



23rd REVISED EDITION
ASSESSMENT YEAR 2018-19

INCOME TAX

LAW & ACCOUNTS



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Lesson 4

Part II – Income under the head House Property

LESSON OUTLINE

- Basis of Charge
- Deemed ownership
- Determination of Annual Value
- Computation of Net Annual Value
- Properties Let Out [Section 23(1)]
- Properties occupied by the owner [Section 23(2)]
- Houses which are partly let out and partly self-occupied
- Properties owned by Co-owners (Section 26)
- Deductions from Income from House Property (Section 24)
- Amount not deductible from income from house property (Section 25)
- Special provisions for cases where unrealised rent allowed as deduction is realised subsequently (Section 25A)
- Loss from House Property
- Illustrations
- Exemptions
- Lesson Round Up
- Self Test Question

LEARNING OBJECTIVES

The provisions for computation of Income from house property are covered under sections 22 to 27. This chapter deals with the provisions for computation of Income from house property. Section 22 is the charging section that identifies the basis of charge wherein the annual value is prescribed as the basis for computation of Income from House Property. Therefore, the process of computation of “Income from House Property” starts with the determination of annual value of the property. The concept of annual value and the method of determination are laid down in section 23. The admissible deductions available from house property are mentioned in section 24.

At the end of this lesson, you will learn the conditions to be satisfied for income to be chargeable under this head, how to determine the annual value of different type of house properties, admissible deductions and inadmissible deductions from annual value, tax treatment of unrealized rent, who are deemed owners, what is meant by co-ownership and what is its tax treatment etc.

Income from house property is one of the important heads of income under the Income Tax Act. The tax payers have been, in particular, keen to know about the exemptions and deductions available to them on repayment of interest and principal of the loan obtained to purchase the house property, if that house property is let out or self-occupied. The amount of interest on borrowed capital of the current year is available under the head house property further repayment of principal is available under section 80C to individuals and Hindu Undivided Families.

BASIS OF CHARGE

Section 22 of the Act provides as follows:

"The annual value of property consisting of any buildings or lands appurtenant thereto of which the assessee is the owner, other than such portions of such property as he may occupy for the purposes of any business or profession carried on by him, the profits of which are chargeable to income-tax, shall be chargeable to income-tax under the head Income from House Property".

The following points emerge from the above charging section:

(a) Tax is charged on income from the buildings or lands appurtenant thereto:

The buildings include residential buildings, buildings let out for business or profession or auditoriums for entertainment programmes. The location of the building is immaterial. It may be situated in India or abroad.

(b) Tax is charged on income from lands appurtenant to buildings :

Where the land is not appurtenant to a building the income from land can be charged as business income or "income from other sources", as the case may be. The lands appurtenant to buildings include approach roads to and from public streets, courtyards, motor garage, compound, play-ground and kitchen garden. In case of non-residential buildings, car-parking spaces, drying grounds or play-grounds shall be the lands appurtenant to buildings.

(c) Tax is charged from the owner of the buildings and land appurtenant thereto:

Where the recipient of the income from house property is not the owner of the building, the income is not chargeable under this head but under the head 'Income from Business or Other Sources'. For example, the income to a lessee from sub-letting a house or income to a mortgagee from house property mortgaged to him is not chargeable under the head 'Income from House Property'.

The owner of the buildings may be the legal owner or beneficial owner. In ownership, the ownership of building is considered and not the ownership of income. In certain cases the income may not be received by the owner of the building, still he shall be liable to tax because he is the owner of the building.

Deemed ownership

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

(i) Transfer to a spouse or minor child:

an individual who transfers otherwise than for adequate consideration any house property to his or her spouse, not being a transfer in connection with an agreement to live apart, or to a minor child not being a married daughter;

(ii) Holder of an impartible estate:

the holder of an impartible estate as the individual owner of all the properties comprised in the estate;

(iii) Member of a co-operative society:

a member of a co-operative society, company or other association of persons to whom a building or part thereof is allotted or leased under a house building scheme of the society, company or association, as the case may be, of that building or part thereof;

(iv) Person in possession of a property:

a person who is allowed to take or retain possession of any building or part thereof in part performance of a contract of the nature referred to in Section 53A of the Transfer of Property Act, 1882;

(v) Person having right in a property for a period not less than 12 years:

with effect from assessment year 1988-89, a person who acquires any rights (excluding any rights by way of a lease from month to month or for a period not exceeding one year) in or with respect to any building or part thereof, by virtue of any such transaction as is referred to in clause (f) of Section 269UA, of that building or part thereof.

Note that :

- (1) *If a firm transfers its house property to its partners, before dissolution, merely by book entries, annual value of the property is taxable in the hands of the firm – Inder Narain Har Narain v. C.I.T. (1980) 3 Taxman 365 (Delhi).*
- (2) *Where a Muslim transfers a property of a value of more than ` 100 it must be by registered instrument and not orally. This is the position even with respect to a property purporting to have been orally given over by a Muslim husband to his wife in the discharge of his dower debt to her. Accordingly, the income from a property thus given will be included in the total income of the husband only – Syed Sadique Iman v. C.I.T. (1979) 117 ITR 62 (Patna).*
- (3) *In the case of tenant co-partnership co-operative housing societies, the income from each building should be assessed in the hands of the individual members to whom it has been allotted. Conversely, for all purposes (including attachment and recovery of tax, etc.) the individual members should be regarded as the legal owners of the property in question.*
- (4) *Also, for the purposes of Section 22, the custodian should be treated as owner of an evacuee's property from the date of its vesting in him.*

And, in respect of all properties of an evacuee vested in him, an assessment should be made upon the custodian, but in respect of properties vested in him, and belonging to different evacuees, separate assessments in respect of each evacuee should be made upon him.

The relevant status as to residence for the purposes of such assessments, is that of the assessee-custodian and that is resident and ordinarily resident.

The rates of income-tax applicable in any such assessment are those appropriate to the total income of a "resident individual".

Other points with regard to ownership

- (i) Official assignee or receiver :** Where the owner of the property becomes insolvent, the official assignee or receiver under the law of insolvency shall be chargeable in respect of the income from such house property as the owner. However, the receiver appointed by the Court shall not be deemed to be the owner of the insolvent's property, because the property does not vest in him.
- (ii) Ownership in dispute :** Where the title to the property is in dispute, the Assessing Officer is empowered to decide the ownership of the property for income-tax purposes. However, where the decision of the Court is contrary to the Assessing Officer's decision, the decision of the court will prevail and he will re-assess the assessee accordingly.
- (iii) Co-owners of the property :** Where the property is owned jointly by two or more persons and their respective shares are definite and ascertainable, they shall be assessed individually on their shares in the income from the property (Section 26).
- (iv) Owner in the previous year :** Since tax is levied only on the income of previous year, annual value of

property owned by a person during the previous year, is taxable in the following assessment year, even if the assessee is not the owner of the property during the assessment year.

- (v) **Status of property in a foreign country** : A resident assessee is taxable under Section 22 in respect of annual value of a property situated in a foreign country.

