

UNIT-2: INCOME FROM HOUSE PROPERTY

Question 1

Mr. Kalpesh borrowed a sum of Rs. 30 lakhs from the National Housing Bank towards purchase of a residential flat. The loan amount was disbursed directly to the flat promoter by the bank. Though the construction was completed in May, 2008, repayments towards principal and interest had been made during the year ended 31.3.2008.

In the light of the above facts, state:

- (i) Whether Mr. Kalpesh can claim deduction under Section 24 in respect of interest for the assessment year 2008-09;
- (ii) Whether deduction under Section 80C can be claimed for the above assessment year, even though the construction was completed only after the closure of the year

(6 Marks)(May 2008)

The provisions of the Income-tax Act, 1961 relevant for Assessment Year 2010-11 should be taken into consideration while solving the question. Accordingly, the facts given above may be taken as relating to Financial Year 2009-10. The construction was completed in May 2010 and repayment towards principal and interest have been made during the year ended 31.3.2010.

Answer

- (a) Interest on borrowed capital is allowed as deduction under section 24(b)

Interest payable on loans borrowed for the purpose of acquisition, construction, repairs, renewal or reconstruction of house property can be claimed as deduction under section 24(b). Interest payable on borrowed capital for the period prior to the previous year in which the property has been acquired or constructed, can be claimed as deduction over a period of 5 years in equal annual installments commencing from the year of acquisition or completion of construction.

It is stated that the construction is completed only in May, 2010. Hence, deduction in respect of interest on housing loan cannot be claimed in the assessment year 2010-11.

- (b) Clause (xviii) of section 80C is attracted where there is any payment for the purpose of purchase or construction of a residential house property, the income from which is chargeable to tax under the head 'Income from house property'. Such payment covers repayment of any amount borrowed from the National Housing Bank.

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However, deduction is prima facie eligible only if the income from such property is chargeable to tax under the head "Income from House Property". During the assessment year 2010-11, there is no such income chargeable under this head. Hence, deduction under section 80C cannot be claimed for A.Y. 2010-11.

Question 2

Mr. X owns one residential house in Mumbai. The house is having two units. First unit of the house is self occupied by Mr. X and another unit is rented for Rs.8,000 p.m. The rented unit was vacant for 2 months during the year. The particulars of the house for the previous year 2007-08 are as under:

Standard rent	Rs. 1,62,000 p.a.
Municipal valuation	Rs. 1,90,000 p.a.
Fair rent	Rs. 1,85,000 p. a
Municipal tax	15% of municipal valuation
Light and water charges	Rs. 500 p.m.
Interest on borrowed capital	Rs. 1,500 p.m.
Lease money	Rs. 1,200 p.a.
Insurance charges	Rs. 3,000 p.a.
Repairs	Rs. 12,000 p.a.

Compute income from house property of Mr. X for the A.Y. 2008-09. (9 Marks)(Nov 2008)

The provisions of the Income-tax Act, 1961 relevant for Assessment Year 2010-11 should be taken into consideration while solving the question. Accordingly, the facts given above may be taken as relating to financial year 2009-10.

Answer

Computation of Income from house property for A.Y. 2010-11

(A) Rented unit (50% of total area – See Note 1 below)

Step I - Computation of Annual letting Value	Rs.	Rs.
Municipal valuation (Rs.1,90,000 x $\frac{1}{2}$)	95,000	
Fair rent (Rs.1,85,000 x $\frac{1}{2}$)	92,500	
Standard rent (Rs.1,62,000 x $\frac{1}{2}$)	81,000	
Annual letting value is higher of Municipal valuation and fair rent, but restricted to standard rent	81,000	

Income from House Property

Step II - Actual Rent

Rent receivable for the whole year (Rs.8,000 x 12)	96,000	
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Step III – Computation of Gross Annual Value

Actual rent received owing to vacancy (Rs.96,000 – Rs.16,000)	80,000	
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Since, owing to vacancy the actual rent received is lower than the annual letting value, the actual rent received is the Gross Annual value

Gross annual value	80,000	
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Less: Municipal taxes (15% of Rs.95,000)	14,250	
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Net Annual value	65,750	
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Less : Deductions under section 24

(i) 30% of net annual value	19,725	
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(ii) Interest on borrowed capital (Rs.750 x 12)	9,000	28,725
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Taxable income from let out portion	37,025	
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(B) Self occupied unit (50% of total area – See Note 1 below)

Annual value	Nil	
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Less : Deduction under section 24

Interest on borrowed capital (Rs.750 x 12)	9,000	9,000
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Income from house property	28,025	
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Notes:

- (1) It is assumed that both the units are of identical size. Therefore, the rented unit would represent 50% of total area and the self-occupied unit would represent 50% of total area.
- (2) It is assumed that the municipal taxes have been paid by the owner during the year.
- (3) No deduction will be allowed separately for light and water charges, lease money paid, insurance charges and repairs.

Question 3

Mrs. Indu, a resident individual, owns a house in U.S.A. She receives rent @ \$ 2,000 per month. She paid municipal taxes of \$ 1,500 during the financial year 2008-09. She also owns a two storied house in Mumbai, ground floor is used for her residence and first floor is let out at a monthly rent of Rs.10,000. Standard rent for each floor is Rs.11,000 per month. Municipal taxes paid for the house amounts to Rs.7,500. Mrs. Indu had constructed the house by taking

Taxation

a loan from a nationalised bank on 20.6.2006. She repaid the loan of Rs.54,000 including interest of Rs.24,000. The value of one dollar is to be taken as Rs.45.

Compute total income from house property of Mrs. Indu. (7 Marks)(Nov 2009)

The provisions of the Income-tax Act, 1961 relevant for Assessment Year 2010-11 should be taken into consideration while solving the question. Accordingly, the facts given above may be taken as relating to financial year 2009-10.

Answer

Computation of Income from House Property of Mrs. Indu for the Assessment Year 2010-11

	Rs.	Rs.	
House property in USA			
GAV– Rent received (treated as fair rent (\$2000 p.m. x Rs.45 per USD x 12 months)	10,80,000		
Less : Municipal taxes paid (\$1500 x Rs.45 per USD)	67,500		
Net Annual Value (NAV)	10,12,500		
Less : Deduction under section 24			
30% of NAV	3,03,750	7,08,750	
House property In Mumbai (Let- out portion - First Floor)			
Gross Annual Value			
Standard Rent (Rs.11,000 x 12) (taken as ALV in the absence of information relating to municipal value and fair rent)	1,32,000		
Actual Rent received (Rs.10,000 x 12)	1,20,000	1,32,000	
Less : Municipal taxes paid (50% of Rs.7,500)		3,750	
Net Annual Value (NAV)		1,28,250	
Less : Deduction under section 24			
30% of NAV	38,475		
Interest on housing loan (50% of Rs.24,000)	12,000	50,875	77,775
Income from House property in Mumbai (Self – occupied portion- Ground Floor)			
Gross Annual Value		Nil	
Less: Municipal taxes		Nil	
Net Annual Value (NAV)		Nil	

Income from House Property

Less : Deduction under section 24

30% of NAV

Nil

Interest on housing loan (50% of Rs.24,000)

12,000 (-) 12,000

Income from House property

7,74,525

Alternative Answer

If it is assumed that the rent received also represents the fair rent, the annual letting value would be Rs.1,20,000. Accordingly, the Income from house property would be computed as follows:

Computation of Income from House Property of Mrs. Indu for the Assessment Year 2010-11

Particulars	Rs.	Rs.
House property in USA		
GAV– Rent received {treated as fair rent} (\$2000 p.m. x Rs.45 per USD x 12 months)	10,80,000	
Less : Municipal taxes paid (\$1500 x Rs.45 per USD)	<u>67,500</u>	
Net Annual Value (NAV)	10,12,500	
Less : Deduction under section 24		
30% of NAV	<u>3,03,750</u>	7,08,750
House property in Mumbai (Let- out portion - First Floor)		
Annual Letting Value (lower of standard rent and fair rent)		
Standard Rent (Rs.11,000 x 12)	1,32,000	
Fair rent (Rs.10,000 x 12)	1,20,000	1,20,000
(Rent received has been assumed as the fair rent)	<u>1,20,000</u>	
Actual rent received (10,000 × 12)		1,20,000
Gross Annual Value (higher of ALV and actual rent)		1,20,000
Less : Municipal taxes paid (50% of Rs.7,500)		<u>3,750</u>
Net Annual Value (NAV)		1,16,250
Less : Deduction under section 24		
30% of NAV	34,875	
Interest on housing loan (50% of Rs.24,000)	<u>12,000</u>	46,875
		69,375

Taxation

Income from House property in Mumbai (Self-occupied portion - Ground Floor)

Gross annual value	Nil	
Less: Municipal taxes	Nil	
Net Annual Value (NAV)	Nil	
Less : Deduction under section 24		
30% of NAV	Nil	
Interest on housing loan (50% of Rs.24,000)	12,000	(-) 12,000
Income from house property		<u>7,66,125</u>