

Assessment Year 2022-23

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Law stated in this book

Income-tax law as amended by the Finance Act, 2021

Assessment Year 2022-23

Relevant for CA Intermediate Income Tax, May / November 2022 examinations

Relevant notifications/circulars issued till **30.8.2021** are incorporated. For subsequent updates, issued up to 31.10.2021 (relevant for May 2022 examinations) and up to 30.4.2022 (relevant for November 2022 examinations), **visit user dashboard on www.TaxWithSharad.com**

TaxBook⁺ is sharply exam oriented and covers only those provisions which are relevant to succeed in exams. Income Tax Act is complex and language is technical. To help you easily understand, the content and language of law has been kept simple. To resemble natural notes and make learning quick and compact, shortened words and sentences have been suitably used.

The Government has been relaxing certain timelines and compliances to provide relief to taxpayers in view of Covid. These relaxations are temporary and, hence, have not been considered in the book, unless specifically stated. Law stated and questions solved are as per the main legal provisions.

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Legend

| | |
|--|---|
| Topic that has been asked in exam |  |
| Tax Trap | <i>Colored text</i> |
| Amendment made by Finance Act 2021 | <i>Bold italics</i> |
| Logic & Reasoning | Endnotes to Chapter (1, 2, 3,....) |
| Examiner comments | <i>Mistake by students -</i> |
| Students notes explaining the non-tax side |  |
| Chapter Master Question | MASTER QUESTION - |

Abbreviations frequently used

| | | | | | |
|-------|---|------------|---|---------|--------------------------------------|
| AO | Assessing Officer | FY | Financial year | RNOR | Resident but not ordinarily resident |
| AJP | Artificial Juridical Person | GTI | Gross Total Income | ROI | Return of Income |
| AOP | Association of Persons | HEC | Health & Education Cess | ROR | Resident and ordinarily resident |
| AY | Assessment year | ICDS | Income Computation & Disclosure Standards | RSE | Recognized Stock Exchange |
| BEL | Basic exemption limit | ICo | Indian company | SC | Surcharge |
| BOI | Body of Individuals | IFOS | Income from other sources | SF | Superannuation fund |
| Capex | Capital expenditure | IHP | Income from house property | SOP | Self occupied property |
| CG/SG | Central Government / State Government | LTCG | Long term capital gain | SDV | Stamp duty value |
| COA | Cost of acquisition | L&B or L/B | Land and building | SIT | Stock-in-trade |
| COI | Cost of improvement | PAN | Permanent Account Number | STCG | Short term capital gain |
| C(TO) | Commission based on fixed percentage of turnover | P&M | Plant and machinery | S/TO/GR | Sales, turnover, gross receipts |
| DA(T) | Dearness allowance forming part of salary for computing retirement benefits | PF | Provident fund | TAR | Tax Audit Report |
| DVO | Departmental Valuation Officer | PGBP | Profits and gains of business or profession | TCS | Tax collected at source |
| ESOP | Employee Stock Option Plan | POH | Period of holding | TDS | Tax deducted at source |
| Fco | Foreign company | PY | Previous year | TI | Total Income |
| FMV | Fair market value | NR | Non resident | U/c | Under Chapter |
| FTS | Fees for Technical Services | RHP | Residential house property | U/s | Under Section |
| | | | | WDV | Written down value |

6

Income from House Property

| Charging section | Deeming provisions | Deductions | Disallowances | Other provisions |
|------------------|--------------------|------------|---------------|------------------|
| 22 | 25A, 27 | 24 | 25 | 23, 26 |

BASIS OF CHARGE & COMPUTATION

78. WHAT IS CHARGED UNDER IHP? [S. 22]

| Charge | Points to note |
|---|---|
| 1. Annual value... | |
| 2. ...of property , i.e., buildings or lands appurtenant thereto ¹ | <p><i>Building</i> – Meaning is wide enough to include residential or commercial building, house, factory, office, shop, godown, etc. Building does not mean only house.</p> <p><i>Land appurtenant</i> – Land connected with building like garden, etc.</p> <p><i>Vacant land</i> – Income is taxable under PGBP/IFOS, not IHP</p> |
| 3. ...of which the assessee is the owner ² | <p><i>Assessee not owner</i> – Income is taxable under PGBP/IFOS, not IHP</p> <p><i>Land</i> – Ownership of land, on which building stands, is not necessary.</p> |
| 4. ... not occupied by him for business/profession carried on by him ³ | <p><i>Occupied for business/profession</i> – Relevant for computing PGBP, not IHP</p> <p><i>Property held as stock-in-trade</i> – Income is taxable under IHP</p> |
| Farm house used for agriculture | Exempt as agricultural income u/s 10(1) (para 28) |

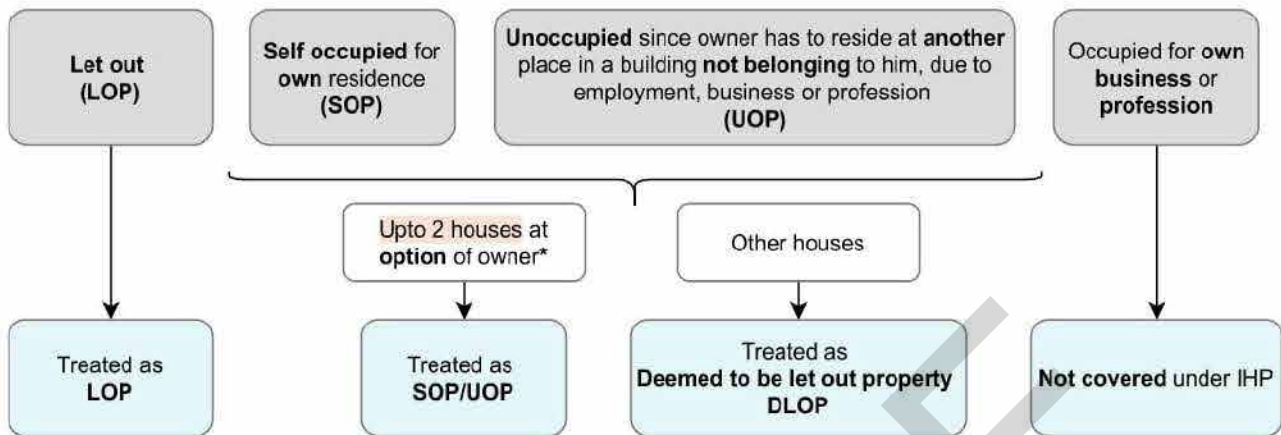
Scope of charge – Whether IHP will be taxable depends on residential status (ROR, RNOR or NR) and scope of total income (chapter 3). Further, income from any property **in India** is deemed to accrue or arise **in India** (para 26.1).

Annual value of property is charged as IHP every year. Hence, the above conditions need to be fulfilled each year.

Illustration: Examine if the following incomes would be covered under the head IHP in the hands of Shekhar.

| Case | Covered under IHP? |
|---|---------------------------|
| Shekhar owns a building which is let out on rent | Yes |
| Shekhar owns a building in which he resides | Yes |
| Shekhar owns a building which is lying vacant | Yes |
| Shekhar owns a building which he uses as his office to carry on his profession | No |
| Shekhar runs a hotel | No |
| Shekhar owns a factory building (with adjoining land used for car parking, backyard and approach road) used in his manufacturing business | No |
| Shekhar owns a house which he lets out to Suman. Suman sub-lets it to Shahrugh. | Yes (Shekhar), No (Suman) |
| Shekhar owns a factory. The residential complex within the compound is let out to the factory workers. | No |
| Shekhar is in real estate business and owns 50 houses for being sold | Yes |

79. TYPES OF PROPERTIES



*Option can be changed every year, i.e., assessee can make selection year after year in a manner most beneficial. In effect, a property can be treated either as LOP, SOP/UOP or DLOP. SOP/UOP is possible only in case of natural person (individual or HUF).

| Situation | SOP | UOP |
|-----------------------------|-----|-----|
| Let during any part of year | LOP | LOP |
| Vacant for part of year | SOP | UOP |

Thus, if SOP or UOP is let during any part of year, it is treated as LOP.

