b) ₹ 1,04,000
(c) ₹ 1,00,000 (d) ₹ 1,40,000

27. Municipal value ₹ 90,000; Fair rental value ₹ 1,40,000; Municipal taxes ₹ 40,000. The entire house was let out @ ₹ 12,000 p.m. It was, however, vacant for 1 month. Net Annual Value is
(a) ₹ 50,000 (b) ₹ 1,04,000
(c) ₹ 1,00,000 (d) ₹ 92,000

28. Municipal value ₹ 90,000; Fair rental value ₹ 1,40,000; Municipal taxes ₹ 40,000. The house was let out for five months from the beginning of the previous year @ ₹ 10,000 p.m. and was self-occupied for the remaining months. Net Annual Value is
(a) ₹ 1,20,000 (b) ₹ 80,000
(c) ₹ 1,00,000 (d) ₹ 10,000

29. M has a house divided into two identical units. Unit I is self-occupied throughout the year. Unit II is let out throughout the year on a rent of ₹ 50,000 p.m. Municipal taxes paid amounted to ₹ 60,000. Total Net Annual Value is
(a) Nil (b) ₹ 5,70,000
(c) ₹ 6,00,000 (d) ₹ 5,40,000

30. M has a house divided into two identical units. Unit I is self-occupied for 9 months and let out for 3 months @ ₹ 50,000 p.m. which is the fair rent in the area. Unit II is let out throughout the year on a rent of ₹ 50,000 p.m. Municipal taxes paid amounted to ₹ 60,000. Total Net Annual Value is
(a) ₹ 5,70,000 (b) ₹ 12,00,000
(c) ₹ 6,90,000 (d) ₹ 11,40,000

31. The assessee took a loan of ₹ 6,00,000 on 1-4-2019 from a bank for construction of a house on a piece of land he owns in Pune. The loan carries an interest @ 12% per annum. The construction is completed on 15-6-2020. The entire loan is outstanding. Interest allowable for current assessment year 2022-23 is -
(a) ₹ 72,000 (b) ₹ 28,800
(c) ₹ 1,00,800 (d) Nil

32. X takes a loan of ₹ 3,60,000 at 12.5 percent per annum for construction a house on June 10, 2016. Construction of the house is completed on January 20, 2019. Loan was repaid on 31-10-2021. Interest allowable for current assessment year 2022-23 is -
(a) Nil (b) ₹ 45,000
(c) ₹ 9,000 (d) ₹ 30,526

33. Net annual value of one house is ₹ 3,00,000 and actual expenditure incurred on repairs is ₹ 75,000. Income from House Property is -
(a) ₹ 3,00,000 (b) ₹ 2,10,000
(c) ₹ 2,25,000 (d) None of the above

34. If a house has been constructed on 01-07-2021 by taking a loan on 01-11-2017, pre-construction period for allowing interest in Ass. Year 2022-23 shall be
(a) from 01.07.2017 to 31.03.2021 (b) from 01.07.2017 to 01.11.2017
(c) from 01.11.2017 to 31.03.2021 (d) from 01.11.2017 to 31.03.2022

35. L received ₹ 30,000 as arrears of rent during the P.Y. 2021-22. The amount taxable under section 25A would be
(a) ₹ 30,000 (b) ₹. 21,000
(c) ₹ 20,000 (d) Nil

36. V received ₹ 90,000 in May, 2021 towards recovery of unrealised rent, which was deducted from actual rent during the P.Y. 2020-21 for determining annual value. The amount taxable under section 25A for A.Y. 2022-23 would be
(a) ₹ 90,000 (b) ₹ 63,000
(c) ₹ 60,000 (d) ₹ 30,000

37. G and R 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 2011) is ₹ 1,62,000. The amount of allowable deduction in respect of each co-owner is
(a) ₹ 1,62,000 (b) ₹ 2,00,000
(c) ₹ 1,00,000 (d) ₹ 81,000

38. Mr. Raghav has three houses for self-occupation. What would be the tax treatment for A.Y. 2022-23 in respect of income from house property ?
(a) One house, at the option of Mr. Raghav, would be treated as self-occupied. The other two houses would be deemed to be let out
(b) Two houses, at the option of Mr. Raghav, would be treated as self-occupied. The other house would be deemed to be let out
(c) One house, at the option of Assessing Officer, would be treated as self-occupied. The other two houses would be deemed to be let out
(d) Two houses, at the option of Assessing Officer, would be treated as self-occupied. The other house would be deemed to be let out

17.2 FILL IN THE BLANKS

1. In case of self-occupied property, the deduction on account of interest on the money borrowed for the purpose of construction of such house property cannot exceed ₹ _____ .
2. Fair rent of house is ₹ 1,50,000, standard rent ₹ 1,20,000 and annual rent ₹ 1,30,000. Municipal taxes paid for 6 yrs. in advance is ₹ 1,00,000. The annual value shall be _____ .
3. Municipal taxes are deductible from the gross annual value only when they _____. (are paid / Accrue)
4. Income is taxable under the head house property only when the assessee is the _____ (Owner / Occupant) of such house property.
5. Arrears of rent shall be deemed to be income of the previous year in which such rent _____ (is received / accrues) after deducting _____ (30% / 1/3) of such amount.
6. For a self-occupied house property occupied on July 1, 2018 for which housing loan was availed, if the interest up to March 31, 2020 is ₹ 90,000 and thereafter the interest payable is ₹ 3,000 per month, the deduction available under section 24 in respect of interest for the year ended March 31, 2022 is ₹ _____ .
7. An Assessee, after sale of house property, receiving arrears of rent, _____ (is / is not) chargeable to tax; the same computed in the stipulated manner, shall be chargeable to tax as _____ (income from other sources / income from house property / question does not arise since there is not chargeability to tax).
8. Income of the property can be taxed under the head house property only when the owner does not occupy the property for his _____ or _____ .
9. Reasonable Lettable Value cannot exceed _____ .
10. Net annual value of SOP is _____ .
11. M lets out his house to V a lawyer, who uses it as his law office. This _____ (is / is not) taxed as Income from House Property.
12. M uses his house as the showroom for the goods produced by his factory. This _____ (is / is not) taxed as Income from House Property.
13. M rents out his property as residential quarters to his employees. This _____ (is / is not) taxed as Income from House Property.
14. M enters into a written agreement to purchase a property from V for ₹ 15,00,000 . He has paid the consideration and taken the possession of the Property but the property is yet to be registered in the name of M. This _____ (is / is not) taxed as Income from House Property.

15. M owns a property, which is given on lease to V for a period of 6 years, lease rent being ₹ 25,000 per month. V has a right to get the lease renewed for a further period of 6 years. This _____ (is / is not) taxed as Income from House Property.
16. M owns a property, which is given on lease to V for a period of one month, V has a right to get the lease renewed for a period of one month, in each subsequent month, and such renewal is possible with mutual consent till 2025. This _____ (is/is not) taxed as Income from House Property.
17. M owns a property, which is given on rent to V. V annually pays ₹ 50,000 as rent plus ₹ 10,000 the charges for different services (like lift, security, etc.) provided by M. This ₹ 10,000 _____ (is / is not) taxed as Income from House Property.
18. M owns an air-conditioned furnished conference hall. It is let out, annual rent being ₹ 7,00,000, which includes ₹ 6,00,000 rent of building as well as ₹ 1,00,000 rent of air conditioner and furniture. This ₹ 1,00,000 _____ (is/is not) taxed as Income from House Property.
19. Municipal Value 20,00,000
    Fair Rental Value 24,00,000
    Actual Rent 18,00,000
    The Gross Annual Value is ₹ _____
20. Municipal Value
    Fair Rental Value 24,00,000
    Standard Rent 24,00,000
    Actual Rent 24,00,000
    The Gross Annual Value is ₹ _____ 36,00,000
21. Municipal Value
    Fair Rental Value 36,00,000
    Standard Rent 40,00,000
    Actual Rent 50,00,000
    The Gross Annual Value is ₹ _____ 48,00,000
22. Municipal Value
    Fair Rental Value 42,00,000
    Standard Rent 42,00,000
    Actual Rent 30,00,000
    The Gross Annual Value is ₹ _____ 36,00,000

17.3 MATCH THE FOLLOWING COLUMNS

1.

Column A		Column B	
1.	Net Annual Value	(a)	Fully deductible
2.	Gross Annual Value	(b)	Gross Annual Value less Municipal Taxes paid
3.	Standard deduction on income from H.P.	(c)	1/3 of Net Annual Value
4.	Interest on loan for let out property	(d)	Fair Rent less Municipal Taxes
5.	Pre-acquisition Interest on property	(e)	Higher of Fair Rent and Municipal Valuation, where standard rent is not applicable
		(f)	Deductible in 5 equal instalments
		(g)	30% of Net Annual Value

2.

Column A		Column B	
1.	Unrealised rent received during the previous year	(a)	30% standard deduction allowed
2.	Depreciation of house property	(b)	Zero for one SOP
3.	Interest on loan for SOP	(c)	Cannot exceed fair rent
4.	Reasonable letting value	(d)	Cannot exceed standard Rent
5.	Net Annual Value	(e)	Not allowed as deduction from Income from H.P.
		(f)	No restriction on deductible interest
		(g)	Deduction restricted to 30,000 or 2,00,000 as applicable

17.4 STATE WHETHER TRUE OR FALSE

1. M gifted his house property to his wife in 2018. Mrs. M has let out the house property @ ₹ 20,000 p.m. The income from such house property will be taxable in the hands of Mrs. M.
2. C transferred his house property to his wife with an agreement to live apart. Income from such house property shall be taxable in the hands of Mrs. C.
3. M has taken a house property on lease for 20 years from G and let out the same to S. Income from such house arising to M shall be taxable as income under the head other sources.
4. M is a member of Shilpa Co-operative Society which is the owner of flats constructed by it. One of the flats is allotted to M. The income from such house property shall be taxable in the hands of Shilpa co-operative society.
5. M is owner of building although the land was taken by him on lease. The income from such house property shall be taxable under the head : income from other sources.
6. M has taken a house on rent and sublets the same to G. Income from such house property shall be taxable in the hands of M under the head : income from other sources.
7. A has two house properties. Both are self-occupied. The annual value of both houses shall be nil.
8. Municipal tax is a deduction from net annual value.
9. In case the property is owned by co-owners and it is let, income from such property shall be computed separately for each co-owner.
10. In case the property is owned by co-owners and it is self occupied by all co-owners; the annual value for each co-owner shall be nil.
11. In case the property is owned by co-owners and it is self occupied by all co-owners; total deduction to all co-owners for interest on money borrowed shall be allowed upto the maximum of ₹ 30,000/ ₹ 2,00,000 as the case may be.
12. Unrealised rent is a deduction from net annual value.
13. An assessee has borrowed money for purchase of a house and interest is payable outside India. Such interest shall be allowed as deduction, without any further conditions.

17.5 CHECK YOUR ANSWERS

17.1

1.	(b)	7.	(b)	13.	(b)	19.	(d)	25.	(d)	31.	(c)	37.	(a)
2.	(c)	8.	(a)	14.	(c)	20.	(b)	26.	(b)	32.	(d)	38.	(b)
3.	(a)	9.	(a)	15.	(b)	21.	(c)	27.	(d)	33.	(b)		
4.	(a)	10.	(b)	16.	(a)	22.	(c)	28.	(c)	34.	(c)		
5.	(c)	11.	(b)	17.	(a)	23.	(b)	29.	(b)	35.	(b)		
6.	(b)	12.	(b)	18.	(d)	24.	(d)	30.	(d)	36.	(b)		

Hints :

20. MT paid allowed in full.

31. 72,000 + 28,800

32. 3,60,000 x 1,238 days ÷ 365 x 12.50% ÷ 5

17.2 (1) ₹ 2,00,000 (2) ₹ 30,000 (3) are paid (4) Owner (5) is received; 30% (6) ₹ 54,000 (7) is; income from house property (8) Business; Profession (9) standard rent (10) Nil (11) is (12) is (13) is not (14) is (15) is (16) is (17) is (18) is not (19) [24,00,000] (20) [36,00,000] (21) [48,00,000] (22) [36,00,000]

17.3 (1) : 1 - (b), 2 - (e), 3 - (g), 4 - (a), 5 - (f)

(2) : 1 - (a), 2 - (e), 3 - (g), 4 - (d), 5 - (b)

17.4 True : 2, 6, 7, 10

False : 1, 3, 4, 5, 8, 9, 11, 12, 13

1. ***False;*** M as he will be treated as deemed owner and liable to tax.
3. ***False;*** Income from house property as M is the deemed owner.
4. ***False;*** M as deemed owner.
5. ***False;*** Income from house property.
8. ***False;*** Deducted from Gross annual value.

9. ***False;*** It will be first computed ignoring the co-ownership and then distributed amongst co-owners.
11. ***False;*** allowed to *each* co-owner to the extent of ₹ 30,000 / ₹ 1,50,000 as the case may be.
12. ***False;*** Deduction from gross annual value.
13. ***False;*** be allowed as deduction if tax is deducted at source.

18. PRACTICAL PROBLEMS