House Property

- Property should consists of any building or lands appurtenant thereto.
- Assessee should be owner of the property
- Property should not be used for Business profession.

House Property

Computation of Income from House Property of Mr. / Mrs. X	
(For the AY 2023-24)	
Particulars	**Amount in Rs.**
Step 1: Expected Rent: Municipal Value or Fair rent = Higher = (MV) Subject to Standard rent = Lower = (SR)	SR
Step 2: Actual rent received or receivable Less: unrealised rent	120000 - 10000
Step 3: Higher of step 1 or step 2	
Step 4: Loss due to vacancy	
Step 5: Step 3 – step 4 = **Gross annual value (GAV)**	
Less: Municipal tax paid by owner	
Net Annual Value (NAV)	30000
Less Deductions U/S 24:	
• Standard Deduction: 30% of NAV	9000
• Interest on borrowed capital	1000
Income from House Property	20000

House Property

- HP in foreign country
- Composite rent
- Composite rent includes:
  - rent of services (lift, AC) – split the rent
  - rent of assets (furniture) – and two lettings are not separable – taxable under other sources.
  - rent of assets (furniture) – and two lettings are separable - split the rent
- Co-owners

Question

(Rs. in thousand)

	A	B	C	D	E
Municipal value (MV)	40	40	40	40	40
Fair rent (FR)	46	46	46	48	51
Standard rent (SR)	NA	45	35	45	63
Reasonable expected rent under *Step I* [MV or FR whichever is higher, subject to maximum of SR]	46	45	35	45	51*

House Property

68.1-2a WHEN UNREALISED RENT SHALL BE EXCLUDED [*EXPLN.* TO SEC. 23(1)] - Unrealised rent (which the owner could not realise) shall be excluded from rent received/receivable only if the following conditions are satisfied—

a. the tenancy is *bona fide* ;

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

c. the defaulting tenant is not in occupation of any other property of the assessee; and

d. the assessee has taken all reasonable steps to institute legal proceedings for the recovery of the unpaid rent or satisfies the Assessing Officer that legal proceedings would be useless.

Interest on Borrowed capital

68.3-2 *INTEREST ON BORROWED CAPITAL [SEC. 24(b)]* - Interest on borrowed capital is allowable as deduction, if capital is borrowed for the purpose of purchase, construction, repair, renewal or reconstruction of the property.

The following points should also be kept in view :—

- ▸ If capital is borrowed for the purpose of purchasing a plot of land, interest liability is deductible even if construction is financed out of own funds.
- ▸ Interest on borrowed capital is deductible on "accrual" basis. It can be claimed as deduction on yearly basis, even if the interest is not actually paid during the year.
- ▸ Deduction is available even if neither the principal nor the interest is a charge on property.
- ▸ Interest on unpaid interest is not deductible.
- ▸ No deduction is allowed for any brokerage or commission for arranging the loan.
- ▸ Interest on a fresh loan, taken to repay the original loan raised for the aforesaid purposes, is allowable as deduction—Circular No. 28, dated August 20, 1969. This rule is applicable even if the first loan was interest-free loan.
- ▸ Any interest chargeable under the Act, in the hands of recipient and payable out of India, on which tax has not been paid or deducted at source, and in respect of which there is no person who may be treated as an agent, is not deductible, by virtue of section 25, in computing income chargeable under the head "Income from house property".
- ▸ Interest on borrowed capital (according to rules given in this para and para 68.3-2a) is deductible fully without any maximum ceiling (in the case of a let out property).
- ▸ Transaction of allotment of a property to an assessee on instalment basis does give rise to relationship of borrower and lender between the assessee and the estate officer and as such interest paid by the assessee on instalments constitutes interest on borrowed capital.

68.3-2a INTEREST OF PRE-CONSTRUCTION PERIOD - Interest payable by an assessee in respect of funds borrowed for the acquisition or construction of a house property and pertaining to a period prior to the previous year in which such property has been acquired or constructed, to the extent it is not allowed as a deduction under any other provision of the Act, will be deducted in five equal annual instalments, commencing from the previous year in which the house is acquired or constructed.

- ▸ *What is pre-construction period* - Interest of pre-construction period is deductible in five equal instalments. The first instalment is deductible in the year in which construction of property is completed or in which property is acquired. For this purpose "pre-construction period" means the period commencing on the date of borrowing and ending on (*a*) March 31 immediately prior to the date of completion of construction/date of acquisition or (*b*) date of repayment of loan, whichever is earlier.

Pre construction Period

1.4.2013 – 31.3.2014 (1.8.2013 DOB)	Pre construction period starts on 1.8.2013
1.4.2014 – 31.3.2015	
1.4.2015 – 31.3.2016	
1.4.2016 – 31.3.2017	Pre construction period ends on 31.3.2017
1.4.2017 – 31.3.2018 (31.8.2017 DOC)	Post construction period starts on 1.4.2017
1.4.2018 – 31.3.2019	
1.4.2019 – 31.3.2020	
1.4.2020 – 31.3.2021 (15.10.2020 DOR)	Post construction period ends on 15.10.20
1.4.2021 – 31.3.2022	
1.4.2022 – 31.3.2023	PY
1.4.2023 – 31.3.2024	AY

Pre construction Period

1.4.2013 – 31.3.2014 (1.8.2013 DOB)	Pre construction period starts on 1.8.2013
1.4.2014 – 31.3.2015	
1.4.2015 – 31.3.2016 (1.8.2016 DOR)	Pre construction period end on 1.8.2016
1.4.2016 – 31.3.2017	2.8.2016 – post construction period – not of much use
1.4.2017 – 31.3.2018 (31.8.2017 DOC)	
1.4.2018 – 31.3.2019	
1.4.2019 – 31.3.2020	
1.4.2020 – 31.3.2021	
1.4.2021 – 31.3.2022	
1.4.2022 – 31.3.2023	
1.4.2023 – 31.3.2024	PY

Question

X takes a loan of ₹. 40,000 @15 percent per annum for constructing a house on June 10, 2017. Construction of the house is completed on January 20, 2023.

Date of repayment of loan is:

a) January 16, 2028
b) June 30, 2024
c) Oct 31, 2020

	A DOR (Jan 16, 2028)	B DOR(June30,2024)	C DOR(Oct 31, 2020)
2017-18 (June 10, 17 DOB)			
2018-19			
2019-20			
2020-21			
2021-22			
2022-23 PY (Jan 20, 23 DOC)			
2023-24			
2024-25			
2025-26			
2026-27			
2027-28			

	A DOR (Jan 16, 2028)	B DOR(June30,2024)	C DOR(Oct 31, 2020)
2017-18 (June 10, 17 DOB)	40000*15%*295/365 = 4849	4849	4849
2018-19	6000	6000	6000
2019-20	6000	6000	6000
2020-21	6000	6000	40000*15%*213/365 = 3501
2021-22	6000	6000	
2022-23 PY (Jan 20, 23 DOC)	6000	6000	
2023-24	6000	6000	
2024-25	6000	40000*15%*90/365 = 1479	1/5*28849 = 5770
2025-26	6000		1/5* 28849 =5770
2026-27	6000		1/5* 20350= 4070
2027-28	40000*15%*290/365 = 4767		

	A DOR (Jan 16, 2028)	B DOR(June30,2024)	C DOR(Oct 31, 2020)
2017-18 (June 10, 17 DOB)	40000*15%*295/365 = 4849	4849	4849
2018-19	6000	6000	6000
2019-20	6000	6000	6000
2020-21	6000	6000	40000*15%*213/365 = 3501
2021-22	6000	6000	NIL / 0
2022-23 PY (Jan 20, 23 DOC)	6000 + 5770	6000 + 5770	4070
2023-24	6000 + 5770	6000 +5770	4070
2024-25	6000 + 5770	40000*15%*90/365 = 1479 + 5770	4070
2025-26	6000 +5770	5770	4070
2026-27	6000 +5770	5770	4070
2027-28	40000*15%*290/365 = 4767		

Question

➠ **68.3-2P1** *X takes a loan of Rs. 40,000 @ 15 per cent per annum for constructing a house on June 10, 2014. Construction of the house is completed on January 20, 2020.*
Date of repayment of loan is (a) January 16, 2025, or (b) June 30, 2021, or (c) October 31, 2017.

