

PROBLEMS ON INCOME FROM HOUSE PROPERTY

1. Mr. Mohan Swami owns two houses. Their particulars for the financial year 2007-2008 are given below:

Particulars	House I	House II
	Construction completed on 1.04.2007	
	Self-occupied	Let out
	Rs	Rs
Municipal valuation	10,00,000	15,00,000
Fair rent	12,00,000	14,00,000
Standard rent	8,00,000	16,00,000
Annual rent received /receivable	Nil	18,00,000
Municipal taxes paid	1,20,000	150,000
Insurance premium paid	10,000	15,000
Repair expenses	1,50,000	2,00,000
Unrealised rent-conditions of Rule 4 satisfied	Nil	4,50,000
Interest on loan for the pre-construction period	3,00,000	4,50,000
Interest on loan for the post construction period for the PY year 2007-2008	1,00,000	1,50,000
Date of borrowing the loan	31.12.2003	31.12.2003
Certificate of interest attached to the return.	No	No

Determine the income from house property for the assessment year 2008-2009.

Would you change your answer if construction is completed on 31-3-2008 and interest certificate is also attached?

Computation of income from house property for the AY 2008-2009

Particulars	House No. I-Self-occupied		House No. II-Let out	
	Date of completion 1-4-2007 failing after 3 years from the end of FY in which loan was taken	Date of completion 31-3-2007 within 3 years from the end of FY in which loan was taken	House No. II-Let out Interest certificate/Date of competing construction are not relevant.	
	Interest certificate not relevant (a)	Interest certificate attached (b) (I)	Interest certificate not attached (b) (ii)	
	Rs	Rs	Rs	Rs.
Gross annual value				
(a) ALV	Nil	Nil	Nil	15,00,000
(b) Annual rent received excluding unrealised rent	Nil	Nil	Nil	13,50,000
Whichever is higher, is GAV	Nil	Nil	Nil	15,00,000
Less : Municipal taxes paid	Nil	Nil	Nil	(-) 1,50,000
Net annual value	Nil	Nil	Nil	13,50,000
Less : Permissible deductions :				
Less : (I) Statutory deduction : 30% of Net annual value	Nil	Nil	Nil	(-) 4,05,000
(ii) Interest on loan	(-) 30,000	(-) 1,50,000	(-) 30,000	(-) 2,40,000
Income from house property	(-) 30,000	(-) 1,50,000	(-) 30,000	7,05,000

Note :

1. Interest for House No. I-Self-occupied:

(a) (i) Interest for pre-construction period $\div 5: 3,00,000 \div 5 = \text{Rs } 60,000$

(ii) Interest for post-construction period : Rs. 1,00,000

(i) + (ii) = Rs. 1,60,000

Where loan is taken on or after 1.04.1999 but the house is not completed within 3 years from the end of the financial year in which the loan was taken, maximum ceiling of interest, eligible for deduction is only Rs 30,000. It is operative from the AY 2003-2004 and subsequent years.

In the instant case, self-occupied house is completed after the prescribed time-limit of 3 years. Hence, deduction is restricted to Rs 30,000.

(b) (i) In the, instant case, self-occupied house has been completed within 3 years from the end of the financial year in which loan was taken and certificate of interest is also attached. Hence, interest on loan, subject to the maximum ceiling of Rs 1,50,000 has been allowed.

(ii) construction is completed within the prescribed time-limit of 3 years from the end of the FY which loan was taken but interest certificate is not attached. Hence, interest on loan, subject to a maximum of Rs 30,000, has been allowed.

2. Interest for House No. II. Deduction has been worked out as under :

(i) Interest for pre-construction period : $4,50,000 \div 5 = 90,000$

(ii) Interest for post-construction period during 2006-2007 : 1,50,000

Interest eligible for deduction (i) + (ii) = 2,40,0000

3. No deduction is available for insurance premium and repair expenses incurred.

2. Mr.Som owns two houses, which are occupied by him for his own residence.

The detailed particulars of houses and his other incomes for the pervious year 2007-2008 are given below:

Particulars	House A Rs	House B Rs
Fair rent	5,00,000	6,00,000
Municipal value	4,20,00	5,50,000
Standard rent	4,50,000	6,20,000
Municipal taxes paid	50,000	60,000
Interest on loan for the FY 2007-2008	1,60,000	2,20,000
Date of loan	1.12.1997	1.04.1999
Date of completion	31.03.2000	31.03.2001
Certificate of interest attached with return of income	No	Yes
Mr.Som earns income from other sources amounting to Rs 2,00,000		

Compute his total income and advise him which house should be opted for self-occupation.