But, a resident but not ordinarily resident or non-resident is chargeable under Section 22 in respect of income of a house property situated abroad, only if income is received in India during the previous year. In such cases where tax incidence is attracted, the annual value is computed as if the property is situated in India.

(d) Utilised by the assessee for his own business or profession purpose

The annual value of such property or the portion thereof as is utilised by the assessee for the purposes of his own business, profession or vocation, the profits of which are assessable to tax, is not taxable under Section 22. The assessee is also not allowed to claim any deduction in respect of notional rent while computing income from any such business, profession or vocation. However, the assessee can claim depreciation under Section 32 of the Income-tax Act and also, he can claim other expenses e.g. repairs, insurance, municipal taxes, interest on borrowed capital etc. for such business income.

(e) Taxability of rental income from a owned house property

Rents or income arising from ownership of any house property cannot be taxed under any other head since Section 22 provides a specific head for charge of such income to tax. In the case of *Commercial Properties Ltd. v. C.I.T. 3 ITC 23*, the assessee company had the sole object of acquiring lands, building houses and letting the premises to tenants. It was held that the income from property was taxable under Section 22 and not under Section 28, i.e., profits and gains of business or profession. However, where the subject which is let is not a mere tenement, but is a complex one, e.g., a well-equipped theatre, safe deposits vaults, or vaults for storing or preserving films, including special devices, facilities and services or a well-furnished paying guest establishment - the income cannot be said to be derived from mere ownership of house property but may be assessable as income from business [*C.I.T. v. National Storage (P) Ltd. (1967) 66 ITR 596 (SC)*].

Similarly, the following income from buildings is not assessable under this head:

- (a) **Buildings or staff quarters let out to employees and others:** Where the assessee lets out the building or staff quarters to the employees of business whose residence there is necessary for the efficient conduct of business, the rent collected from such employees is assessable as income from business and taxable under the head business or profession and not under this head. [*CIT v. Delhi Cloth & General Mills Co. Ltd. (1966) 59 ITR p.152 (Punjab)*].
- (b) **If building is let out to authorities for locating bank, post office, police station, central excise office, etc.:** income will be assessable as income from business provided the dominant purpose of letting out the building is to enable the assessee to carry on his business more efficiently and smoothly. [*CIT v. National Newsprint and Paper Mills Ltd. (1978) 114 ITR 388 (MP)*].
- (c) **Composite letting of building with other assets:** Where the assessee lets on hire machinery, plant or furniture belonging to him and also buildings and the letting of the buildings is inseparable from the letting of the said machinery, plant or furniture, the income from such letting is chargeable to tax under the head "Income from other Sources" if it is not chargeable to income-tax under the head "Profits and gains of business or profession" [Section 56(2)(iii)].

However, if rent is separable between rent of building and rent for other facilities viz. rent of machinery, plant or furniture or other facilities etc, then rent of building would be taxable as Income from house property and rent for machinery, plant or furniture or other facilities would be taxable as either Income from Other Sources or Profits and gains of business or profession, depending upon the facts of each case.

- (d) **Income of State Industrial Development Corporation for letting out of sheds, etc.** is business income and is not taxable under Section 22 – *CIT v. A.P. Small Scale Industrial Development Corpn. (1989) 175 ITR 352 (AP)*.
- (e) **Services rendered in providing electricity, use of lifts, supply of water, maintenance** of stair case and watch and ward facilities are not incidental to letting out property, and charges qua said services are assessable as income from other sources, and not under Section 22 (as income from house property) - *CIT v. Model Mfg. Co. (P) Ltd. (1989) 175 ITR 374 (Cal.)*.

DETERMINATION OF ANNUAL VALUE U/S 23

The measure of charging income-tax under this head is the annual value of the property, i.e., the inherent capacity of a building to yield income. The expression 'annual value' has been defined in Section 23(1) of the Income-tax Act as:

- (1) For the purposes of Section 22, the annual value of any property shall be deemed to be:
- the sum for which the property might reasonably be expected to let from year to year; or
 - where the property or any part of the property is let and the actual rent received or receivable by the owner in respect thereof is in excess of the sum referred to in clause (a), the amount so received or receivable; or
 - where the property or any part of the property is let and was vacant during the whole or any part of the previous year and owing to such vacancy the actual rent received or receivable by the owner in respect thereof is less than the sum referred to in clause (a), the amount so received or receivable.

Provided that the taxes levied by any local authority in respect of the property shall be deducted (irrespective of the previous year in which the liability to pay such taxes was incurred by the owner according to the method of accounting regularly employed by him) in determining the annual value of the property of that previous year in which such taxes are actually paid by him, i.e., municipal taxes will be allowed only in the year in which it was paid.

Explanation : For the purposes of clause (b) or clause (c) of this sub-section, the amount of actual rent received or receivable by the owner shall not include, subject to such rules as may be made in this behalf, the amount of rent which the owner cannot realise.

- (2) Where the property consists of a house or part of a house which:
- is in the occupation of the owner for the purposes of his own residence; or
 - cannot actually be occupied by the owner by reason of the fact that owing to his employment, business or profession carried on at any other place, he has to reside at that other place in a building not belonging to him, the annual value of such house or part of the house shall be taken to be nil.
- (3) The provisions of Sub-section (2) shall not apply if:
- the house or part of the house is actually let during the whole or any part of the previous year; or
 - any other benefit therefrom is derived by the owner.
- (4) Where the property referred to in Sub-section (2) consists of more than one house:
- the provisions of that sub-section shall apply only in respect of one of such houses, which the assessee may, at his option, specify in this behalf;
 - the annual value of the house or houses, other than the house in respect of which the assessee has exercised an option under clause (a), shall be determined under Sub-section (1) as if such house or houses had been let.

Rules made in this behalf - Notification No. 198/2001 dated 2-7-2001

The amount of rent which the owner cannot realise shall be equal to the amount of rent payable but not paid by a tenant of the assessee and so proved to be lost and irrevocable only if following conditions are satisfied:

- (a) tenancy is bonafide;
- (b) the defaulting tenant has vacated, or steps have been taken to compel him to vacate the property;
- (c) the defaulting tenant is not in occupation of any other property of the assessee;
- (d) the assessee has taken all reasonable steps to institute legal proceedings for the recovery of the unpaid rent or satisfied the Assessing Officer that legal proceedings would be useless.

COMPUTATION OF ANNUAL VALUE/NET ANNUAL VALUE

Net annual value shall be computed in the following manner:

1. Determine the Gross Annual Value
2. Deduct municipal tax actually paid by the owner during the previous year from the Gross Annual Value.

For the purpose of computation of net annual value, properties can be classified into three categories :

- (A) Properties let out throughout the year.
- (B) Properties occupied by the owner for residential purposes or properties not self-occupied owing to employment at any other place.
- (C) Partly let out and partly self occupied property.

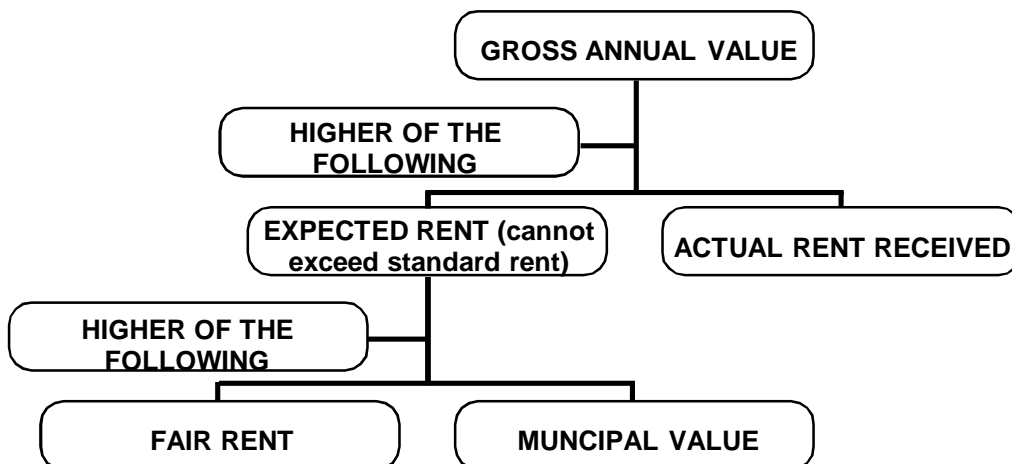
A. Properties let-out [Section 23(1)]

Gross annual value shall be higher of

- (a) Expected Rent
- (b) Actual rent received or receivable.

The higher of Municipal value and fair rental value shall be **Expected rent**. Therefore, from these Judgments, it is evident that expected rent shall not exceed the Standard rent.

However, the Supreme Court in *Shiela Kaushish v. CIT* (1981) 131 ITR 435 (SC) and *Amolak Ram Khosla v. CIT* (1981) 131 ITR 589 (SC) held that where property let out is governed by the Rent Control Acts, the standard rent fixed or applicable to the area of property, will have to be taken for determining the annual value. Also, it was held in the case of *Balbir Singh (Dr.) v. MCD* (1985) 152 ITR 388 (SC) that although the expected rent cannot exceed standard rent but it can be lower than standard rent.



Municipal Value: Municipal value is the value determined by the municipal authorities for levying municipal taxes on house property.

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

Standard Rent: The standard rent is fixed under Rent Control Act. In such a case, the property can not be let for a amount which is higher than the standard rent fixed under the Rent Control Act.

Actual rent received or receivable: Actual rent is rent for let out period. It is the *de facto* rent (i.e. what should have been the actual rent). For example, if water and electricity bills of tenant are payable by the owner, then *de facto* rent will be calculated by reducing from the rent received/receivable the amount spent by the owner for those bills. On the other hand, for example, if any obligation of water and electricity bills is met by the tenant, then amount spent by the tenant will be included for the purpose of calculating actual rent received/receivable or de-facto rent. Municipal taxes are to be borne by the occupier who in the case of let out property is the tenant. Therefore, if such municipal taxes are borne by the tenant, the rent received/receivable should not be increased to calculate the de-facto rent.

While computing the net annual value the following deduction are made from the gross annual value :

Municipal Taxes : The taxes including service taxes (fire tax, conservancy tax, education, water tax, etc.) levied by any municipality or local authority in respect of any house property to the extent to which such taxes are borne and paid by the owner, and include enhanced municipal tax finally determined on appeal and payable by assessee - *Clive Buildings Cola Ltd. v. CIT* (1989) 44 Taxman 160.

However, deduction in respect of municipal taxes will be allowed in determining the annual value of the property only in the year in which municipal taxes are actually paid by the owner.

Where the tax on property is enhanced with retrospective effect by municipal or local authorities and the enhanced tax relating to the prior year is demanded during the assessment year, the entire demand is deductible in the assessment year [*C.I.T. v. L. Kuppu Swamy Chettiar* (1981) 132 ITR 416 (Mad.)].

Even where the property is situated outside the country taxes levied by local authority is that country are deductible is deciding the annual value of the property. [*CIT v. R Venugopala Riddiar* (1965) 58 ITR 439 (Mad.)]

While calculating the annual value in accordance with Section 23(1) the following situations may arise:

- (i) If the property is let out throughout the previous year (No unrealised rent and no vacancy).
- (ii) If the property is let out throughout the previous year, but the entire rent could not be collected.
- (iii) If the entire rent is collected but the property remains vacant.
- (iv) If the property remains vacant and the entire rent is not collected.

From the above, it can be summarized that GAV would be calculated as follows:

Step 1: Determine Expected Rent and Actual Rent.

Expected Rent = Higher of Municipal Value or Fair Rent but subject to Standard Rent

Actual Rent = Rent for let out period – Unrealised Rent of relevant previous year

Step 2: If actual rent is more than Expected Rent than Actual rent otherwise expected Rent

Step 3: If property remain vacant and annual value decline due to vacancy then such decline value shall be considered

GAV = According to Step 2 (if no vacancy) and According to Step 3 (if vacancy is there)

Illustration 1

Mr. X is the owner of three houses, which are all let out and not governed by the Rent Control Act. From the following particulars find out the gross annual value in each case:

Particulars	I	II	III
Municipal Value	30,000	20,000	35,000
Actual (De facto) Rent	32,000	28,000	30,000
Fair Rent	36,000	24,000	32,000

Solution:

Gross Annual Value (GAV): Higher of Expected or Actual Rent

Expected Rent: Higher of Municipal Valuation or Fair Rent

House I: ` 36,000

House II: ` 24,000

House III: ` 35,000

Actual Rent (given)

GAV:

House I: ` 36,000

House II: ` 28,000

House III: ` 35,000

Illustration 2

Mr. X is the owner of four houses, which are all let out and are covered by the Rent Control Act. From the following particulars find out the gross annual value in each case, giving reasons for your answer:

Particulars	I	II	III	IV
Municipal Value	30,000	26,000	35,000	30,000
Actual (De Facto) Rent	40,000	30,000	32,000	32,000
Fair Rent	36,000	28,000	30,000	36,000
Standard Rent	30,000	35,000	36,000	40,000

Solution

As all the houses are covered by the Rent Control Act, their gross annual value will be higher of expected Rent or Actual Rent. Expected Rent Shall be higher of Municipal Value or Fair rent but subject to Standard Rent:

Particulars	I	II	III	IV
Expected Rent	30,000	28,000	35,000	36,000

Actual Rent	40,000	30,000	32,000	32,000
G.A.V.	40,000	30,000	35,000	36,000

- Annual letting value of self occupied property, subject to Rent Control Act is to be fixed on basis of standard rent and not on basis of open market *Tilak Raj v. CIT (1989) 45 Taxman 279/178 ITR 327 (Punj. & Har.)*.
- In determining annual value salary paid to caretaker cannot be taken into account *CIT v. Smt. Sreelekha Banerjee (1989) 45 Taxman 358/179 ITR 46 (Cal.)*.
- Loss relating to self occupied house property could be set off against income from other sources *CIT v. K.K. Dhanda (HUF) (1989) 45 Taxman 346/178 ITR 602 (Punj. & Har.)*.

Illustration [Situation (i)]

(i.e. no vacancy no unrealized rent)

X owns a house property. Municipal value ` 1,50,000, Fair Rent ` 1,25,000, Standard Rent ` 1,45,000. It is let out through out the previous year for ` 10,000 p.m. up to December 31, 2013 and ` 14,500 p.m. thereafter. Find out the Gross Annual Value for the Assessment Year 2014-15.

Solution

Municipal Value (a)	1,50,000
Fair Rent (b)	1,25,000
Standard Rent (c)	1,45,000
Actual Rent (10,000 x 9 + 14,500 x 3) (d)	1,33,500
Step 1: Expected Rent (a) or (b) whichever is higher, subject to (c)	1,45,000
Step 2: GAV = Higher of Expected or Actual Rent i.e. ` 1,45,000	

Illustration [Situation (ii)]

(i.e. No vacancy but there is unrealized rent)

Mr. A owns two houses. The expected rent of the house one is ` 65,000. This house was let out for ` 7,500 p.m. But the rent for the months of Feb. and March 2014 could not be realized.

The expected rent of another house is ` 1,50,000. This house was let out for ` 12,000 p.m. But the rent for the last three months could not be realized.

In the both cases, Mr. A fulfills the conditions of Rule 4. You are required to compute the Gross Annual Value of both the houses.

Solution

	House I	House II
Expected Rent	65,000	1,50,000
Annual Rent	90,000	1,44,000
Unrealized Rent	15,000	36,000

Computation of Gross Annual Value

Step 1: Expected Rent	65,000	1,50,000
Step 2: Actual Rent (After deducting unrealized rent) if higher than Expected Rent then Actual rent otherwise Expected rent	75,000	N.A.
Step 3: Applicable only in case of vacancy	N.A.	N.A.
Gross Annual Value	75,000	1,50,000

Illustration [Situation (iii)]**(There is vacancy but no unrealized rent)**

Find out the gross annual value in the case of the following properties for the Assessment year 2014-15

	` in thousands			
	P	Q	R	S
Expected Rent	70	55	85	125
Rent Per Month (if let out)	7	5	8	8
Let out period (in months)	11	0	9	10
Vacancy (in months)	1	12	3	2

Further all the rent were realized for the year by the assessee.

Solution:

Calculation of Gross Annual Value of Mr. X for A.Y 2014-15

	P	Q	R	S
Annual Rent (If let out for 12 months)	84	60	96	96
Loss due to vacancy	7	60	24	16
Unrealized rent	Nil	Nil	Nil	Nil
Actual Rent (for let out period)	77	Nil	72	88

Calculation of Gross Annual Value

Step 1: Expected Rent	70	55	85	125
Step 2: If actual rent is more than Expected Rent than Actual rent otherwise expected Rent	77	N.A.	N.A.	N.A.
Step 3: If property remain vacant then decline due to vacancy shall be considered	40	0	72	109
Gross annual value	70	0	72	109

Illustration [Situation (iv)]**(Vacancy and unrealized rent both exist)**

Mr. X is the owner of a house property. He lets this property during the previous year 2013-14 for ` 7,000 p.m. The house was occupied from 1.4.2013 to 31.1.2014. From 1.2.2014, it remained vacant. Mr. X fails to realize ` 10,000 from the tenant. The Expected rent of the house is ` 82,000 p.a.

Calculate the Gross Annual Value of the house.

Solution

Expected Rent	82,000
Annual Rent (Actual for the whole year – 7000 x 12)	84,000
Actual Rent (7,000 x 10)	70,000
Unrealized rent	10,000
Realized rent (` 70,000 – 10,000)	60,000
Loss Due to vacancy (84,000 – 70,000 for 2 months)	14,000
Decline due to vacancy (` 82,000 – 14,000) but not less than actual rent received	68,000

Calculation of Gross Annual Value

Step 1: Expected Rent	82,000
Step 2: If actual rent is more than expected rent than actual rent otherwise expected rent	N.A.
Step 3: Decline due to vacancy in Expected Rent (i.e. Expected Rent minus Loss due to vacancy but not less than actual rent received)	68,000
Gross Annual Value	68,000

B. Property occupied by the owner [Section 23(2)]

Where the property consists of one house or part of a house in the occupation of the owner for his own residence, and is not actually let during any part of the previous year and no other benefit is derived therefrom by the owner, the annual value of such a house or part of the house shall be taken to be nil. The only deduction available in respect of such house is towards interest on borrowed capital in terms of

Section 24(1)(vi) but subject to a ceiling of ` 30,000 or ` 1,50,000 as the case may be.. In other words, to this extent there could be a loss from such house.

Concession for one House only:

Where the assessee has occupied more than one house for the purposes of residence for himself and family members, he has to make a choice of one house only in respect of which he would like to claim exemption. Other self-occupied houses will be treated as if they were let out and their annual value will be determined in the same manner as we have discussed in the case of let out property.

The concessions in respect of self occupied residential house are available to an individual or H.U.F. assessee. Firms, companies, etc. are not considered to have used a house for their residential purposes. A partnership firm using its own building for the residence of its partners cannot claim the concessions in respect of self occupied residential house mentioned above C.I.T. v. Dewan Chand Dholan Das (1981) 132 ITR 790. Similarly, these concessions are not available in a case where the assessee lets out his house to his employer and employer allots the same to the assessee for his residential purposes. In such a case, the assessee occupies the house not as an owner but as a sub tenant of his employer D.R. Sunder Raj v. C.I.T. (1979) 2 Taxman 458 (A.P.).

In respect of such house, no deduction whatsoever is allowed except interest upto ` 30,000 or ` 1,50,000 as the case may be on the borrowed capital. In other words, a loss to the maximum extent of ` 30,000 or ` 1,50,000 can

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be reported in respect of such houses. If any property is purchased or constructed out of funds borrowed on or after 1st April, 1999, the restriction on the amount of interest deductible in respect of such self-occupied houses shall be relaxed so as to secure a deduction upto ` 1,50,000 provided the purchase/construction is completed within three years from the end of the financial year in which capital was borrowed.

Illustration

Mr. R owns a house which uses for residential purposes throughout the previous year 2013-14. Municipal Value: ` 2,40,000. Fair Rent: ` 3,00,000. Compute income from house property assuming following expenditure are incurred by him:

Municipal taxes paid: ` 15,000

Repairs: ` 12,000

Depreciation: ` 10,000

Interest on borrowed capital : ` 2,00,000 (loan taken on 1.1.2001). House was purchased on 1.5.2002.

Solution:

Income from House Property:

Net Annual Value	Nil
Less: Interest on borrowed capital (lower of ` 2,00,000 or 1,50,000 as conditions are satisfied)	1,50,000
Loss from House Property	(1,50,000)

C. House which is Partly Self-occupied and Partly Let Out:

In such a case, the procedure for computation of annual value is as follows :

(a) Property let out partially :

When a portion of the house is self-occupied for the full year and a portion is self-occupied for whole year, the annual value of the house shall be determined as under:

- (i) From the full annual value of the house the proportionate annual value for self-occupied portion for the whole year shall be deducted.
- (ii) The balance under (i) shall be the annual value for let out portion for a part of the year.

Illustration

Mr. R. owns a house. The Municipal value of the house is ` 50,000. He paid `8,000 as local taxes during the year. He uses this house for his residential purposes but lets out half of the house @ ` 3,000 p.m. Compute the annual value of the house.

Solution

Annual rent or Municipal valuation (higher)	72,000
Less : Local taxes paid	8,000
Annual value of House Property	64,000
Less : Half of annual value regarding self occupied portion for the whole year	32,000
Annual Value of let out portion	16,000

(b) House let out during any part of the previous year and self occupied for the remaining part of the year:

In this case the benefit of Section 23(2) is not available and the income will be computed as if the property is let out.

Illustration

M is the owner of a house. The municipal value of the house is ₹ 40,000. He paid ₹ 8,000 as local taxes during the year. He was using this house for his residential purposes but let out w.e.f. 1.1.2013 @ ₹ 4,000 p.m. Compute the annual value of the house.

Solution

Annual rent or municipal valuation (whichever is higher)	48,000
Less : Local taxes	8,000
Annual value of the house	40,000

(No benefit shall be given for self occupied period as the house did not remain vacant during the previous year)

Note: If fair rent is not given, then assume actual rent as fair rent.

(c) Self-occupied House remaining vacant :

If the assessee has reserved only one of the houses (owned by him) for his residence or he is the owner of only one house which is meant for his own residence but could not be occupied by him for residential purposes in the previous year owing to the fact that he had to live at some other place in a house not belonging to him, then he can claim non-occupation or vacancy allowance during the previous year for the period during which house remained vacant. The reason for his living at a different place might be for business or professional purposes or for a salaried employee due to transfer etc. The annual value of the house, which remained vacant in these circumstances, shall be nil.

The above mentioned concession will be granted to the assessee only if he has neither let out the said house nor has derived any benefit from it during the period for which it remained vacant. No deduction, except interest on borrowed capital upto a maximum of ₹ 30,000 is allowed in computing income from such a house. This amount of ₹ 30,000 has been increased by Finance Act, 2001 w.e.f. AY 2002-03 to ₹ 1,50,000 where property is acquired or constructed with capital borrowed on or after the 1st day of April 1999 and such acquisition or construction is completed within three years from the end of the financial year in which capital was borrowed.

D. Property owned by co-owners (Section 26)

Where the property consisting of building or buildings and lands appurtenant thereto is owned by two or more persons and their respective shares are definite and ascertainable, the share of each such person shall be included in his total income and they shall not be assessed as an association of persons and share of each co-owner shall be computed as if each such person is individually entitled to the relief provided in Section 23(2).

Income from property held under trust for charitable or religious purposes is exempt from tax under Section 11.

DEDUCTIONS FROM INCOME UNDER THE HEAD HOUSE PROPERTY (SECTION 24)

W.e.f. Assessment Year 2002-03, income chargeable under the head "Income from house property" shall be computed after making the following deductions, namely:

(a) Standard deduction

A sum equal to 30% of the annual value;

(b) Interest on borrowed capital

Where the property has been acquired, constructed, repaired, renewed or reconstructed with borrowed capital, the amount of any interest payable on such capital:

Provided that in respect of property referred to in sub-section (2) of section 23, the amount of deduction shall not exceed ₹ 30,000:

Provided further that where the property referred to in the first proviso to acquired or constructed with capital borrowed on or after the 1st day of April, 1999 and such acquisition or construction is completed within three years from the end of the financial year in which capital was borrowed, the amount of deduction under this clause shall not exceed ` 1,50,000.

Explanation. – Where the property has been acquired or constructed with borrowed capital, the interest, if any, payable on such capital borrowed for the period prior to the previous year in which the property has been acquired or constructed, as reduced by any part thereof allowed as deduction under any other provision of this Act, shall be deducted under this clause in equal instalments for the said previous year and for each of the four immediately succeeding previous years (means in 5 equal instalments):

Provided also that no deduction shall be made under the second proviso unless the assessee furnishes a certificate, from the person to whom any interest is payable on the capital borrowed, specifying the amount of interest payable by the assessee for the purpose of such acquisition or construction of the property, or, conversion of the whole or any part of the capital borrowed which remains to be repaid as a new loan.

Explanation. – For the purposes of this proviso, the expression “new loan” means the whole or any part of a loan taken by the assessee subsequent to the capital borrowed, for the purpose of repayment of such capital.

Amounts not deductible from income from house property (Section 25)

Where the amount of interest on money borrowed for the purpose of house property is payable outside India and it is chargeable under the Act, it shall not be allowed as a deduction unless:

- (i) tax has been paid or deducted at source in respect of such payment, or
- (ii) there is a person in India who may be treated as an agent or representative of the non-resident to whom such payments have been made.

DEDUCTION IN RESPECT OF INTEREST ON HOUSING LOAN UNDER SECTION 80EE

Keeping in view the need for affordable housing, an additional benefit for first-home buyers is provided by inserting a new section 80EE in the Income-tax Act relating to deduction in respect of interest on loan taken for residential house property.

The new section 80EE seeks to provide that in computing the total income of an assessee, being an individual, there shall be deducted, in accordance with and subject to the provisions of this section, interest payable on loan taken by him from any financial institution for the purpose of acquisition of a residential house property.

The amount of deduction shall not exceed one lakh rupees and shall be allowed in computing the total income of the individual for the assessment year beginning on 1st April, 2014 and in a case where the interest payable for the previous year relevant to the said assessment year is less than one lakh rupees, the balance amount shall be allowed in the assessment year beginning on 1st April, 2015.

This section will be discussed in detail under Lesson No. 6

SPECIAL PROVISION FOR CASES WHERE UNREALISED RENT ALLOWED AS DEDUCTION IS REALISED SUBSEQUENTLY (SECTION 25A)

This section provides that where deduction has been allowed under

Section 24(1)(x) (as it stood immediately before its substitution by the Finance Act, 2001) in respect of unrealised rent and subsequently during any previous year the assessee has realised any amount in respect of such rent, the amount so realised will be deemed as income under the head “Income from house property” and accordingly charged to tax (without making any deduction under Section 23 or 24, as it stood immediately before its substitution by the Finance Act, 2001) as the income of that previous year, irrespective of whether the assessee is the owner of that property in that year or not.

The above list of allowable expenses is exhaustive and no other expenses, such as, commission on arranging

loans for house property or succession duty in respect of house property or expenses of tenancy agreement shall be allowed as deductions.

W.e.f. Assessment Year 2002-03, no deduction under Section 24(1) is allowable in respect of unrealised rent as under the amended provision of determination of annual value, it will be already adjusted while computing the annual value. Consequently Section 25A will be applicable only for the recovery of that unrealised rent which has been allowed as deduction upto Assessment Year 2001-02.

Unrealised rent received subsequently to be charged to income-tax (Section 25AA)

A new Section 25AA has been inserted as under to tax the recovery of unrealised rent, as such unrealised rent must have been considered while determining the annual value for assessment year 2002-03 and onwards.

Where the assessee cannot realise rent from a property let to a tenant and subsequently the assessee has realised any amount in respect of such rent, the amount so realised shall be deemed to be income chargeable under the head “Income from house property” and accordingly charged to income-tax as the income of that previous year in which such rent is realised whether or not the assessee is the owner of that property in the previous year.

Taxation of arrears of rent in the year of receipt (Section 25B)

Section 25B inserted in the Income-tax Act w.e.f. assessment year 2001-2002 provides that if any arrears of rent, other than what has already been taxed under Section 23, are received in a subsequent year, the same will be taxed in the year of receipt whether the property is owned by the assessee in the year of receipt or not. A deduction of sum equal to 30% of such amount of rent shall be allowed towards repairs and collection of rent.

LOSS FROM HOUSE PROPERTY

When the aggregate amount of permissible deduction exceeds the net annual value of the property, there will be a loss from that property. This loss can be set-off against the income from any other house property. If even after the set-off, there is an unabsorbed balance of the loss, the same can be set-off against income under any other head in the same year and the balance unabsorbed part of the loss can be carried forward in terms of Section 71B for set off within the subsequent eight assessment years against income from house property. However, where the self-occupied property consists of one residential house only and it could not be occupied by the owner for the reasons that owing to his employment, business or profession carried on at any other place, he had to reside at that other place in a building not belonging to him (rented or otherwise), the loss can neither be set-off against the income from any other house nor can it be set-off against the income under any other head.

Chart Showing Computation of Taxable Income from House Property

Gross Annual Value of the house		XXX	
Less: Local Taxes paid by the owner during the previous year		XXX	
Annual Value		XXX	
Less: Deduction under Section 24: For house let out or deemed to be let out:			
(i) Repairs and Collection Charges (30% of Annual Value)	XXX		
(ii) (a) Interest on loan, taken for purchase, construction or repair of the house, relating to previous year	XXX		
(b) Interest on loan for the period prior to the previous year in which the house is completed is also allowable in five equal annual instalments	XXX	XXX	
Taxable Income from House Property	XXX		

Illustration:

Mr. X is the owner of four houses. The following particulars are available:

	<i>House 1</i>	<i>House 2</i>	<i>House 3</i>	<i>House 4</i>
Municipal valuation	16,000	20,000	24,000	5,600
Rent (Actual)	—	14,000	20,000	6,800
Municipal taxes	400	1,000	1,200	300
Repairs and collection charges	200	2,500	1,040	460
Interest on mortgage	—	—	—	1,000
Ground rent	—	100	—	60
Fire premium	140	—	200	—
Annual charges	—	—	360	—

House No. 1 is self-occupied.

House No. 2 is let out for business, construction was completed on 1.3.90 and consists of two residential units.

House No. 3 is 3/4 used for own business 1/4 let out to the manager of the business.

House No. 4 is let out for residential purposes.

His other income is ₹ 30,000. Find out the income of X from house property for the assessment year 2014-15.

Solution:*House No. 1*

Municipal valuation	16,000
Annual value deemed to be	NIL

House No. 2

Fair rental value	20,000
Less: Municipal taxes	1,000
Net annual value	19,000
Less: 30% of Net Annual Value	5,700
	13,300

House No. 3

Since the house is used for own business, the income from this house is not taxable under the head 'Income from house property' but will be assessed under 'Profit and gains of business or profession'. 1/4 of the house occupied by the Manager is presumed to be incidental to the business and hence not assessable under the head 'Income from house property'.

House No. 4

Rent Received	6,800
Less: Municipal taxes	300
Net annual Value	6,500
Less: 30% of Net Annual Value	1,950
	4,550

Income from House Property : ` NIL + ` 13,300 + ` 4,550 = ` 17,850. It is presumed that House No. 4 has not been mortgaged for purposes of acquiring or repairs on the house property.

Illustration

Mr. and Mrs. O.P. Gupta are co-owners of a property having equal shares. The construction of the property was begun in July 1991 and completed in September 1996. They furnished the following particulars for the assessment year 2014-15 in respect of the property.

One-third of the property is occupied by the co-owners and the remaining two-thirds is let for residential purposes. The let out portion which constitutes two units fetches rent of ` 27,000 per annum. The letting value of the property as per municipal records is ` 36,000. Municipal taxes of ` 4,050 have been paid by the co-owners. Besides, they paid ` 1,350 as ground rent and ` 900 as insurance premium. The co-owners also paid ` 9,000 as interest on loan taken for the construction of the house.

Compute the income from the house property from the assessment year 2014-15 if other incomes of Mr. and Mrs. O.P. Gupta are ` 60,000 and ` 22,500 respectively during the same period.

Solution

Computation of income from house property for the assessment year 2014-15

LET OUT PORTION

Gross annual value: To be higher of the following:

(a) Notional income based on municipal valuation $2/3 \times ` 36,000 = ` 24,000$ or		
(b) Annual rent = ` 27,000		
Gross Annual Value		27,000
Less: Full municipal taxes paid by the co-owners $2/3 \times ` 4,050 = ` 2,700$		(2,700)
Net Annual Value		24,300
Less: Deduction from net annual value:		
(i) 30% of Net Annual Value	7,290	
(ii) Interest on loan taken for the construction of the house $2/3 \times ` 9,000 = ` 6,000$	6,000	13,290
Taxable income		11,010

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Share of Mr. Gupta	₹ 5,505
Share of Mrs. Gupta	₹ 5,505

SELF-OCCUPIED PORTION

Gross annual value: to be higher of the following:

- (i) Municipal valuation:
 $1/3 \times ₹ 36,000 = ₹ 12,000$ or
 - (ii) Fair rent ($₹ 27,000 \times 3/2 \times 1/3$) ₹ 13,500
- | | |
|--------------------|--------|
| Gross Annual Value | 13,500 |
| Annual Value | 13,500 |

	<i>Share of Mr. Gupta</i>	<i>Share of Mrs. Gupta</i>
Apportionment of Annual value among the co-owners 1 : 1	6,750	6,750
Annual value of self-occupied property for each co-owner is taken to be [Section 23(2)(a)(i) read with explanation to Section 26]	Nil	Nil
<i>Less: Deduction from net annual value:</i>		
Interest on loan	-1,500	-1,500
<i>Loss: under the head house property</i>	<u>(-)1,500</u>	<u>(-)1,500</u>
Statement of total income from house property:		
Let out portion	5,505	5,505
Self-occupied portion Loss:	<u>(-)1,500</u>	<u>(-)1,500</u>
	<u>4,005</u>	<u>4,005</u>

Illustration

Mr. Lal is the owner of a house property. Its municipal valuation is ₹ 80,000. It has been let out for ₹ 1,20,000 p.a. The local taxes payable by the owner amount to ₹ 16,000 but as per agreement between the tenant and the landlord, the tenant has paid the amount direct to the municipality. The landlord, however, bears the following expenses on tenant's amenities:

Extension of water connection	3,000
Water charges	1,500
Lift maintenance	1,500
Salary of gardener	1,800
Lighting of stairs	1,200
Maintenance of swimming pool	750

The landlord claims the following deductions:

Repairs and Collection charges	7,500
Land revenue paid	1,500

Compute the taxable income from the house property for the assessment year 2014-15.

Solution

Computation of income from house property for the assessment year 2014-15

Gross annual value: to be higher of the following:

(a) Municipal valuation ` 80,000
or

(b) De facto rent (` 1,20,000 less value of amenities)

Rent Received:		1,20,000
Less: Value of the amenities provided by the assessee:		
(i) Extension of water connection not deductible as it is capital expenditure		
(ii) Water charges	1,500	
(iii) Lift maintenance	1,500	
(iv) Salary of gardener	1,800	
(v) Lighting of stairs	1,200	
(vi) Maintenance of swimming pool	<u>750</u>	<u>(6,750)</u>
Gross annual value		1,13,250
Less: Local tax ` 16,000:		
No deduction is permissible as the taxes have been paid by the tenant		<u>—</u>
Net annual value		1,13,250
Less: Standard deduction from net annual value:		
30% of Net Annual Value		<u>33,975</u>
Income from house property		<u>79,275</u>

Illustration

X owned two house properties - the first of which was used half for running his business and the other half was let out at ` 3,000 per month. The second property was wholly used as a residence by X. Municipal taxes for the two properties were the same at ` 7,200 each per annum. The business and the let out premises were insured against loss by fire and the insurance premium was ` 900. Compute X's income from house property.

Solution**Computation of income under the head 'Income from house Property'**

FIRST PROPERTY (LET OUT PORTION)	
Gross annual value (3,000 x 12)	36,000
Less: Municipal taxes	<u>(3,600)</u>
Net annual value	32,400
Less: Deduction under Section 24 (30% of Net Annual Value)	<u>9,720</u>
	<u>22,680</u>
Income from first property - Let out portion	22,680
Income from first property - used for business	NIL
Income from second property - self occupied	NIL
Income under the head 'Income from house property'	22,680

Notes:

1. Income from one self occupied property is to be taken as nil.
2. Income from property used for the assessee's own business is to be taken as nil.

Illustration

For the assessment year 2014-15 Sonu submits the following information:

Income from business (speculative)		40,000
<i>Property Income</i>	<i>House I</i>	<i>House II</i>
Municipal valuation	35,000	80,000
Rent received	38,000	68,000
Municipal taxes paid by tenant	3,000	4,000
Repairs paid by tenant	500	18,000
Land revenue paid	2,000	16,000
Insurance premium paid	500	2,000
Interest on borrowed capital for payment of municipal tax of house property	200	400
Nature of occupation	Let out for residence	Let out for business
Date of completion of construction	1.4.1995	1.7.1993

Determine the taxable income of Sonu for the assessment year 2014-15.

Solution:

Computation of Taxable Income of Sonu for Assessment Year 2014-15

House I

Gross Annual Value	38,000
Less: Municipal Taxes - not deductible since paid by tenant	<u>NIL</u>
Net Annual Value	38,000
Less: 30% of Net Annual Value	<u>11,400</u>
Taxable Income	<u>26,600</u>

House II

Gross Annual Value	80,000
Less: Taxes - not deductible, paid by tenant	<u>NIL</u>
Net Annual Value	80,000
Less: 30% of Net Annual Value	<u>24,000</u>
Taxable Income	<u>56,000</u>

Total Income = ₹26,600 + ₹56,000 + ₹40,000 = ₹1,22,600.

Note: Interest on borrowed capital for payment of municipal tax is not allowed as deduction under Section 24 of the Act.

EXEMPTIONS

(A) Items of income from house property which are exempt from Income-tax are:

- (i) Income from house property situated in the immediate vicinity of or on the agricultural land and used as a dwelling house, store-house or other out-house by the cultivator or receiver or rent-in-kind. [Section 2(1A) read with Section 10(1)].
- (ii) Income from property held under trust for charitable or religious purposes (Section 11).
- (iii) Income from property occupied by the owner for the purposes of his business or profession carried on by him and the profits of which are chargeable to Income tax. If the profits of business or profession are not chargeable to tax because the income of that business or profession is exempt from tax, the income from the house property shall be chargeable under this head (Section 22).
- (iv) Income from residential house where the house consists of one residential house only and it could not be occupied by the owner on account of his employment, business or profession carried on at any other place and he lives at such place in a house which does not belong to him. The income shall be exempt provided:
 - (a) The house was not occupied by the owner during the whole of the previous year; or
 - (b) The house was not let; or
 - (c) No other benefit was derived by the owner [Section 23(3)].
- (v) Income from house property belonging to a Registered Trade Union [Section 10(24)].

- (vi) Income of an authority constituted under any law for the time being in force for the marketing of commodities; any income derived from the letting of godowns or warehouses for storage, processing or facilitating the marketing of commodities [Section 10(29)].
- (vii) The annual value of any one palace in the occupation of an ex-ruler [Section 10(19A)].
- (viii) Income from house property belonging to a local authority [Section 10(20)].
- (ix) Income from property of an authority constituted for the purpose of planning, development, or improvement of cities, towns and villages [Section 10(20A)].
- (x) Income from property of the approved scientific research association subject to fulfillment of certain conditions [Section 10(21)].
- (xi) Income from property of a games association [Section 10(23)].
- (xii) Income from property in the case of a person resident of Ladakh. [Section 10(26A)].
- (xiii) Income from property of a political party (Section 13A).

(B) Income which are included in gross total income but do not form part of the total income:

- (i) Income of a co-operative society from the letting of go downs or ware- houses for storage, processing or facilitating the marketing of commodities [Section 80P(2)(e)].
- (ii) Income from house property of a co-operative society, not being a housing society or an urban consumers society or a society carrying on transport business or a society engaged in any manufacturing operations with the aid of power, where the gross total income of the society does not exceed rupees twenty thousand [Section 80P(2)(f)].

LESSON ROUND UP

- **Charging Section:** Section 22 of the Act provides that the annual value of property consisting of any buildings or lands appurtenant thereto of which the assessee is the owner, other than such portions of such property as he may occupy for the purposes of any business or profession carried on by him, the profits of which are chargeable to income-tax, shall be chargeable to income-tax under the head Income from House Property”.
- **Deemed Owner:** As per section 27, the following persons though not the legal owners of a property are deemed to be the owners for the purposes of sections 22 to 26:
 - (a) Transfer to a spouse or minor child
 - (b) Holder of an impartible estate
 - (c) Member of a co-operative society
 - (d) Person in possession of a property
 - (e) Person having right in a property for a period not less than 12 years
- The measure of charging income-tax under this head is the annual value of the property, i.e., the inherent capacity of a building to yield income. The expression ‘annual value’ has been defined in Section 23(1) of the Income-tax Act as, the **annual value** of any property shall be **deemed to be:**
 - the sum for which the property might **reasonably be expected to let from year to year**; or
 - where the property or any part of the property is let and the actual rent received or receivable by

the owner in respect thereof is in excess of the sum referred to in clause (a), the amount so received or receivable; or

- where the property or any part of the property is let and was vacant during the whole or any part of the previous year and owing to such vacancy the actual rent received or receivable by the owner in respect thereof is less than the sum referred to in clause (a), the amount so received or receivable.

– **Gross annual value** shall be higher of

- (a) Expected Rent
- (b) Actual rent received or receivable.

The higher of Municipal value and fair rental value shall be **Expected rent**. However, expected rent shall not exceed the Standard rent.

– Net annual value shall be computed in the following manner:

- Determine the Gross Annual Value
- Deduct municipal tax actually paid by the owner during the previous year from the Gross Annual Value.

– **Deduction from Annual Value (Section 24):** W.e.f. Assessment Year 2002-03, income chargeable under the head “Income from house property” shall be computed after making the following deductions, namely:

Standard deduction: a sum equal to 30% of the annual value;

Interest on borrowed capital: where the property has been acquired, constructed, repaired, renewed or reconstructed with borrowed capital, the amount of any interest payable on such capital. The interest on borrowed money pertaining to pre-construction period is available in 5 equal installments commencing from the previous year in which house is acquired or constructed. For this purpose the pre-construction period means the period commencing on the date of borrowing and ending on 31 March immediately prior to the date of completion of construction/date of acquisition or date of repayment of loan, whichever is earlier. Interest for current year is deductible upto Rs. 30,000/Rs.1,50,000 as the case may be.

SELF TEST QUESTIONS

These are meant for re-capitulation only. Answers to these questions are not to be submitted for evaluation.

MULTIPLE CHOICE QUESTIONS

1. Abhi is the owner of a house, the details of which are given below :

Municipal value ` 30,000

Actual rent ` 32,000

Fair rent ` 36,000

Standard rent ` 40,000.

The gross annual value would be –

- (a) ` 36,000
- (b) ` 35,000
- (c) ` 30,000

(d) ` 40,000.

2. Sunil purchased a house for his residential purpose after taking a loan in January, 2013. During the previous year 2013-14, he paid interest on loan ` 1,67,000. While computing income from house property, the deduction is allowable to the extent of —

(a) ` .30,000

(b) ` 1,00,000

(c) ` 1,67,000

(d) ` 1,50,000.

3. Expected rent shall be higher of the;

(a) Municipal value and standard rent

(b) Fair rent and actual rent received

(c) Standard rent and Fair rent

(d) Municipal Value and Fair rent.

4. Municipal Value ` 14,000, Fair rent ` 14,500, Standard Rent ` 14200, Actual rent as property let out throughout the previous year ` 16800. Unrealised rent of the previous year ` 7,000. The annual value of the house property shall be

(a) ` 9,800

(b) ` 14,200

(c) ` 7,200

(d) ` 7,500

FILL IN THE BLANKS

- Rent received by original tenant from sub-tenant is taxable under the head _____.
- The net annual value of house let-out is ` 1,00,000 and actual amount spent by the assessee on repairs and insurance premium is ` 20,000, the amount of deduction allowed under section 24(a) shall be ` _____
- Rent from house property let-out by an assessee to his employees when such letting is incidental to his main business, will be chargeable to tax under the head _____
- When annual value of one-self occupied house is nil, the assessee will be entitled to the standard deduction @ _____

DISTINGUISH BETWEEN

- Gross Annual Value and Annual Value
- Deemed owners and Actual owners
- Standard Rent and Expected Rent
- Fair Rent and Annual Rent

ELABORATIVE QUESTIONS

- What is the meaning of 'Owner of House Property' under Section 27 of the Income-tax Act, 1961?

2. What is 'annual value' of house property? How is it computed?
3. In computing the income from house property what deductions are allowed from the net annual value?
4. What is the basis of computation of income from House property? How would you arrive at the net annual value of a house occupied by an assessee for his own residence?
5. How would you deal with the following while calculating the income under 'Income from house property':
 - (a) Annual Charge.
 - (b) Vacancy Allowance.
 - (c) Unrealised Rent.
 - (d) Income from house property situated in a foreign country.

PRACTICAL QUESTIONS

1. Sanjay owns a house property. Following are the details about the property :

Municipal value of house : `72,000 per annum.

Fair rent of house : `66,000 per annum.

Standard rent of house : `60,000 per annum.

The house was let out at `6,000 per month but was sold on 1st January, 2014. Find out income from house property for the assessment year 2014-15.
2. Nayan owns a house at Indore. Its municipal valuation is `24,000. He incurred the following expenses in respect of the house property :

Municipal tax @ 20%, fire insurance premium `2,000 and land revenue `2,400. He took a loan of `25,000 @16% per annum on 1st April, 2010. The whole amount is still unpaid. The house was completed on 1st April 2013. Find out the income from house property for the assessment year 2014-15 in respect of the following options :

 - (a) If the house is used by the assessee throughout the previous year for his residential purpose; and
 - (b) If the house is let-out for residential purposes on monthly rent of `2,000 from 1st April, 2013 to 31st January, 2014 and self-occupied for the remaining period.
3. Krishan submits the following information for the assessment year 2014-15 :

<i>Property income</i>	<i>House-A</i>	<i>House-B</i>
Municipal valuation	17,500	40,000
Municipal taxes paid by tenant	1,500	2,000
Land revenue paid	1,000	8,000
Rent received	19,000	34,000
Insurance premium paid	250	1,000
Repairs paid by tenant	250	9,000

Interest on borrowed capital for payment of municipal tax of house property	100	200
Nature of occupation	Let out for residence	Let out for business
Date of completion of construction	1.4.2000	1.4.1998

Determine the taxable income of Krishan for the assessment year 2014-15.

4. Anubhav owns three houses, the particulars of which are given below :

	<i>House-A</i>	<i>House-B</i>	<i>House-C</i>
Municipal value	80,000	1,20,000	1,00,000
Fair rent	90,000	1,00,000	1,10,000
Monthly rent	8,000	9,000	12,000
Rent collection charges	8,000	10,000	6,000
Repair expenses	5,000	6,000	4,000
Interest on loan :			
– For construction	40,000	—	—
– For marriage of son	—	30,000	—
– For repairs	—	—	8,000
Commencement of construction	04.04.2006	04.01.2008	04.07.2009
Completion of construction	31.03.2010	30.06.2010	31.12.2011
Use by tenant	Residential	Office	Residential

Municipal tax is charged @ 10%. Anurag paid municipal tax of House-A but did not pay municipal tax of House-B. The tenant paid the municipal tax of House-C which remained vacant for 3 months. Compute income from house property of Anurag for the assessment year 2014-15.

5. Rohit is the owner of a house property, its municipal valuation is ` 80,000. It has been let-out for ` 1,20,000 per annum. The local taxes payable by the owner amount to ` 16,000, but as per agreement between the tenant and the landlord, the tenant has paid the amount direct to the municipality. The landlord, however, bears the following expenses on tenant's amenities :

Extension of water connection	3,000
Water charges	1,500
Lift maintenance	1,500
Salary of gardener	1,800
Lighting of stairs	1,200
Maintenance of swimming pool	750

The landlord claims the following deductions :