Previous years

	Ending on March 31, 2020 Rs.	*2020-21* Rs.	*2021-22* Rs.	*2022-23* Rs.	*2023-24* Rs.	*2024-25* Rs.	*2025-26* Rs.
If date of repayment of loan is January 16, 2025 :							
Current year's interest	6,000*	6,000	6,000	6,000	6,000	4,767	*Nil*
Pre-construction period's interest	5,770	5,770	5,770	5,770	5,770	*Nil*	*Nil*
Total deduction	11,770	11,770	11,770	11,770	11,770	4,767	*Nil*
If date of repayment of loan is June 30, 2021							
Current year's interest	6,000*	6,000	1,479	*Nil*	*Nil*	*Nil*	*Nil*
Pre-construction period's interest	5,770	5,770	5,770	5,770	5,770	*Nil*	*Nil*
Total deduction	11,770	11,770	7,249	5,770	5,770	*Nil*	*Nil*
If date of repayment of loan is October 31, 2017 :							
Current year's interest	*Nil*	*Nil*	*Nil*	*Nil*	*Nil*	*Nil*	*Nil*
Pre-construction period's interest	4,070	4,070	4,070	4,070	4,070	*Nil*	*Nil*
Total	4,070	4,070	4,070	4,070	4,070	*Nil*	*Nil*

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

Different combinations

- Self occupied – upto two houses (SO)
- Let out (LO)
- Deemed to be let out (DLO)
- Used in self business – Not taxable under this head
- Could not self occupy because of job in other city – Not taxable
- House units

House Property (SO)

Computation of Income from House Property of Mr. / Mrs. X	
(For the AY 2023-24)	
Particulars	**Amount in Rs.**
Step 1: Expected Rent: Municipal Value or Fair rent – Higher – (MV) Subject to standard rent – Lower	
Step 2: Actual rent received or receivable - unrealised rent	
Step 3: Higher of step 1 or step 2	
Step 4: Loss due to vacancy	
Step 5: Step 3 – step 4 = **Gross annual value (GAV)**	
Less: Municipal tax paid by owner	
Net Annual Value (NAV)	**NIL**
Less Deductions U/S 24:	
• Standard Deduction: 30% of NAV	NIL
• Interest on borrowed capital	Deductible
Income from House Property	**Balance**

House Property DLO/ LO

Computation of Income from House Property of Mr. / Mrs. X	
(For the AY 2023-24)	
Particulars	**Amount in Rs.**
Step 1: Expected Rent: Municipal Value or Fair rent – Higher – (MV) Subject to standard rent – Lower	
Step 2: Actual rent received or receivable - unrealised rent	
Step 3: Higher of step 1 or step 2	
Step 4: Loss due to vacancy	
Step 5: Step 3 – step 4 = **Gross annual value (GAV)**	
Less: Municipal tax paid by owner	
Net Annual Value (NAV)	
Less Deductions U/S 24:	
• Standard Deduction: 30% of NAV	
• Interest on borrowed capital	
Income from House Property	

Interest on Borrowed capital

- For let out house – unlimited interest amount deductible

- For self occupied house – Rs. 2,00,000
    - Loan taken after 1.4.1999
    - for acquiring / construction
    - completed within 5 years
    - loan is certified
- For self occupied house (in all other cases)
    - Reconstruction, repair, renewals- Rs. 30,000

Arrears and recovery of unrealised rent

- Taxable in the year of receipt
- 30% is allowed as standard deduction.

- Unrealised Rent received
- Minus – 30% std. ded.

Question

69.1-3 P1 *X owns a residential house property. It has two equal residential units – Unit 1 and Unit 2. While Unit 1 is self-occupied by X for his residential purpose, Unit 2 is let out (rent being Rs. 6,000 per month, rent of 2 months could not be recovered). Municipal value of the property is Rs. 1,30,000, standard rent is Rs. 1,25,000 and fair rent is Rs. 1,40,000. Municipal tax is imposed @ 12 per cent which is paid by X. Other expenses for the previous year 2019-20 being repairs: Rs. 250, insurance: Rs. 600, interest on capital (borrowed during 1998) for constructing the property: Rs. 63,000.*

Find the income of X for the assessment year 2023-24 *n the assumption that income of X from other sources is Rs. 1,80,000.*

Solution

Solution : *Unit 1 - Self-occupied*	*Rs.*
Gross annual value	*Nil*
Less: Municipal tax	*Nil*
Net annual value	*Nil*
Less: Interest on borrowed capital [1/2 of Rs. 63,000 or Rs. 30,000 whichever is lower]	30,000
Income of Unit 1	(-) 30,000
Unit 2 - Let out	
Municipal value (50% of Rs. 1,30,000) (MV)	65,000
Fair rent (50% of Rs. 1,40,000) (FR)	70,000
Standard rent (50% of Rs. 1,25,000) (SR)	62,500
Annual rent (Rs. 6,000 × 12)	72,000
Unrealised rent	12,000
Gross annual value	
Step I - Reasonable expected rent of the property [MV or FR, whichever is higher, but subject to maximum of SR]	62,500
Step II - Rent received/receivable after deducting unrealized rent but before adjusting loss due to vacancy	60,000
Step III - Amount computed in *Step I* or *Step II*, whichever is higher	62,500
Step IV - Loss due to vacancy	*Nil*
Step V - Gross annual value is *Step III minus Step IV*	62,500
Less: Municipal tax (50% of 12% of Rs. 1,30,000)	7,800
Net annual value	54,700
Less: Deduction under section 24	
Standard deduction (30% of Rs. 54,700)	16,410
Interest on borrowed capital (50% of Rs. 63,000)	31,500
Income of Unit 2	6,790
Computation of income of X	
Income from house property	
Unit 1: Rs. (-) 30,000	
Unit 2: Rs. 6,790	(-) 23,210
Other income	1,80,000
Net income	1,56,790

Question and Solution

68.1-3P4 *Find out the gross annual value in the case of the following properties for the assessment year* 2023-24 *(there is no unrealised rent) –*

(Rs. in thousand)

	X	Y	Z	A	B	C	D
Municipal value (per annum)(MV)	*60*	*61*	*60*	*80*	*80*	*140*	*140*
Fair rent (per annum) (FR)	*65*	*66*	*64.5*	*78*	*78*	*150*	*150*
Standard rent under the Rent Control Act (per annum) (SR)	*59.5*	*59*	*63*	*85*	*76*	*120*	*120*
Annual rent	*72*	*57*	*72*	*72*	*NA*	*96*	*144*
Property remains vacant (in number of month)	*(1)*	*(1½)*	*(5)*	*(3)*	*(12)*	*(10)*	*(10)*
Loss due to vacancy	*6*	*7.125*	*30*	*18*	-	*80*	*120*

Solution :

Computation of gross annual value	X	Y	Z	A	B	C	D
Step I - Reasonable expected rent of the property [MV or FR, whichever is higher, but subject to maximum of SR]	59.5	59	63	80	76	120	120
Step II - Rent received/receivable after deducting un-realized rent but before adjusting loss due to vacancy	72	57	72	72	*Nil*	96	144
Step III - Amount computed in *Step I* or *Step II*, whichever is higher	72	59	72	80	76	120	144
Step IV - Loss due to vacancy	6	7.125	30	18	76	80	120
Step V - Gross annual value is *Step III minus Step IV*	66	51.875	42	62	*Nil*	40	24

Question

69.4-P1 *X owns 5 houses. These houses are used by him for his residential purposes. These houses are not let out during any part of the previous year* 2022-23 *No other benefit is derived from these houses. The following information is noted from the records of X –*

	House 1 Rs.	House 2 Rs.	House 3 Rs.	House 4 Rs.	House 5 Rs.
Municipal value or fair rent, whichever is higher (but subject to maximum of standard rent)	12,00,000	12,70,000	27,60,000	4,90,000	15,90,000
Municipal taxes paid by X	40,000	1,20,000	1,90,000	30,000	1,20,000
Interest on capital borrowed to purchase properties (date of borrowing in all cases is after April 1, 1999)	–	11,000	1,70,000	2,00,000	2,30,000
Interest on capital borrowed to finance repair, renewal or reconstruction of house properties	2,10,000	7,89,000	14,00,000	–	–

Business income of X is Rs. 32,00,000. He is entitled for a deduction of Rs. 2,40,000 under sections 80C and 80D. Compute net income for the assessment year 2023-24

Solution

X has occupied 5 properties for his own residential purposes. Only two houses (according to the choice of X) will be treated as self-occupied properties. Other 3 houses will be "deemed to be let out". He has the following options –

Different options	*Houses to be treated as self-occupied*	*Houses deemed to be let out*
Option 1	House 1 and House 2	House 3, House 4 and House 5
Option 2	House 1 and House 3	House 2, House 4 and House 5
Option 3	House 1 and House 4	House 2, House 3 and House 5
Option 4	House 1 and House 5	House 2, House 3 and House 4
Option 5	House 2 and House 3	House 1, House 4 and House 5
Option 6	House 2 and House 4	House 1, House 3 and House 5
Option 7	House 2 and House 5	House 1, House 3 and House 4
Option 8	House 3 and House 4	House 1, House 2 and House 5
Option 9	House 3 and House 5	House 1, House 2 and House 4
Option 10	House 4 and House 5	House 1, House 2 and House 3

In order to minimise taxable income (and maximise loss to be carried forward), one may proceed as follows –

Step 1 - Find out income of 5 houses as if these are treated as "self-occupied property".

Step 2 - Find out income of 5 houses as if these are "deemed to be let out".

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

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

Solution Contd.

	House 1 Rs.	House 2 Rs.	House 3 Rs.	House 4 Rs.	House 5 Rs.
Step 1 - Computation of income if these are self-occupied properties –					
Net annual value	*Nil*	*Nil*	*Nil*	*Nil*	*Nil*
Less: Interest on borrowed capital	30,000	41,000	2,00,000	2,00,000	2,00,000
Income from property (*a*)	(–)30,000	(–)41,000	(–)2,00,000	(–)2,00,000	(–)2,00,000
Step 2 - Computation of income if these are deemed to be let out –					
Gross annual value (being municipal value or fair rent, whichever is lower but subject to maximum of standard rent)	12,00,000	12,70,000	27,60,000	4,90,000	15,90,000
Less: Municipal taxes	40,000	1,20,000	1,90,000	30,000	1,20,000
Net annual value	11,60,000	11,50,000	25,70,000	4,60,000	14,70,000
Less: Deduction under section 24					
Standard deduction	3,48,000	3,45,000	7,71,000	1,38,000	4,41,000
Interest on borrowed capital	2,10,000	8,00,000	15,70,000	2,00,000	2,30,000
Income from property (*b*)	6,02,000	5,000	2,29,000	1,22,000	7,99,000
Step 3 - Step 1 minus *Step 2* [(*a*) – (*b*)]	(–)6,32,000	(–)46,000	(–)4,29,000	(–)3,22,000	(–)9,99,000
Step 4 - Selection : House 1 and House 5 (to be taken as self-occupied properties)					
Income of House 1 and House 5 (self-occupied properties) (*total interest pertaining to self-occupied properties cannot exceed Rs. 2,00,000)	(–)30,000	–	–	–	(–)1,70,000*
Income of House 2, House 3 and House 4 (deemed to be let out properties)	–	5,000	2,29,000	1,22,000	–
Income from properties	(–)30,000	5,000	2,29,000	1,22,000	(–)1,70,000

Income computation of X –

	Rs.
Income from house property [Rs. (–)30,000 + Rs. 5,000 + Rs. 2,29,000 + Rs. 1,22,000 + Rs. (–)1,70,000]	1,56,000
Business income	32,00,000
Gross total income	33,56,000
Less: Deduction under sections 80C and 80D	2,40,000
Net income	31,16,000