Computation of income from house property under different options

Particulars	House A Rs	House B Rs
(a) Assuming both properties are self-occupied (SO)		
Annual value	Nil	Nil
Less : Interest on loan	(-) 30,000	(-) 1,50,000
Loss from house property	(-) 30,000	(-) 1,50,000
(b) Assuming both properties as deemed let out (DLO)		
Gross annual value	4,20,000	6,00,000
Less : Municipal taxes paid	(-) 50,000	60,000
Net annual value	3,70,000	5,40,000
Less : Permissible deduction :		
(i) Statutory deduction : 30% of Net annual value	(-) 1,11,000	(-) 1,62,000
(ii) Interest on loan	(-) 1,60,000	(-) 2,20,000
Income from house property	99,000	1,58,000
(c) Criteria for selection of house for self-occupied : Lowest taxable income	Option I	Option II
Income from house A	(-) 30,000	99,000
Income from house B	1,58,000	(DLO)
	(DLO)	(SO)
Income from other sources	2,00,000	2,00,000
Total income	3,28,000	1,49,000

Conclusion: House B should be treated as self-occupied.

3. Dr.(Ms) Priyanka Chopra is the owner of a big house consisting of three units. Unit I consist of 40% area and Unit II and III are equal dimension, each occupying 30% area. The construction of house was completed on 1 April 2002 at a cost of Rs 10,00,000. The municipal value of the house for the previous year 2007-2008 has been fixed at Rs 2,00,000. Municipal taxes have been levied and paid @ 15% of rateable value. The rent under the Rent Control Act is Rs 1,50,000. Unit I is let out @ 10,000 p.m. for residential purposes. Unit II is self-occupied. Unit III is used by her for her professional purposes. The rent did not pay two months rent and conditions of Rule 4 are satisfied. She paid ground rent, Rs 9,000; interest on loan, taken during 1998-1999 for the construction of the house and payable during the PY 2007-2008 Rs. 1,50,000; insurance premium, Rs 6,000. She spent Rs 30,000 on repair of the house. Depreciation for the clinic portion is Rs 15,000. Her gross receipt from professional during the previous year 2007-2008 amount to Rs 5,60,000.

Compute her gross total income for the assessment year 2008-2009

Computation of Income from House Property for the Assessment Year 2008-2009

Particulars	House Let-out Rs	House Self- occupied Rs.
Gross annual value :		
(a) ALV : House let out		
(i) 40% of municipal value : Rs 80,000 or		
(ii) 40% of the standard rent : Rs 60,000		
ALV is restricted to Rs 60,000		
(b) Actual rent for 40% portion for 10 months : Rs 1,00,000	1,00,000	Nil
Gross annual value		
Less : Municipal taxes paid by the owner for 40%		
Portion Rs 2,00,000 x $\frac{15}{100}$ x $\frac{40}{100}$ = Rs 12,000	12,000	Nil
Net annual value	88,000	Nil
Less : Deduction from net annual value (Sec. 24)		
1. Statutory deduction : 30% of net annual value	(-) 26,400	
2. Interest on loan : 40% of Rs. 1,50,000	(-) 60,000	(-) 30,000
Taxable income	<u>1600</u>	<u>(-) 30,000</u>
Computation of taxable income from profession :		
Gross professional income		5,00,000
Less : Expenses for 30% portion used for profession		
1. Municipal taxes Rs 2,00,000 x $\frac{15}{100}$ x $\frac{30}{100}$ (Sec. 30)	9,000	
2. Repair : 30% of Rs 30,000 (Sec. 30)*	9,000	
3. Ground rent : 30% of Rs 9000 (Sec. 30)*	2,700	
4. Interest on loan : 30% of Rs. 1,50,000 [Sec. 36(I)(iii)]*	45,000	
5. Insurance premium : 30% of Rs 6000 (Sec.30)*	1,800	
6. Depreciation (Sec. 32)	15,000	
	<u>82,500</u>	<u>82,500</u>
Income from profession		<u>4,17,500</u>
Computation of total income :		
1. Income from house property :		
(a) Let out	1600	
(b) Self-occupied	(-) 30,000	
	<u>(-) 28,400</u>	<u>(-) 28,400</u>
2. Income from profession		<u>4,17,500</u>
Gross total income/total income		<u>3,89,100</u>