80. COMPUTATION⁴

| # | Computation | LOP [S. 23(1)] | SOP/UOP [S. 23(2)] | DLOP [S. 23(4)] | Refer para |
|---|---|-------------------|-----------------------|--------------------|------------|
| 1 | Expected rent (ER) = Higher of: ⁵ (a) Fair rent (FR) (b) Municipal value (MV) Restricted to standard rent (SR) | xx | - | xx | 80.1 |
| 2 | Actual rent (AR) = Rent received/receivable during the year – Unrealized rent | xx | - | - | 80.2 |
| 5 | Gross annual value (GAV) = Higher of ER or AR⁶ GAV = AR in case of vacancy | xx | - | ER ⁷ | 80.3 |
| 6 | Less: Municipal taxes actually paid during the PY by the owner | (xx) | - | (xx) | 80.4 |
| 7 | Net annual value (NAV) | xx | Nil | xx | |
| 8 | Less: Deductions u/s 24: | | | | |
| | 1. Standard deduction = 30% of NAV | (xx) | - | (xx) | 80.5 |
| | 2. Interest on borrowed capital | (Full) | (up to 30K/2L) | (Full) | 80.6 |
| 9 | Income under the head IHP | Inc/loss | Loss | Inc/loss | |

There can be a loss but not income in case of SOP/UOP.

NAV of SOP/UOP is Nil but interest on borrowed capital is deductible. Hence, loss is limited to 30K or 2 lakh, as the case may be.

There can be loss for LOP/DLOP due to deduction of municipal taxes or interest on borrowed capital. There is no limit to the amount of loss.

IHP is not chargeable unless the property is in existence. Hence, if the property comes into existence (acquisition or construction is complete) during the PY, annual value is computed only for the period the property is in existence, i.e., from the date property comes into existence to 31 March. However, other values (i.e., municipal taxes and deductions u/s 24) are allowed in full and should not be adjusted proportionately.

Students can make computations using various combinations and verify their answer using this calculator:
<https://www.incometaxindia.gov.in/Pages/tools/income-from-house-property.aspx>

80.1 Expected rent [S. 23(1)]

Fair rent - Rent from a **similar** property in the **same or similar** locality. Also called *reasonable* rent.

Municipal value - Value determined by municipal authority for levy of **municipal taxes** on property.

Standard rent - Fixed under the **Rent Control Act**. Rent cannot be legally charged more than SR.

If one or more of the values (FR, MV, SR) are not given in question, work with available values and give a suitable note. Similarly, if only the figure of actual rent is given in question, take that as GAV and mention that it has been so taken in absence of any further information in the question.

Concept of ER is not relevant for SOP/UOP since GAV is Nil.

Rent Control Act - It is the law to govern control of rent, protection of rights of landlords and the rights of tenants. It ensures that landlords and tenants are not exploited by each other. Each State has its own Rent Control Act, broadly similar to each other.

Illustration: Compute the GAV of the house property in the following cases for PY 2021-22, assuming it is let out.

| Particulars | I | II | III | IV |
|---|-----------------|-----------------|-----------------|-----------------|
| Municipal value | 1,00,000 | 1,00,000 | 1,00,000 | 1,00,000 |
| Fair rent | 1,20,000 | 1,20,000 | 1,20,000 | 90,000 |
| Standard rent | N/A | 1,30,000 | 1,10,000 | 80,000 |
| Actual rent received or receivable | 90,000 | 1,00,000 | 1,00,000 | 1,00,000 |
| Municipal value (MV) | 1,00,000 | 1,00,000 | 1,00,000 | 1,00,000 |
| Fair rent (FR) | 1,20,000 | 1,20,000 | 1,20,000 | 90,000 |
| Higher of FR or MV | 1,20,000 | 1,20,000 | 1,20,000 | 1,00,000 |
| Standard rent (SR) | N/A | 1,30,000 | 1,10,000 | 80,000 |
| Expected rent (ER) (restricted to SR) | 1,20,000 | 1,20,000 | 1,10,000 | 80,000 |
| Actual rent received or receivable (AR) | 90,000 | 1,00,000 | 1,00,000 | 1,00,000 |
| GAV = Higher of ER or AR | 1,20,000 | 1,20,000 | 1,10,000 | 1,00,000 |

80.2 Unrealized rent [S. 23(1), R. 4]⁸

Unrealized rent = Rent **not paid** by tenant and **proved** to be **lost and irrecoverable** is deductible if:

1. Tenancy is **bona fide**;
2. Tenant has **vacated** or steps have been taken to **compel** him to vacate the property;
3. Tenant is **not** in occupation of **any other** property of the **assessee**;
4. Assessee has taken all reasonable **legal steps** for recovery of rent or **satisfies AO** that legal proceedings would be useless.

Unrealized rent is deducted from actual rent to compute GAV, only if the above conditions are fulfilled.^A

Concept of unrealized rent is not relevant for SOP/UOP/DLOP since there is no rent to be realized.

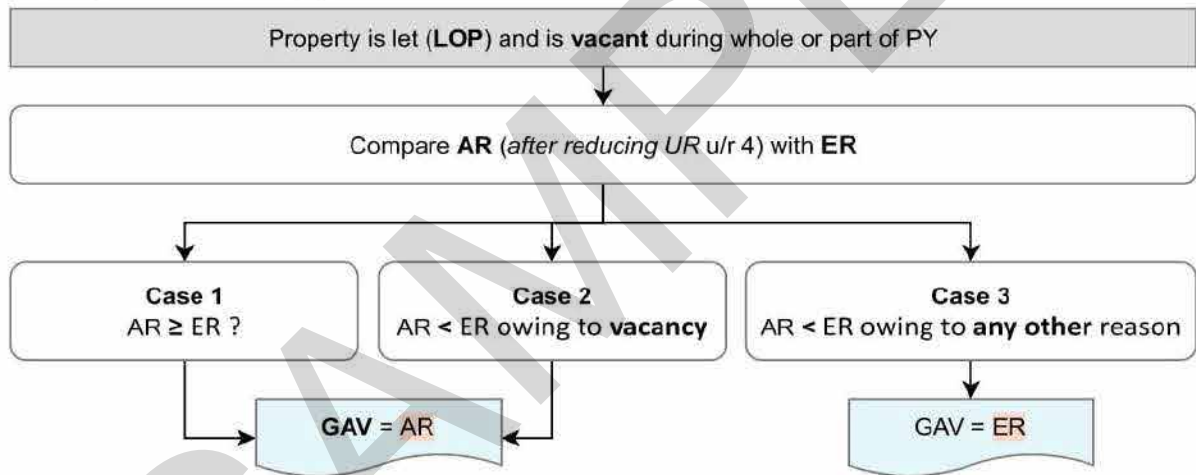
^A It is argued that deduction of Unrealized Rent from Actual Rent is futile if Actual Rent is less than Expected Rent since Expected Rent will anyways be taken as GAV, irrespective of such Unrealized Rent. ITR Forms provide for deduction of Unrealized Rent from GAV and not from Actual Rent. The Act, however, provides for deduction of Unrealized Rent from Actual Rent and not from GAV and, thus, ITR Forms seem to be in conflict with the provisions of Act. **Provisions of Act have been followed in this book. The alternative view can also be taken by giving a suitable note in the answer.**

Illustration: Compute the GAV in the following cases for AY 2022-23, assuming the house is let out.

| Particulars | I | II | III |
|---|-----------------|-----------------|-----------------|
| Municipal value | 6,00,000 | 6,00,000 | 6,00,000 |
| Fair rent | 7,00,000 | 7,00,000 | 7,00,000 |
| Standard rent | 6,50,000 | 6,50,000 | 5,50,000 |
| Actual rent received or receivable | 7,00,000 | 7,00,000 | 7,00,000 |
| Unrealized rent | 1,00,000 | 1,00,000 | 1,00,000 |
| Rule 4 conditions fulfilled? | Yes | No | Yes |
| Municipal value (MV) | 6,00,000 | 6,00,000 | 6,00,000 |
| Fair rent (FR) | 7,00,000 | 7,00,000 | 7,00,000 |
| Higher of FR or MV | 7,00,000 | 7,00,000 | 7,00,000 |
| Standard rent (SR) | 6,50,000 | 6,50,000 | 5,50,000 |
| Expected rent (ER) (restricted to SR) | 6,50,000 | 6,50,000 | 5,50,000 |
| Actual rent received or receivable – Unrealized rent (AR) | 6,00,000 | 7,00,000 | 6,00,000 |
| GAV = Higher of ER or AR | 6,50,000 | 7,00,000 | 6,00,000 |

Solve BYC Question No. B1

80.3 Vacancy allowance [S. 23(1)]⁹



AR = Actual rent. UR = Unrealized rent. ER = Expected rent.

Vacancy allowance is provided in Case 2. In this case, AR < ER only due to vacancy. In other words, but for vacancy, AR would have been ≥ ER.

In Cases 1 and 3, GAV is computed as per the normal rule, i.e., higher of ER or AR. Thus, it is AR in Case 1 and ER in Case 3.

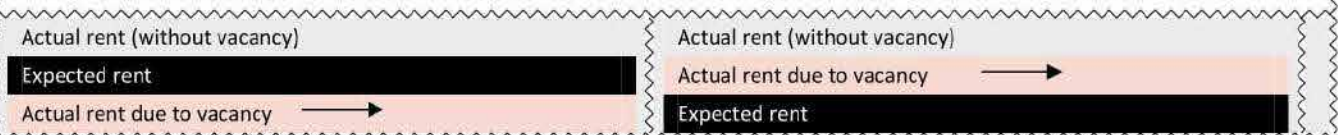
Case 1 applies where AR (with or without vacancy) ≥ ER.

AR is always taken after reducing unrealized rent (UR), if any, if Rule 4 conditions are fulfilled. If Rule 4 conditions are not satisfied, UR is not reduced.

Vacancy allowance is available where property is let out and is vacant during the whole^B or part of PY.

Vacancy allowance is not relevant for SOP/UOP where NAV is Nil.

Depiction of vacancy allowance (arrow depicts what will be taken as GAV). Vacancy allowance is available in the first case.



^B How is this possible? Let out in this context means *held to be let out* – ‘actual’ letting out is not the requirement.

Illustration: Compute the gross annual value for AY 2022-23 in the following cases of a property which is let out.

| Particulars | I | II | III |
|---|-----------------|-----------------|-----------------|
| Municipal valuation | 4,00,000 | 4,00,000 | 4,00,000 |
| Fair rent | 5,00,000 | 5,00,000 | 5,00,000 |
| Standard rent | 4,50,000 | 4,50,000 | 4,20,000 |
| Rent per month | 40,000 | 40,000 | 50,000 |
| Unrealized rent (Rule 4 conditions fulfilled) | - | 20,000 | - |
| Period for which property vacant (months) | 3 | 3 | 3 |
| Expected rent (higher of FR or MV, but restricted to SR) (ER) | 4,50,000 | 4,50,000 | 4,20,000 |
| Actual rent (Actual rent received/receivable for 9 months – Unrealized rent) (AR) | 3,60,000 | 3,40,000 | 4,50,000 |
| Vacancy allowance: See Note | Yes | Yes | No |
| GAV | 3,60,000 | 3,40,000 | 4,50,000 |

Note:

| Particulars | I | II | III |
|------------------------------------|---------------|---------------|---------------|
| AR without vacancy | 4,80,000 | 4,60,000 | 6,00,000 |
| AR with vacancy | 3,60,000 | 3,40,000 | 4,50,000 |
| AR < ER due to vacancy? | Yes; GAV = AR | Yes; GAV = AR | - |
| AR (with or without vacancy) ≥ ER? | - | - | Yes; GAV = AR |

Solve BYC Question No. B2

80.4 Municipal taxes [5. 23(1)]

Payment basis – Deducted on **payment** basis. Not deducted, if not paid during the PY.¹⁰ Year in which liability arises is not relevant.

Paid and borne by owner - Not deducted if not paid and borne by **owner**.¹¹

Property outside India - Taxes levied by local authority of **foreign** country are **deductible**.

Percentage - If given as %, calculate on municipal value of property.

Service taxes - Municipal tax is deemed to include **service taxes**. E.g. sewerage tax, water tax, etc.

Municipal taxes are not deducted in case of SOP/UOP since GAV is Nil. These are deducted in case of LOP/DLOP.

Illustration: Compute the NAV of each house owned by Roma and let out for the PY 2021-22, from the following information.

| Particulars | I | II | III | IV | V |
|--|---------------|--------------------------|---------------|---------------|------------------------------|
| Municipal value | 70,000 | 72,000 | 60,000 | 30,000 | 60,000 |
| GAV | 90,000 | 72,000 | 60,000 | 25,000 | 78,000 |
| Municipal taxes: | | | | | |
| • Due for the current year | 4,000 | 10% | 10% | 3,000 | 5,000 |
| • Paid during the current year | 3,000 | 8,000 | Nil | 3,000 | 7,000 |
| • Excess payment | - | Arrears of earlier years | - | - | Advance of 2022-23 |
| • Paid by | Roma | Roma | - | Tenant | Reimbursed by Roma to tenant |
| GAV | 90,000 | 72,000 | 60,000 | 25,000 | 78,000 |
| Less: Municipal tax paid during the PY by Roma | (3,000) | (8,000) | - | - | (7,000) |
| NAV | 87,000 | 64,000 | 60,000 | 25,000 | 71,000 |

Solve BYC Question No. B3

80.5 Standard deduction [S. 24(a)]¹²

Flat rate - 30% of NAV is deductible irrespective of the actual expenditure incurred on property.

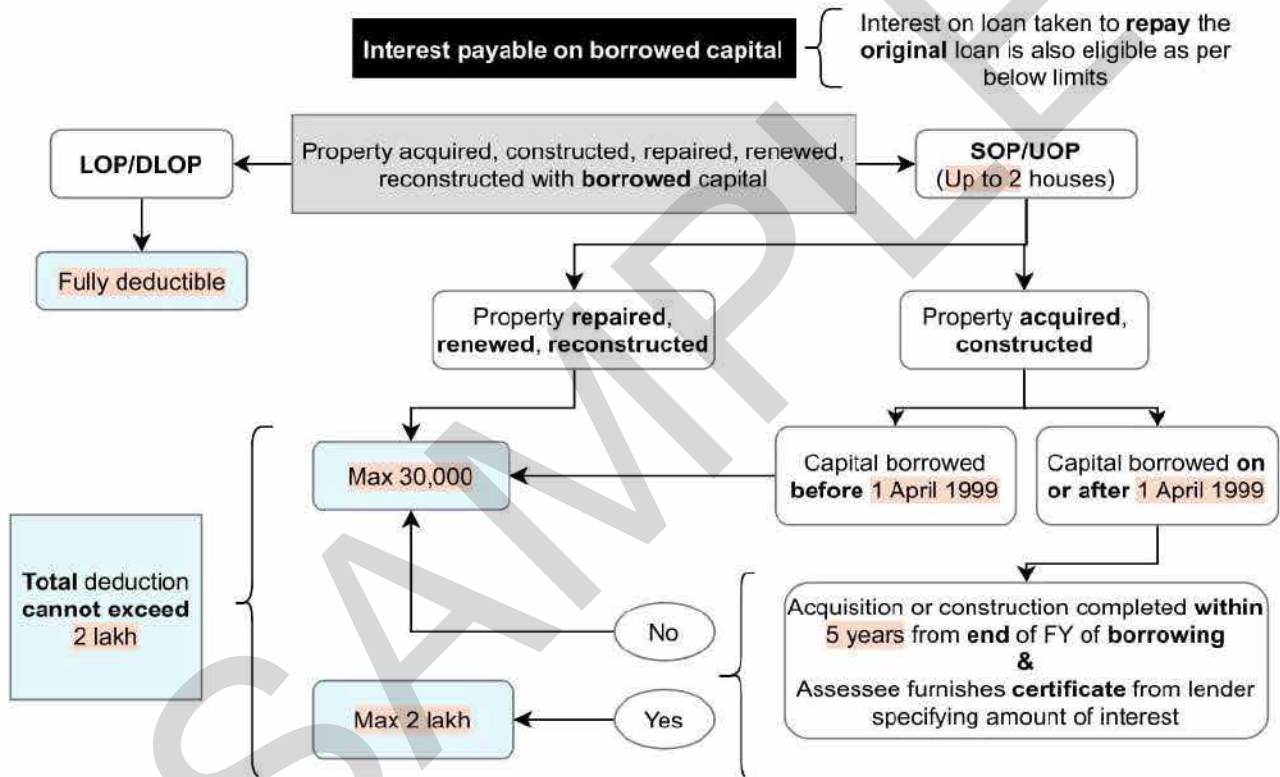
Standard deduction is given from NAV, not GAV.

No separate deduction is allowed for expenses like repair and maintenance, insurance premium, electricity, water, etc. Standard deduction subsumes all expenses.

Concept of standard deduction is not relevant for SOP/UOP since NAV is nil.

If the question gives the amount of income from house property and states that it is 'computed' it means that standard deduction has already been applied – thus, you should not apply it again. In other cases, say, where only the amount of rent is given, you should compute the NAV and apply standard deduction to arrive at income from house property.

80.6 Interest on borrowed capital [S. 24(b)]¹³



Limits of 30,000 and 2 lakh are applicable to SOP/UOP up to 2 houses. Additional SOP/UOP is treated as DLOP for which there is no limit.

Date of commencement of construction and repayment of loan are not relevant. Date of borrowing and completion of acquisition/construction is relevant.

Conditions of 1 April 1999, 5 years and certificate are not applicable to LOP/DLOP.

For SOP/UOP, enhanced limit of 2 lakh is applicable only for acquisition or construction. Construction does not mean reconstruction.

30,000 and 2 lakh are aggregate limits under their respective category – not per property or per loan. Thus, if interest of 30,000 is paid for repair of each of two SOPs, deduction is limited to 30,000 and not 60,000.

Overall limit for up to 2 SOP/UOP is 2 lakh.

Interest is deductible as per the above limits every year.

Condition for deduction for interest (up to 2 lakh) on new loan taken to repay the original loan depends on whether original loan meets the conditions for enhanced deduction of 2 lakh. If not, the limit is 30,000. For LOP/DLOP, there is no limit for interest deduction for original or new loan.

Interest = Current year interest + Prior period interest

Thus, limits given in the aforesaid Chart are for current year + prior period interest

*Prior period interest*¹⁴

| | |
|----|--|
| #1 | Prior period interest = Interest for period prior to PY of acquisition or construction , i.e, from date of borrowing to 31 March immediately preceding the date of completion of acquisition or construction. |
| #2 | Deduct such interest in 5 annual installments beginning with PY of acquisition or construction . ¹⁵ |

Prior period interest is deductible only when loan is taken for acquisition or construction (not for other purposes), whether the property is LOP, DLOP, SOP or UOP.

Accrual basis - Unlike municipal taxes, interest is deductible on **due basis**. Thus, interest due but not paid is deductible.

Lender - Lender can be **any person** – Bank, financial institution, friend, family, etc.

Penal interest - Interest on unpaid interest is **not deductible**.

Unpaid purchase price - If buyer pays selling price in installments **with interest**, seller and buyer are treated lender and borrower. Interest can be **deducted** as per these provisions.

Interest payable outside India – **Not deductible** if **TDS** not deducted and there is no **agent** in India u/s 163.¹⁶

Only interest is deductible. Expenses like brokerage/commission for arrangement of loan are not deductible.

Repayment of principal is not deductible. It is deductible from GTI in terms of section 80C (para 193).

Illustrative depiction of enhanced deduction up to 2 lakh for SOP/UOP

| FY (1999-2000 or after) | FY 2014-15 | FY 2015-16 | FY 2016-17 | FY 2017-18 | FY 2018-19 | FY 2019-20 | FY 2020-21 | FY 2021-22 | FY 2022-23 | FY 2023-24 |
|---|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Loan | Taken | | | | | | | Repaid | | |
| Time to complete construction (5 yrs) | | 1 | 2 | 3 | 4 | 5 | | | | |
| Completion of construction (within 5 yrs) | | | | | | | | | | |
| Prior period interest | | | | | | | | | | |
| Interest deductible u/s 24: | | | | | | | | | | |
| 1. Prior period interest | | | | | 1 | 2 | 3 | 4 | 5 | |
| 2. Current year interest | | | | | | | | | | |

Illustration: Compute the deduction allowable for PY 2021-22 in respect of interest on borrowed capital in the following situations.

| Particulars | I | II | III | IV |
|--|--------------|---------------|---------------|------------|
| Status of property | Let out | Own residence | Own residence | Unoccupied |
| Purpose of loan | Construction | Construction | Construction | Renewal |
| Loan taken from | Bank | HFC | FI | Friend |
| Amount of loan | 50 lakh | 50 lakh | 50 lakh | 10 lakh |
| Date when loan taken | 1 Apr 2016 | 1 Apr 2016 | 1 Mar 2016 | 1 Apr 2016 |
| Date when loan repaid | Outstanding | Outstanding | 1 Mar 2022 | 1 Mar 2022 |
| Date when work started for which loan taken | 1 Jan 2016 | 1 Jan 2016 | 1 Jan 2016 | 1 Jan 2016 |
| Date when work completed | 1 Oct 2019 | 1 Oct 2019 | 1 Oct 2021 | 1 Oct 2021 |
| Interest due for current year | 3,00,000 | 3,00,000 | 3,00,000 | 1,00,000 |
| Interest paid during current year | 2,00,000 | 2,00,000 | 3,00,000 | 1,00,000 |
| Prior period interest deductible during current year | 1,00,000 | 1,00,000 | 1,00,000 | - |

| Computation | I | II | III | IV |
|---|----------------|------------|-------------|----------|
| Conditions for 2 lakh deduction apply for acquisition or construction of SOP/UOP? | No | Yes | Yes | No |
| Prior period interest deductible? | Yes | Yes | Yes | No* |
| Current year interest | 3,00,000 | 3,00,000 | 3,00,000 | 1,00,000 |
| Prior period interest | 1,00,000 | 1,00,000 | 1,00,000 | - |
| Total deduction of interest u/s 24(b) | 4,00,000 | 2,00,000 | 30,000 | 30,000 |
| Comment | Full deduction | Max 2 lakh | 5 yr breach | Max 30K |

* Prior period interest is deductible only when loan is taken for acquisition or construction.

Illustration: Compute the deduction allowable for PY 2021-22 in respect of interest on borrowed capital in the following situations pertaining to two house properties owned by Jayesh.

| Particulars | I - SOP | II - UOP | Conditions for deduction u/s 24(b) satisfied? | Deduction allowed |
|-----------------|--------------|----------|---|-------------------|
| Purpose of loan | Construction | Repair | | |
| Interest | 1,50,000 | 30,000 | Yes | 1,80,000 |
| Interest | 2,00,000 | 30,000 | Yes | 2,00,000 |
| Interest | 30,000 | 2,00,000 | Yes | 60,000 |
| Interest | Nil | 60,000 | Yes | 30,000 |
| Interest | 60,000 | Nil | Yes | 60,000 |
| Interest | 2,00,000 | 30,000 | No | 30,000 |
| Interest | 60,000 | Nil | No | 30,000 |

Illustration: Jaydeep has taken a loan for construction of house for his own residence. Compute the amount of interest deductible for the PY 2021-22 in the following situations.

| Particulars | I | II | III | IV |
|--------------------------------------|--------------------|--------------------|---------------------------|--------------------|
| Amount of loan | 50 lakh | 50 lakh | 50 lakh | 50 lakh |
| Date loan taken | 1 Oct 2018 | 1 Oct 2018 | 1 Oct 2018 | 1 Oct 2015 |
| Date loan repaid fully | 1 Dec 2023 | 1 Dec 2020 | 1 Dec 2023 | 1 Dec 2021 |
| Date construction started | 1 June 2018 | 1 June 2017 | 1 June 2019 | 1 June 2015 |
| Date construction completed | 1 June 2021 | 1 June 2020 | 1 June 2022 | 1 June 2021 |
| Interest for FY 2015-16 | - | - | - | 2,50,000 |
| Interest for FY 2016-17 | - | - | - | 2,10,000 |
| Interest for FY 2017-18 | - | - | - | 1,80,000 |
| Interest for FY 2018-19 | 2,50,000 | 2,50,000 | 2,50,000 | 1,20,000 |
| Interest for FY 2019-20 | 2,00,000 | 2,00,000 | 2,00,000 | 90,000 |
| Interest for FY 2020-21 | 1,50,000 | 1,50,000 | 1,50,000 | 60,000 |
| Interest for FY 2021-22 | 1,00,000 | - | 1,00,000 | 30,000 |
| Computation | I | II | III | IV |
| Prior period | 1.10.18 to 31.3.21 | 1.10.18 to 31.3.20 | 1.10.18 to 31.3.22 | 1.10.15 to 31.3.21 |
| Prior period interest | 6,00,000 | 4,50,000 | Allowed from PY 22-23 | 9,10,000 |
| Amount of installment deductible (5) | 1,20,000 | 90,000 | - | 1,82,000 |
| Current year interest | 1,00,000 | - | - | 30,000 |
| Total interest | 2,20,000 | 90,000 | - | 2,12,000 |
| Deduction u/s 24(b) | 2,00,000 | 90,000 | - | 30,000 |
| Comment | Max 2 lakh | | IHP taxable from PY 22-23 | 5 year breach |

Solve BYC Question Nos. B4 to B7

SPECIAL SITUATIONS

81. 🌀 DLOP – HOW TO SELECT SOP TO MINIMIZE INCOME FROM HOUSE PROPERTY?

In case of more than 2 properties which are SOP/UOP, up to 2 can be treated as SOP/UOP at the option of owner. Others will be treated as DLOP. How to select:

Step 1 Compute income from each property assuming it is SOP

Step 2 Compute income from each property assuming it is DLOP

Step 3 Find out impact of different combinations

Step 4 Select the combination with the **lowest** amount of income under the head IHP

In Step 3, you should ensure that total interest for SOP/UOP properties does not exceed 30,000 or 2 lakh limit, as the case may be.

Illustration: CA2014(M) (modified) - Nisha has three houses, all of which are self occupied. Particulars of these are given below:

| Particulars | I | II | III |
|---|-----------|-----------|-----------|
| Municipal valuation p.a. | 1,20,000 | 1,15,000 | 1,00,000 |
| Fair rent p.a. | 1,50,000 | 1,75,000 | 1,50,000 |
| Standard rent p.a. | 1,00,000 | 1,65,000 | 1,35,000 |
| Date of completion of acquisition/construction | 31.3.1999 | 31.3.2002 | 31.3.2015 |
| Municipal taxes paid during the year (paid for House II only) | 12% | 8% | 10% |
| Interest on money borrowed for repair of property during current year | - | 55,000 | - |
| Interest on money borrowed for purchase of property | - | - | 2,20,000 |

Compute her income from house property for AY 2022-23 and suggest which houses should she opt to be assessed as self occupied so that her tax liability is minimum.

Solution:

Step 1: Computation assuming properties are self occupied

| Computation | I | II | III |
|-------------------------------------|------------|-----------------|-------------------|
| Net annual value | Nil | Nil | Nil |
| Less: Deductions u/s 24 | | | |
| (a) Standard deduction @ 30% of NAV | - | - | - |
| (b) Interest on borrowed capital | - | (30,000) | (2,00,000)* |
| Income from house property | Nil | (30,000) | (2,00,000) |

*Assuming conditions for claim of deduction u/s 24(b) are satisfied.

Step 2: Computation assuming properties are deemed to be let out

| Computation | I | II | III |
|--|---------------|---------------|-------------------|
| Expected rent = Higher of FR or MV, but restricted to SR (ER) | 1,00,000 | 1,65,000 | 1,35,000 |
| Actual rent | N/A | N/A | N/A |
| Gross annual value = ER | 1,00,000 | 1,65,000 | 1,35,000 |
| Less: Municipal taxes actually paid during the PY 2021-22 by Nisha | - | (9,200) | - |
| Net annual value | 1,00,000 | 1,55,800 | 1,35,000 |
| Less: Deductions u/s 24 | | | |
| (c) Standard deduction @ 30% of NAV | (30,000) | (46,740) | (40,500) |
| (d) Interest on borrowed capital | - | (55,000) | (2,20,000) |
| Income from house property | 70,000 | 54,060 | (1,25,500) |

Step 3: Find out impact for different combinations

| Property | Option 1 | | Option 2 | | Option 3 | |
|--------------|----------|-------------------|----------|-------------------|----------|-------------------|
| I | SOP | Nil | SOP | Nil | DLOP | 70,000 |
| II | SOP | (30,000) | DLOP | 54,060 | SOP | (30,000) |
| III | DLOP | (1,25,500) | SOP | (2,00,000) | SOP | (1,70,000)* |
| Total | | (1,55,500) | | (1,45,940) | | (1,30,000) |

*Should ensure that total interest deduction of both SOP properties does not exceed 2 lakh.

Option 1 is most tax efficient. Houses I and II should be treated as SOP and House III should be treated as DLOP.

Solve BYC Question Nos. B8, B9

82. 🌀 SOP/UOP FOR PART OF YEAR AND LOP FOR REMAINING PART [S. 23(3)]

Property is treated as LOP. Thus, benefit of Nil annual value for SOP/UOP is not available.

This applies even if property is let out only for a day.

All values should be taken for the whole year as per LOP method. However, since property is let out only for part of year, actual rent received or receivable can only be taken for the let out period.

If property is let out but vacant during the year (not self occupied), it is a case where vacancy allowance will be allowed.

Illustration: Mohan owns a house in Jaipur whose municipal valuation is Rs. 9,00,000 p.a., fair rent is Rs. 8,00,000 and Standard Rent under the Rent Control Act is Rs. 7,00,000. Municipal tax is levied @ 6%, 75% of which is paid by Mohan during the year. Interest payable in respect of loan taken for repair of house amounted to Rs. 50,000 for the year (out of this Mohan actually paid Rs. 40,000). Rs. 50,000 were spent on repair of the house. Mohan charges Rs. 80,000 as rent if the house is let out. Compute Income from House Property for AY 2022-23 in the following cases:

- A. The house was let out for the entire year. Rent for 2 months was unrealized and all conditions of Rule 4 were fulfilled.
- B. The house was let out from 1.6.2021 to 31.8.2021. Mohan self occupied the house for rest of the year.
- C. The house was let out from 1.4.2021 to 30.11.2021 and was vacant for the rest of the year.

Computation of Income from House Property in the hands of Mohan for AY 2022-23

| Computation | A | B | C |
|---|-----------------|-----------------|-----------------|
| Expected rent = Higher of FR or MV, but restricted to SR (ER) | 7,00,000 | 7,00,000 | 7,00,000 |
| Actual rent: A: Rent for 10 months; B: Rent for 3 months; C: Rent for 8 months (AR) | 8,00,000 | 2,40,000 | 6,40,000 |
| Gross annual value = Higher of ER or AR. GAV = AR in Case C (due to vacancy allowance) since AR < ER owing to vacancy (without vacancy, AR of 9,60,000 > ER of 7,00,000) | 8,00,000 | 7,00,000 | 6,40,000 |
| Less: Municipal taxes actually paid during the PY 2021-22 by Mohan = 75% of 6% of 9 lakh | (40,500) | (40,500) | (40,500) |
| Net annual value | 7,59,500 | 6,59,500 | 5,99,500 |
| Less: Deductions u/s 24 | | | |
| (e) Standard deduction @ 30% of NAV | (2,27,850) | (1,97,850) | (1,79,850) |
| (f) Interest on borrowed capital: full deduction since house is treated LOP | (50,000) | (50,000) | (50,000) |
| Income from house property | 4,81,650 | 4,11,650 | 3,69,650 |

Solve BYC Question No. B10

83. 🌀 PORTION USED AS SOP/UOP AND A PORTION AS LOP

Both portions are treated separately:

SOP/UOP portion: Treated as SOP/UOP | LOP portion: Treated as LOP.

Apportion – MV, FR, SR, municipal taxes and interest is to be **apportioned** based on details given in the question, unless question itself provides the split.

Do not apportion AR since it is only for LOP portion.

Deduction of interest for LOP and SOP portions will be as per limits for LOP (no limit) and SOP (30K/2L).

Illustration: Shubham owns a house at Delhi. Compute the income from house property for AY 2022-23 in the following cases.

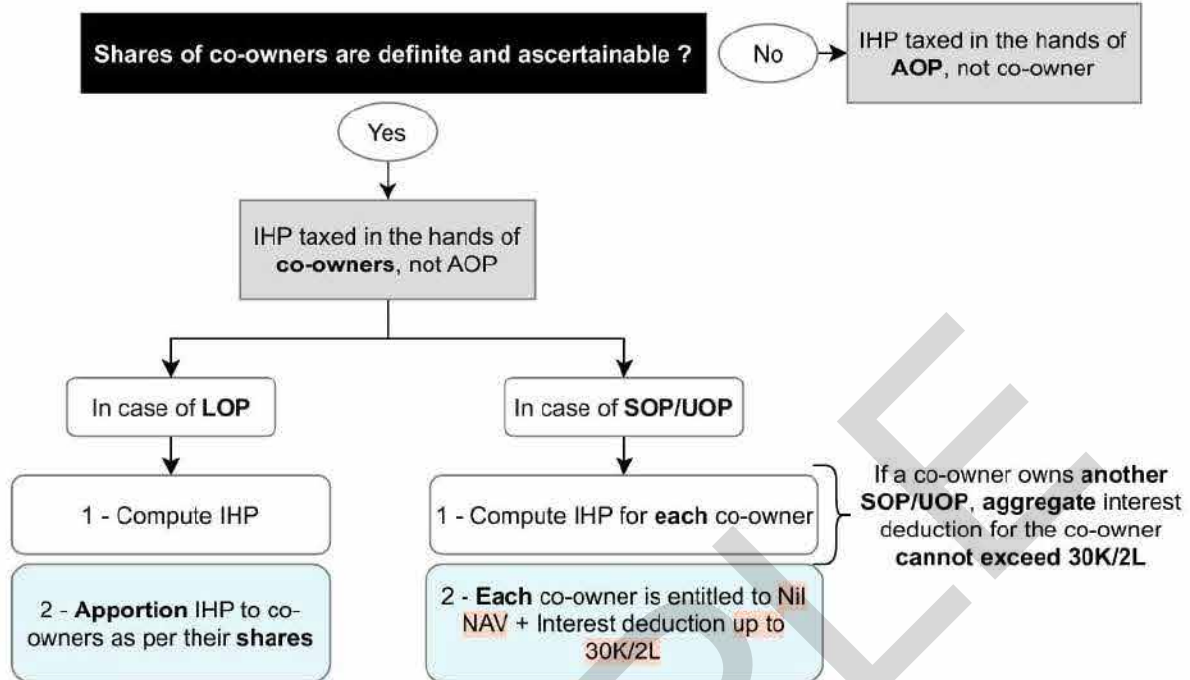
| Particulars | A | B |
|--|----------|----------|
| Portion self occupied | 50% | 75% |
| Portion let out | 50% | 25% |
| Municipal value p.a. | 5,00,000 | 5,00,000 |
| Rent of similar properties in neighborhood p.a. | 6,00,000 | 6,00,000 |
| Standard rent as per Rent Control Act p.a. | 4,00,000 | 4,00,000 |
| Rent p.m. | 30,000 | 15,000 |
| Period for which rent which cannot be realized (conditions of Rule 4 satisfied) | - | 1 mth |
| Let out portion vacant | - | 2 mth |
| Municipal taxes of FY 2021-22 paid during the year by Shubham | 20,000 | - |
| Municipal taxes of FY 2018-19 paid during the year by Shubham | - | 20,000 |
| Electricity bill of the house | 60,000 | 60,000 |
| Interest paid on loan of Rs. 50,00,000 @ 10% interest p.a. taken to construct the house (Case A) / reconstruct the house (Case B). Loan taken on 1.10.2017, construction complete on 1.7.2019. Entire loan is outstanding as on 31.3.2022. | 3,00,000 | 2,00,000 |

Solution:

| Computation | Case A | | Case B | |
|--|-------------------|-----------------|-----------------|-----------------|
| | SOP (50%) | LOP (50%) | SOP (75%) | LOP (25%) |
| Expected rent = 50%/25% of higher of FR or MV but restricted to SR (ER) | - | 2,00,000 | - | 1,00,000 |
| Actual rent (AR): Case A: 12 months; Case B: 9 months | - | 3,60,000 | - | 1,35,000 |
| GAV for LOP Unit = Higher of ER or AR. Vacancy allowance for Case B not applicable as AR (with or without vacancy) > ER | - | 3,60,000 | - | 1,35,000 |
| Less: 50%/25% of municipal taxes paid by Shubham during PY 2021-22 | - | (10,000) | - | (5,000) |
| Net annual value | - | 3,50,000 | - | 1,30,000 |
| Less: Deductions u/s 24 | | | | |
| Standard deduction @ 30% of NAV | - | (1,05,000) | | (39,000) |
| Interest on borrowed capital: | (2,00,000) | (3,25,000) | (30,000) | (1,25,000) |
| <ul style="list-style-type: none"> Current year interest = 10% of 50 lakh = 5,00,000 Prior period interest = 1.10.2017 to 31.3.2019, i.e., 10% of 50 lakh for 1.5 years = 7,50,000, deductible from PY 2019-20 to PY 2023-24 in 5 equal installments of Rs. 1,50,000 each. Case A: Interest deductible (current + prior period) = 6,50,000. SOP 3,25,000 (up to 2 lakh limit), LOP 3,25,000. Case B: Interest deductible (only current year; prior period interest not allowed for reconstruction) = 5,00,000. SOP 3,75,000 (up to 30,000 limit); LOP 1,25,000 | | | | |
| Income from units | (2,00,000) | (80,000) | (30,000) | (34,000) |
| Income from house property | (2,80,000) | | (64,000) | |

Solve BYC Question No. B11 to B13a

84. PROPERTY OWNED BY CO-OWNERS [S. 26]



In case of SOP/UOP, each co-owner is individually entitled to benefit of 30K/2L interest deduction limit. This limit is not apportioned amongst co-owners. But note that the amount of interest is to be apportioned.

Interest should be payable by the co-owner so as to claim deduction of interest in his hands.

Illustration: Rohit and Mohit are brothers who own a house property in Jaipur having share in the ratio of 75 : 25. Fair rent of the house is Rs. 90,000 p.m., Standard Rent under the Rent Control Act is Rs. 50,000 p.m. while the municipal valuation is Rs. 9,00,000 p.a. Municipal taxes of 5% were paid during the year. A loan of Rs. 30,00,000 @ 10% p.a. interest was jointly taken on 15.4.2019 which was used to purchase the house on 10.5.2019. Entire principal amount is outstanding as on 31.3.2022. Compute the income from house property in the hands of Rohit and Mohit for AY 2022-23 where:

- A. They have self occupied the house.
- B. They have let the house at Rs. 70,000 p.m.
- C. In Case A, assume that Rohit and Mohit, each own another house in Pune and Raipur, respectively, which are self occupied. Interest on loan taken to repair the house in Pune amounted to Rs. 35,000 while interest on loan taken to construct the house in Raipur amounted to Rs. 1,50,000 for the PY 2021-22.

Computation of Income from House Property

| Case A – House is self occupied | Rohit | Mohit |
|--|-------------------|-----------------|
| Net annual value | Nil | Nil |
| Less: Interest on capital borrowed to purchase the house = 10% of 30 lakh, i.e., 3 lakh. Rohit = 75%, i.e., 2.25 lakh. Mohit = 25%, i.e., 75,000 (deduction limit of 2 lakh applies individually). | (2,00,000) | (75,000) |
| Income from house property | (2,00,000) | (75,000) |

| Case B – House is let out | Rs. |
|---|------------|
| Expected rent = Higher of FR (10,80,000 @ 90,000 p.m.) or MV (9,00,000), but restricted to SR (6,00,000 @ 50,000 p.m.) (ER) | 6,00,000 |
| Actual rent @ 70,000 p.m. (AR) | 8,40,000 |
| GAV = Higher of ER or AR | 8,40,000 |
| Less: Municipal taxes = 5% of 9 lakh | (45,000) |
| Net annual value | 7,95,000 |
| Less: Deductions u/s 24: | |
| • Standard deduction @ 30% of NAV | (2,38,500) |

| | |
|---|-----------------|
| • Interest on borrowed capital to purchase the house = 10% of 30 lakh, i.e., 3 lakh | (3,00,000) |
| Income from house property | 2,56,500 |
| Income from house property in the hands of Rohit @ 75% | 1,92,375 |
| Income from house property in the hands of Rohit @ 25% | 64,125 |

| Case C – Additional house | Rohit | Mohit |
|---|-------------------|-----------------|
| Net annual value | Nil | Nil |
| Less: Interest on capital borrowed for purchase of house in Jaipur = 10% of 30 lakh, i.e., 3 lakh. Rohit = 75%, i.e., 2.25 lakh. Mohit = 25%, i.e., 75,000. Deduction limit is 2 lakh. | (2,00,000) | (75,000) |
| Less: Interest on capital borrowed for repair of house in Pune (deduction limit is 30,000) and for construction of house in Raipur (deduction limit is 2 lakh) | (30,000) | (1,50,000) |
| Income from house property (overall deduction for interest in respect of SOP limited to 2 lakh) | (2,00,000) | 2,00,000 |

Solve BYC Question Nos. B14 to B16

85. ARREARS OF RENT AND UNREALIZED RENT RECEIVED SUBSEQUENTLY [S. 25A]

Deemed income – Arrears of rent or **unrealized** rent received or realized subsequently from the tenant is **deemed to be IHP**.

Year of tax – Year in which it is **received** or **realized**.

What if assessee is not the owner of property in that year? – Even then it is **taxable**.¹⁷

Standard deduction = 30% of such rent.¹⁸

If unrealized rent was not deducted earlier while computing IHP, it will not be taxed again on receipt. Likewise, if arrears of rent was taxed earlier on due basis, it will not be taxed again.

Expenses (e.g. litigation, recovery expenses) are not deducted separately. Standard deduction subsumes all expenses.

Example for arrears - Disputed rent now paid, increase in rent with retrospective effect.

Example of unrealized rent - Rent not realized earlier but not deducted then since Rule 4 conditions were not met.

Illustration: Compute income from house property for AY 2022-23 in the hands of Jay from the following details. In Case B, assume that the house has been sold by Jay on 10.3.2021.

| Particulars | A | B |
|---|----------|----------|
| Expected rent p.a. | 3,00,000 | 3,00,000 |
| Actual rent p.m. | 30,000 | - |
| Municipal taxes paid during the year by Jay | 10,000 | - |
| Interest on loan taken in PY 2020-21 to repair the house | 40,000 | 40,000 |
| Recovery of rent on 1.7.2021 which could not be realized during PY 2019-20. Jay did not take any legal steps for recovery of rent. | 50,000 | 50,000 |
| Recovery of rent on 15.1.2022 which could not be realized during PY 2020-21. All conditions of Rule 4 were satisfied then. | 30,000 | 30,000 |
| Arrears of rent for PY 2017-18 received on 5.2.2022 (Jay had increased the rent then which was under dispute and it was not taken into account while computing IHP for PY 2017-18). | 40,000 | 40,000 |
| Litigation and recovery expenses incurred by Jay | 15,000 | 15,000 |

Computation of income from house property in the hands of Jay for AY 2022-23

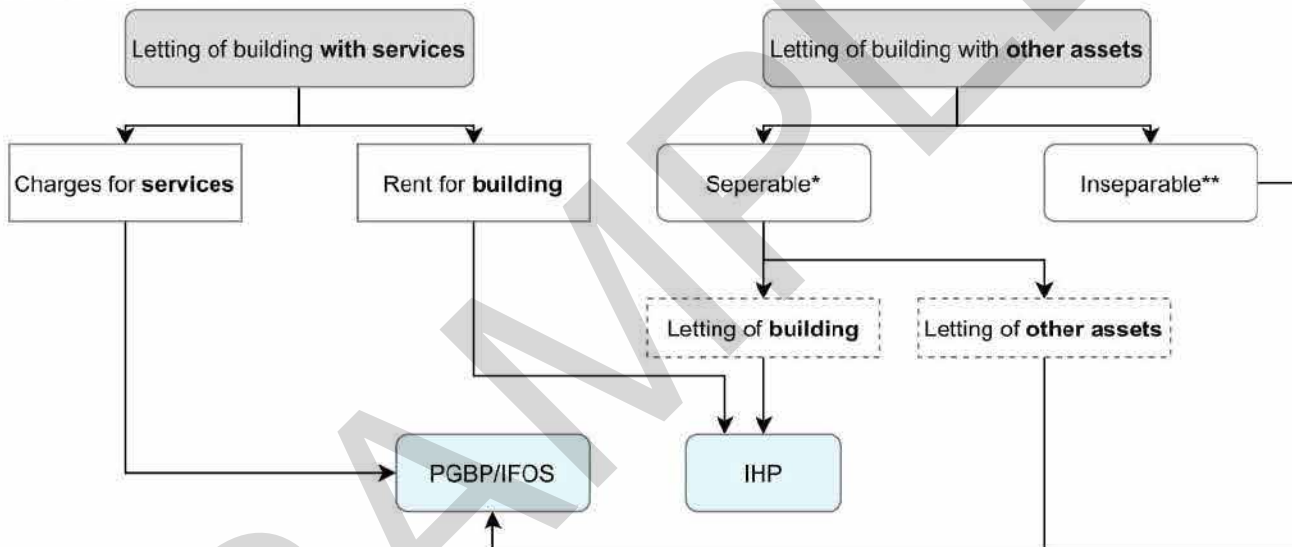
| Particulars | Case A | Case B |
|---|----------|--------|
| GAV = Higher of ER or AR | 3,60,000 | |
| Less: Municipal taxes paid during the year by Jay | (10,000) | |
| NAV | 3,50,000 | |
| Less: Deductions u/s 24: | | |

| | | | |
|---|------------|-----------------|----------------|
| • Standard deduction @ 30% of NAV | (1,05,000) | | |
| • Interest on borrowed capital for repair | (40,000) | | |
| | | 2,05,000 | - |
| Recovery of rent on 1.7.2021: Not taxable again since it was not deducted while computing IHP of PY 2019-20 as conditions of Rule 4 were not satisfied. | - | | - |
| Recovery of rent on 15.1.2022: Taxable since it was deducted while computing IHP of PY 2020-21 | 30,000 | | 30,000 |
| Arrears of rent for PY 2017-18: Taxable since not taxed during PY 2017-18 | 40,000 | | 40,000 |
| | 70,000 | | 70,000 |
| Less: Standard deduction @ 30% | (21,000) | | (21,000) |
| | | 49,000 | 49,000 |
| Income from house property | | 2,54,000 | 49,000* |

*Taxable whether the assessee is owner of the property or not.

Solve BYC Question Nos. B17 to B20

86. COMPOSITE RENT



*Even if composite rent received.

**Even if both sums fixed separately.

Services – E.g., lifts, security, air conditioning

Other assets – E.g, plant, machinery, furniture

Letting of building with other assets is **inseperable** where letting of one is **not acceptable** without letting of other.

Income from letting of building with services is always required to be split between rent (IHP) and service charges (PGBP/IFOS).

Taxability under PGBP or IFOS depends on whether the activity is in the course of carrying on business or profession. If yes, PGBP applies. If no, IFOS applies.

Illustration: Examine the tax treatment of income in the following cases.

| Situation | Taxation |
|---|--|
| Z owns a building which he has given on rent. He receives Rs. 2,00,000 as rent for building and Rs. 30,000 as charges for services of lifts, security and air conditioning. | Income from letting of building with service is to be split. 2,00,000 is taxable as IHP; 30,000 is taxable as PGBP/IFOS |
| Z owns a building which he has given on rent. He receives Rs. 2,50,000 as rent towards use of building and provision of services of lifts, security and air conditioning. | Income from letting of building with service is to be split. Rs. 2,50,000 is to be split between rent for building and charges for services and taxed under IHP and PGBP/IFOS, respectively. |

| | |
|---|--|
| Z is in the multiplex business. He owns 3 multiplexes which he has given on rent of Rs. 2 lakh per month each. Multiplexes are fully furnished and air-conditioned. | Letting of building with other assets is inseparable. Rs. 2 lakh is taxable as PGBP. |
| Z owns a house which he has given on rent along with a car. Rent for house is Rs. 6 lakh and hire charges for car are Rs. 50,000. | Letting of building with other assets is separable. 6 lakh is taxable as IHP and 50,000 as PGBP/IFOS |

87. STOCK IN TRADE [S. 23(5)]¹⁹

Annual value is **NIL** if the following conditions are satisfied:

1. Property is held as **stock-in-trade**.
2. Property or any part thereof is **not let** during whole or any part of PY.

This benefit is available for **up to 2 years** from the **end of FY** in which certificate of **completion** of construction is **obtained** from competent authority.

Limit of 30K/2L for interest deduction is not applicable here.

Benefit is not available 'for' 2 years but 'up to 2 years'. Thus, it is available for FY in which construction is completed + 2 subsequent FYs.

Illustration: DLF Ltd. constructed 2 flats for sale. Certificate of completion of construction was obtained on 1 May 2021. It sold Flat 1 on 1 June 2021 and Flat 2 on 1 June 2022. Expected rent of Flat 2, which was not let out or used for any other purpose, was Rs. 3,60,000 p.a. Municipal taxes of Rs. 10,000 and maintenance expenses of Rs. 6,000 were incurred for Flat 2 during the year. Interest on loan taken to construct both flats was Rs. 3,00,000 for the year. Compute income from house property of DLF Ltd. for AY 2022-23.

Flats are for sale, hence, stock-in-trade. These are not let out. Profit from sale of Flat 1 during PY 2021-22 will be taxable under the head PGBP. Value of Flat 2 will be taxable under the head IHP for PY 2021-22. Benefit u/s 23(5) will be available up to PY 2023-24. IHP for PY 2021-22 will be completed as under:

| Particulars | Rs. |
|--|-------------------|
| GAV as per section 23(5) | Nil |
| Less: Municipal taxes | - |
| NAV | Nil |
| Less: Interest on loan (50% of 3,00,000) | (1,50,000) |
| Income from house property | (1,50,000) |

88. DEEMED OWNER [S. 27]²⁰

Income from house property is taxable in the hands of the **deemed owner**.

| # | Situation | Who is deemed owner? | Points to note |
|------------------------------|--|----------------------|---|
| 1: Spouse or minor child | Transfer of house property to spouse or minor child without adequate consideration. <i>Exceptions –</i> a) Transfer to spouse in connection with agreement to live apart . b) Transfer to minor married daughter . | Transferor | If cash is gifted from which property is acquired, section 27 does not apply. IHP is computed in the hands of spouse/child but clubbed with the income of transferor u/s 64 (paras 181, 183). |
| 2: Member of housing society | Member of a co-operative society, company or other AOP to whom building is allotted or leased under a house building scheme . | Member | - |

| | | | |
|--|--|--------|--|
| 3: Part performance of contract | A buyer allowed to take possession of any building in part performance of contract u/s 53A of Transfer of Property Act. | Buyer | Features of such transaction are: a) Agreement is in writing . b) Sale consideration is paid or promised to be paid by the buyer to seller. c) Buyer has taken possession of property. d) Sale deed is not executed although certain other documents like POA or agreement to sell, etc., are executed. |
| 4: Lease ≥ 12 years | Person who acquires any rights in respect of a building on transfer by way of lease for 12 years or more [S. 269UA(f)] <i>Exception</i> – Lease from month to month or for up to 1 year. | Lessee | Lease for term less than 12 years but extendable beyond 12 years, is covered here. |
| 5: Impartible estate | Holder of impartible estate. | Holder | - |

Cooperative housing society - A membership-based legal entity where a person can become a member by acquiring its shares and in return, he gets a right to occupy a housing unit in the society (flat, house, etc.).

Impartible estate - Certain estates are held by one member of a family by ancient custom although belonging to a joint family. They are called impartible estates since they are not legally divisible or liable to partition.

Illustration: In whose hands will income from house property for PY 2021-22 be taxable in the following situations?

| Situation | Taxable in whose hands? | Remarks |
|--|-------------------------|---|
| Varun gifts a residential flat owned by him to his daughter, aged 10 years, on 1 July 2021. | Varun | Transfer of flat to minor child without adequate consideration |
| Varun gifts Rs. 20 lakh to his wife on 1 July 2021 who uses the money to purchase a house on 1 September 2021, which she lets out during the year. | Wife | No transfer of house; hence, Varun not deemed owner. But income clubbed with Varun u/s 64 (see para 183). |
| Raghav became a member of a co-operative housing society and was allotted a flat in the society under its house building scheme. | Raghav | Member of co-operative society to whom building allotted under house building scheme |
| Maharaja Scindia divided his princely properties amongst his four sons, except a temple which could not be divided as per family custom. It was, however, given to his eldest son, though all his sons could enjoy the property. | Eldest son | Holder of Impartible estate |
| Jay enters into an agreement in writing with Viru to purchase a building. He pays the entire consideration and takes possession of the building on 15 March 2022, though building is not yet registered in his name. | Jay | Buyer taking possession in part performance of contract u/s 53A of TOP Act. |
| Gaurav gives his property on lease to Saurabh for a term of 8 years. Lease agreement provides for renewal of lease for a further period of 6 years. | Saurabh | Lease for term less than 12 years but extendable beyond 12 years |
| Saurabh acquired a house from the Ghaziabad Development Authority for a lease of 99 years. | Saurabh | Lease ≥ 12 years |

ENDNOTES FOR LOGIC & REASONING

- ¹ Land integral and attached to the building should also be given tax treatment similar to the building.
- ² Person entitled to receive income from property in his own right should be taxed on such income.
- ³ Notional rent of own property used for own business should not be taxed in own hands. Income from such property is covered under PGBP and related deductions allowed in computing business income. If it is taxed as IHP, notional rent will become taxable (it will not be deducted) (rather it should be deductible from PGBP if property was taken on rent for running business).
- ⁴ Tax under IHP is a tax on the capacity of property to yield income, not on the rent per se. The formula reflects this approach. Thus, we find taxation on the basis of notional income under this head.
- ⁵ Expected rent should be higher of market value or municipal value but it should be restricted to Standard Rent, since rent cannot be charged (i.e., expected to be charged) more than that prescribed in Rent Control Act.
- ⁶ Higher of expected or actual rent taken to prevent tax avoidance where rent not shown or shown less or charged less. This reasoning is also relevant in case of DLOP where there is no rent.
- ⁷ Since property is not let out, there is no AR and, hence, only ER is taken as GAV. Thus, there can be no question of unrealized rent as well as vacancy allowance in case of DLOP.
- ⁸ Rent which cannot be realized (bad debt) should not be taxed. Conditions of Rule 4 ensure that claim is genuine and not a plot to evade tax.
- ⁹ The objective is to deduct loss due to vacancy, if the actual rent is otherwise more than the expected rent but only due to vacancy, actual rent becomes lesser than expected rent.
- ¹⁰ This is a necessary expenditure. Deduction on payment basis promotes timely payment of taxes and prevents deduction to defaulters on basis of mere liability.
- ¹¹ Deduction on payment by owner ensures that owner does not get deduction if tenant pays (otherwise tenant may pay lesser rent on account of payment of taxes on behalf of owner, the owner will consequently be taxed on a lesser GAV and also allowed deduction for taxes!!).
- ¹² In order to allow a flat deduction for various expenses. Easy on taxpayer and tax authority.
- ¹³ Standard deduction is not enough to allow interest on loan. Hence, a separate deduction on this count.
- ¹⁴ Property is not in existence till acquisition/construction is complete and, thus, not taxable under IHP. Hence, prior period interest will not be deductible in computing IHP, in absence of this specific provision.
- ¹⁵ Since from this year onward, value of property will start getting taxed as IHP.
- ¹⁶ To protect interest of revenue since recovery of tax from lender may be difficult.
- ¹⁷ Else, amount will not be able to be taxed as IHP since condition is that the property should be owned by assessee.
- ¹⁸ To lend parity, since standard deduction u/s 24(a) would have been available if rent was taxed in the relevant year.
- ¹⁹ Relief provided considering business exigencies of real estate developers where stock-in-trade is lying unsold and it is not also let but property was amenable for being taxed as DLOP.
- ²⁰ Objective is to (a) prevent tax avoidance by shifting income to nil/low tax paying family members, or (b) tax income in the hands of the person enjoying all rights in the property, even though the person is not the legal owner.



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Income from House Property

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BASIS OF CHARGE & COMPUTATION

B1. GAV: LOP + UNREALIZED RENT – Compute the GAV of each house from the information given below for PY 2021-22, assuming the house is let out.

| Particulars | I | II | III | IV | V |
|------------------------------------|----------|----------|----------|----------|----------|
| Municipal value | 3,00,000 | 3,20,000 | 3,20,000 | 3,20,000 | 3,20,000 |
| Fair rent | 3,20,000 | 3,00,000 | 3,00,000 | 3,00,000 | 3,00,000 |
| Standard rent | - | 3,50,000 | 2,80,000 | 3,10,000 | 2,80,000 |
| Actual rent received or receivable | 3,50,000 | 3,40,000 | 3,00,000 | 3,50,000 | 3,00,000 |
| Unrealized rent | - | - | 50,000 | 30,000 | 50,000 |
| Rule 4 conditions fulfilled? | - | - | Yes | