ILLUSTRATION 3

From the figures given below calculate the Expected Rental Value in each case separately :

Rental value	*Case A*	*Case B*	*Case C*
	₹	₹	₹
MRV	30,000	30,000	30,000
FRV	36,000	36,000	36,000
Standard Rent	N.A.	33,000	42,000

SOLUTION

Calculation of Expected Rental Value

A. Standard Rent is not applicable

	₹
MRV	30,000
FRV	36,000
Whichever is higher is ERV	36,000

B. Standard Rent is applicable

	₹
MRV	30,000
FRV	36,000
Whichever is higher	36,000

This figure is more than the Standard Rent which is ₹ 33,000 and the ERV cannot exceed the Standard Rent, as such the Standard Rent of ₹ 33,000 shall be ERV

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ILLUSTRATION 4

Calculate ARV from the particulars given below :

MRV ₹ 60,000 p.a. FRV ₹ 66,000 p.a.

A. If Actual Rent is ₹ 72,000 p.a. and Standard Rent is ₹ 69,000 p.a. or

B. If Actual Rent is ₹ 63,000 p.a. and Standard Rent is ₹ 69,000 p.a.

SOLUTION **If actual rent is ₹ 72,000**

	₹
MRV	60,000
FRV	66,000
whichever is higher	66,000 or
Standard Rent	69,000
whichever is less is ERV	66,000
But in this case actual rent	72,000
is higher hence Actual rent is ARV *i.e.*	72,000

SOLUTION **If actual rent is ₹ 63,000**

	₹
MRV ; or	60,000
FRV	66,000
whichever is higher ; or	66,000
Standard Rent	69,000
whichever is less is ERV *i.e.*	66,000
Actual Rent	63,000
is less than ERV as such ERV is ARV	66,000

ILLUSTRATION 5

Calculate Gross Annual Value from following information :

	House-A	House-B
MRV	80,000	80,000
FRV	1,00,000	1,00,000
Standard Rent	70,000	1,20,000
Actual Rent	1,20,000	90,000

It is assumed that both the houses were let out throughout the year and there was also no unrealized rent.

SOLUTION

Computation of Gross Annual Value

	House-A	House-B
MRV	80,000	80,000
FRV	1,00,000	1,00,000
w.e. is higher	1,00,000	1,00,000
Standard Rent	70,000	1,20,000
w.e. is less is Expected Rent	70,000	1,00,000
Actual Rent Received	1,20,000	90,000
w.e. is higher is Gross Annual Value		
Therefore, Gross Annual Value	1,20,000	1,00,000

proportion of vacancy.

ILLUSTRATION 6

Calculate ARV from the particulars given below :

MRV ₹ 60,000 p.a. Actual Rent ₹ 7,000 p.m.

FRV ₹ 66,000 p.a. Standard Rent ₹ 69,000 p.a.

(*a*) House was vacant for full year duirng the previous year 2016-17.

(*b*) House was vacant for two months during the previous year 2016-17.

(*c*) Actual Rent of the house is ₹ 4,000 p.m. and was vacant for two months.

SOLUTION

Calculation of ARV

As the house property was vacant for full year during previous year 2016-17 hence its ARV is NIL.

SOLUTION Calculation of ARV

	₹
MRV	60,000 or
FRV	66,000
whichever is higher is taken ;	66,000 or
Standard Rent	69,000
whichever is less is ERV	66,000
Actual Rent for full year	84,000
It is more than ERV	66,000

SOLUTION Calculation of ARV

	₹
MRV	60,000 or
FRV	66,000
whichever is higher is taken ;	66,000 or
Standard Rent	69,000
whichever is less is ERV *i.e.*	66,000
Actual Rent for full year	48,000
It is less than ERV	66,000

∴ Actual rent is ARV *i.e.*	84,000	So ERV is ARV	66,000
Less loss due to vacancy [84,000 × 2/12]	14,000	Less loss due to vacancy [48,000 × 2/12]	8,000
Annual Rental Value	70,000	Annual Rental Value	58,000

A-3. House Property is let out and there is unrealised rent

(i) If rent actually received or receivable (after deducting unrealised rent as per conditions given below) is more than ERV :

Step I. Compare MRV with FRV and whichever is higher is compared with Standard Rent and whichever is less is ERV.

Step II. If rent actually received or receivable (after deducting unrealised rent as per conditions given below) is more than ERV (Expected Rental Value) such rent received or receivable is Annual Rental Value (ARV).

Important Points

If following conditions are fulfilled, the amount of unrealised rent shall be deducted out of actual rent received :

(*a*) that the tenancy is bonafide ;
(*b*) that the tenant has vacated the house or steps have been taken to get the house vacated ;
(*c*) the tenant is not occupying any other house owned by the assessee ; and
(*d*) that all efforts to realise the rent have failed or the assessing officer is satisfied that there is no way to recover the rent ;
(*e*) unrealised rent of earlier years is not deductible.

ILLUSTRATION 7

Calculate the ARV from the particulars given below :

Actual Rent	₹ 7,000 p.m.	MRV	₹ 60,000 p.a.
FRV	₹ 66,000 p.a.	Standard Rent	₹ 69,000 p.a.

During previous year 2016-17 assessee could not realise rent for two months.

SOLUTION

Calculation of ARV	₹
MRV	60,000
FRV	66,000
whichever higher is	66,000 or
Standard Rent	69,000
whichever is less is ERV is *i.e.*	66,000
Actual rent [₹ 84,000 less unrealised rent (₹ 7,000 × 2 = 14,000)]	70,000
Actual rent is more than ERV	
Hence such actual rent is ARV	70,000

(ii) *If rent actually received or receivable (after deducting unrealised rent as per conditions given) is less than ERV* :

Step I. Compare MRV with FRV and whichever is higher is compared with Standard Rent and whichever is less is ERV.

Step II. If rent actually received or receivable (after deducting unrealised rent as per conditions given) is less than ERV (Expected Rental Value) such ERV is treated as Annual Rental Value (ARV).

ILLUSTRATION 8

Calculate the ARV from the particulars given below :

Actual Rent	₹ 6,000 p.m.	MRV	₹ 60,000 p.a.
FRV	₹ 66,000 p.a.	Standard Rent	₹ 69,000 p.a.

During the previous year 2016-17 assessee could not realise rent for two months.

SOLUTION

Calculation of ARV

	₹
MRV	60,000 or
FRV	66,000
whichever higher is	66,000 or
Standard Rent	69,000
whichever is less is ERV *i.e.*	66,000
Actual Rent [₹ 72,000 less unrealised rent (₹ 6,000 × 2 = 12,000)]	60,000
Actual rent is less than ERV	
Hence such ERV is treated as ARV *i.e.*	66,000

A-4. House property is let out, there is both vacancy and unrealised rent

Step-I. Compare MRV with FRV and whichever is higher is compared with Standard Rent and whichever is less is ERV.

Step-II. If rent actually received or receivable for full year (after deducting unrealised rent as per conditions given) is more than ERV (Expected Rental Value) such rent received or receivable is Annual Rental Value (ARV).

Step-III. Such ARV is reduced by an amount of actual rent in proportion of vacancy. Firstly deduct unrealised rent out of annual rent received/receivable and compare and take the higher one and then deduct the loss due to vacancy and the value so arrived at shall be the gross annual value.

Step-IV. If rent actually received or receivable (after deducting unrealised rent and vacancy as per conditions given) is less than ERV, such ERV is ARV.

ILLUSTRATION 9

(*a*) Calculate ARV from the particular given below :

Actual Rent	₹ 7,000 p.m.	MRV	₹ 60,000 p.a.
FRV	₹ 66,000 p.a.	Standard Rent	₹ 69,000 p.a.

Assessee could not realise rent for two months and house also remained vacant for 2 months during the previous year 2016-17.

(*b*) What difference it would make if every thing else remaining the same but actual rent received is ₹ 6,000 p.m.

SOLUTION A **Calculation of ARV if actual rent is ₹ 7,000 p.m.**

	₹
MRV	60,000
FRV	66,000
whichever is higher is	66,000 or
Standard Rent	69,000
whichever is less is ERV *i.e.*	66,000 or
Actual Rent received is [₹ 84,000 less unrealised rent (7,000 × 2 = 14,000)]	70,000

SOLUTION B **Calculation of ARV if actual rent is ₹ 6,000 p.m.**

	₹
MRV	60,000
FRV	66,000
whichever is higher is	66,000 or
Standard Rent	69,000
whichever is less is ERV	66,000 or
Actual Rent [₹ 72,000 less unrealised rent [6,000 × 2 = 12,000)]	60,000

whichever is higher is ARV *i.e.*	70,000	whichever is higher is ARV	66,000
It shall be reduced by rent of vacancy period (7,000 × 2 = 14,000) as per explanation attached to sec. 23(1)(c)	14,000	It shall be reduced by rent of vacancy period 6,000 × 2 = 12,000) as per explanation attached to sect. 23(1)(c)	12,000
The balance shall be ARV	56,000	The balance shall be ARV	54,000

Treatment of unrealised rent [Explanation to Section 23(1)(b)&(c)

Explanation to Section 23(1)(b) & 23(1)(c) clearly provides that where the property is let out, the amount of actual rent received or receivable by the owner shall not include, the amount of rent which the owner cannot realise. It implies that unrealised rent is to be deducted from annual rent receivable by the owner from the tenant.

The practical questions have been solved as per the explanation to Section 23(1)(b)&(c), *i.e.*, unrealised rent has been deducted out of annual rent while calculating gross annual value.

Treatment of unrealised rent as per Income tax return forms

However, in the Income tax return forms issued by the CBDT, unrealised rent has been shown as deduction from annual letable value, *i.e.*, Gross annual value along with municipal taxes.

We, the authors, hold the view that the treatment of unrealised rent as shown in the Income tax return forms is not in line with the explanation to section 23(1)(b)&(c). The Income-tax authorities should look into the matter.

A-5. If house property is let out for a part of the year because it is either purchased or constructed during the previous year 2016-17

Take all the rental values only for that period for which house property is in existence or owned by assessee during the previous year. Compare them and select ARV accordingly.

ILLUSTRATION 10

Compute ARV from particulars given below :

			₹
MRV	₹ 60,000 p.a.	FRV	66,000 p.a.
Standard Rent	₹ 63,000 p.a.	Real Rent	6,000 p.m.
Date of completion	31-5-2016	Date of letting :	1-8-2016

SOLUTION

Computation of annual Rental Value

As the house was in existence for 10 months, hence rental values may be taken for 10 months

	₹
MRV 60,000 × 10/12	50,000
FRV 66,000 × 10/12	55,000
Whichever is higher	55,000
Or Standard Rent 63,000 × 10/12	52,500
Whichever is less is ERV	52,500
Or Real Rent for 10 months	60,000
Whichever is higher is ARV	60,000
Less loss due to vacancy [two months]	12,000
	48,000