4. Mr. Ranjit Sinha is employed with HUDCo. Ltd. @ Rs. 25,000 p.m. He is the owner of a house property construction of which was completed on 1 April 1999. Since then, it has been in his self-occupancy for residential purposes. The particulars in respect of the house for financial year 2007-2008 are given below :

	Rs
Municipal valuation	2,00,000
Municipal tax paid	20,000
Ground rent outstanding	5,000
Insurance premium paid	

Interest on loan, taken on 1-6-2006 for renovation of the house, is Rs 75,000 for the year 2007-2008. However, he could pay only, Rs 45,000 during the year. He is transferred in February 2008 to the Nagpur Branch of the Company. He intends to allow his sister to occupy the house free of rent in his absence. He seeks your advice in this connection. Compute his total income for AY 2008-2009.

Particulars	Case I House kept Vacant During her absence Rs.	Case II House is occupied by her sister in her absence Rs
Income from house property :		
Gross annual value	Nil	2,00,000
Less : Municipal taxes paid	Nil	(-) 20,000
Net annual value	Nil	1,80,000
Less : Permissible deduction (Sec. 24)		
(i) Statutory deduction – 30% of Net annual value	Nil	(-) 54, 000
(ii) Interest on loan for renovation	(-) 30,000	(-) 75,000
	(-) 30,000	51,000
Statement of total income :		
Income from salary	3,00,000	3,00,000
Income from house property	(-) 30,000	51,000
Total income	2,70,000	3,51,000

Advise : From tax angle it is not advisable to allow her sister to occupy the house in his absence.

5. Mr. Kalidas is the owner of a house property. Its municipal valuation is Rs 3,00,000. It has been let out for Rs 4,40,000. The local taxes payable by the owner amount to Rs 30,000 but as per agreement between the tenant and the landlord, the tenant has paid them direct to the municipality. The landlord, however, bears the following expenses on tenants amenities during the year 2007-2008.

	Rs
Expenses of water connection	10,000
Water charges	20,000
Lift maintenance	15,000
Salary of gardener	18,000
Lighting of stairs	6000

Maintenance of swimming pool	12,000
The landlord claims the following deductions :	
Repairs	30,000
Land revenue paid	6,000
Collection charges	10,000
Compute the taxable income from the house property for the assessment year 2008-09	

Computation of income from house property for the assessment year 2008-2009.

Gross annual value to be higher of the following :	Rs
(a) ALV : Municipal valuation : 3,00,000	
Or	
(b) Actual rent : 3,69,000 (see note below)	3,69,000
Whichever is higher, is GAV	Nil
Less : Local taxes payable Rs 30,000 :	3,69,000
Net annual value	1,10,700
Less : Statutory deduction : 30% of net annual value	2,58,300
Taxable income	4,40,000
Note : Composite rent	
Less : Value of the amenities provided by the assessee :	Rs
(i) Water connection expenses : Not allowed beings capital expenditure	-
(ii) Water charges	20,000
(iii) Lift maintenance	15,000
(iv) Salary of gardener	18,000
(v) Lighting of stairs	6,000
(vi) Maintenance of swimming pool	12,000
	(-)
	71,000
Actual rent	3,69,000

6. Mr.M.Saha is the owner of a house in Kolkata consisting of three identical floors, (ground floor, first floor and second floor). Ground floor is let out and the rest is occupied by him for his residence. The full particulars of the house for the previous year 2007-2008 are given below:

Particulars	Rs
(i) Municipal valuation	12,00,000
(ii) Fair rent	15,00,000
(iii) Standard rent	Nil
(iv) Annual rent of the ground floor	6,00,000
(v) Municipal taxes paid by J	1,50,000
(vi) Water/sewerage benefit tax, paid to Kolkata Municipal Corporation	70,000
(vii) House remains vacant for 2 months :	
(viii) Unrealized rent, condition of Rule 4 are satisfied	2,50,000
(x) Interest on loan, taken for the purchase of the house in April 2006 as per certificate	2,70,000

Compute the income from the house property for the AY 2008-2009.

Computation of Income from House Property for the AY 2008-2009

Particulars	Ground floor Rs	I & II floor in self-occupancy Rs
Gross annual value		
(a) ALV	5,00,000	Nil
(b) Actual rent received / receivable	2,50,000	Nil
Even without vacancy, actual rent received is lower than the ALV : 6,00,000-2,50,000 = 3,50,000. Thus, the loss is not wholly due to vacancy. Hence, only loss due to vacancy is to be deducted from ALV to determine GAV. GAV is (5,00,000-1,00,000)	4,00,000	Nil
Less : Municipal taxes paid	(-) 50,000	Nil
Net annual value	3,50,00	Nil
Less :		
(1) Statutory deduction – 30% of AV.	(-)1,05,000	-
(2) Interest on loan	(-) 90,000	(-) 1,50,000
Income from house property	1,55,000	(-) 1,50,000

7. Mr.Ashis discloses the following particulars of the property owned by him during the PY 2007-2008.

Particulars	House self-occupied	Flat allotted by HB Society let out Rs	Shops & godwons let out Rs
Municipal value	5,00,000	2,00,000	4,00,000
Fair rent	4,00,000	2,50,000	5,00,000
Municipal taxes payable	60,000	80,000	80,000
(a) Paid by Ashis	60,000	30,000	-
(b) Paid by tenant	-	50,000	80,000
Annual rent	-	3,60,000	7,00,000
Expenses incurred by Ashis :	-		
Maintenance charges	-	12,000	-
Repairs	-	-	2,60,000
Collection charges	-	-	6,000
Electricity bills paid	-		Nil
Insurance premium	20,000	-	6,000
Ground rent	5,000	2,000	6,00
Depreciation	1,000	2,000	20,000

Other information:

(i) He has taken the loan on 1 July 2005 to purchase the house in self-occupancy. However, he could purchase the house on 1 May 2006. He repaid Rs 6,30,000 on 1 July 2007. This includes a charge of Rs 1,20,000 on account of interest from the date of borrowing.

(ii) The flat has been purchased under EMI scheme of the Gujarat Apartment Cooperative House Building Society Ltd. He has to pay 120 EMI of Rs 10,000 each, which includes 50% charge on account of interest. He has defaulted in payment of the last 20 EMI. To repay the outstanding EMI and penal interest of Rs, 20,000, he borrowed Rs 2,20,000 on 1 October 2007 @ 15% p.a.

The flat remained vacant for 1.5 months and rent of 3/4th month could not be realised. Conditions of Rule 4 have been satisfied,

(iii) Shops and godowns are held as stock-in-trade. However, till a suitable buyer is found, these are let out. P claims that income from letting should be computed under the head "profits and gains of business of profession".

He has borrowed money to construct/repair the godowns/shops. He paid Rs 20,000 on account of brokerage for arranging the loan.

Interest is payable outside India, in two equal instalments of Rs 50,000 each. The first instalment was paid net of tax at Rs 40,000. However, the second instalment was paid without deducting tax at sources as the recipient had given an undertaking in the prescribed form to pay the tax. Compute income from house property for the assessment year 2008-2009.

Computation of Income from House Property for the Assessment Year 2008-09

Particulars	House self-occupied Rs.	Flat let-out Rs.	Shops and godowns let out Rs.
Gross Annual Value	Nil	2,92,500	7,00,000
Less: Municipal taxes paid by the assessee	---	30,000	---
Net Annual Value	Nil	2,62,500	7,00,000
Less: Deductions u/s 24			
Statutory deduction u/s 24(a) @ 30% of NAV	---	78,750	2,10,000
Interest on Loan u/s 24(b)	24,000	37,500	50,000
Income from House Property	(24,000)	1,46,250	4,40,000

Workings:

1. Gross Annual Value:

ALV	2,50,000
Annual Rent	3,60,000
Less: Vacancy Allowance	45,000
Unrealised rent	<u>22,500</u>
	<u>2,92,500</u>

The higher of ALV and Annual rent, is the Gross Annual Value Rs.2,92,500

2. Interest on loan taken for self- occupied:

- (i) Amount of interest = Rs.1,20,000
- (ii) Period of interest = 01.07.2005 to 01.07.2007 = 2 years
- (iii) Pre-acquisition period = 01.07.2005 to 31.3.2007 = 9 months
- (iv) Interest for pre-acquisition period = $1,20,000 \times \frac{9}{24}$
- (v) Interest for 2006-2007 = $\text{Rs } 1,20,000 / 2 = \text{Rs.}60,000$
- (vi) Interest for 2007-2008 for 3 months = $1,20,000 \times \frac{3}{24} = 15,000$
- (vii) Interest deductible during PY 2007-2008 = $(45,000 / 5) + (15,000) = 24,000$

3. Interest for the flat:

- (i) Interest included in EMI from 01.04.2007 to 30.09.2007:
 $\text{Rs } 10,000 \times \frac{6}{2} = \text{Rs.}30,000$
- (ii) Interest on money borrowed to repay original loan interest

$$\text{Rs } 10,000 \times 20 / 2 = 1,00,000 \times 15\% \times 1/2 = 7,500$$

(iii) Total interest = Rs.(30,000 + 7,500) = Rs.37,500

(iv) No deduction is allowed for penal interest.

4. Letting out of shops and godowns, held as stock-in-trade:

Section 22 excludes from its charge only such building as is occupied by the assessee for his business or profession, profits of which are chargeable to tax.

In the instant case, as letting out is not the business of the assessee, so, it cannot be said that he has occupied shop and godown for his business. Accordingly, income from letting out shop and building, held as stock-in-trade is assessable under the head "income from house property".

Where an assessee is not holding shops and godowns as stock-in-trade but engaged in the business of letting them on hire, the income is again chargeable under the head "house property" as it is a specific head of income dealing with letting out of buildings only.

5. Deduction in respect of other expenses: Section 24 does not allow any deduction in respect of (i) maintenance charges, (ii) repairs, (iii) collection charges, (iv) electricity, (v) fire insurance premium, (vi) ground rent, and (vii) depreciation.

8. Puja has occupied three houses for his self-occupancy. Their particulars for the previous year 2007-2008 are given below:

Particulars	House X Rs	House Y Rs	House Z Rs
Municipal value	3,60,000	9,60,000	9,50,000
Municipal taxes paid	40,000	80,000	90,000
Fair rent	5,40,000	8,00,000	10,00,000
Standard rent	4,50,000	6,00,000	9,00,000
Repairs Ground rent paid Insurance premium paid	1,50,000	2,50,000	3,00,000
Interest as per certificate on loan amount, taken for purchase of the house	20,000	25,000	30,000
Year of the loan	5,000	6,000	7,000
	75,000	1,20,000	2,00,000
	1995-96	1998-99	2003-04

He has suffered loss in his business, amounting Rs 3,00,000

Compute his total income, advising him which house should be specified for self-occupancy concession:

Solution Computation of income from house property under different options:

(a) Assuming all the properties are self-occupied (SO)	House X (SO) Rs	House Y (SO) Rs	House Z (SO) Rs
Annual value	Nil	Nil	Nil
Less: Interest on loan	30,000	30,000	1,50,000
Loss from house	30,000	30,000	1,50,000

(b) Assuming all the properties as Deemed Let Out (DLO)	House X (DLO) Rs	House Y (DLO) Rs	House Z (DLO) Rs
Gross annual value	4,50,000	6,00,000	9,00,000
Less: Municipal taxes	40,000	80,000	90,000

Net annual value	4,10,000	5,20,000	8,10,000
Less: Statutory deduction u/s 24(a) @ 30% of net annual value	1,23,000	1,56,000	2,43,000
Interest on loan u/s 24(b)	(-) 75,000	(-) 1,20,000	(-) 2,00,000
Income from house property	2,12,000	2,44,000	3,67,000

(c) Total Income under different options for self-occupancy:

Particulars	Option 1 House X Rs	Option 2 House Y Rs	Option 3 House Z Rs
House X	(-)30,000 (SO)	2,12,000 (DLO)	2,12,000 (DLO)
House Y	2,44,000 (DLO)	(-) 30,000 (SO)	2,44,000 (DLO)
House Z	3,67,000 (DLO)	3,67,000 (DLO)	(-) 1,50,000 (SO)
Income from house property:	5,81,000	5,49,000	3,06,000
Loss from business	(-) 3,00,000	(-) 3,00,000	(-) 3,00,000
Total income	2,81,000	2,49,000	(-) 6,000

Conclusion: A house with minimum income/maximum loss should be opted for self-occupancy concession to minimise the tax liability.

The option can be changed from year to year.

In the instant case, House Z should be treated as self-occupied. There will be no tax-liability, and the assessee will carry forward the unabsorbed business loss of Rs 94,000 for next 8 assessment years.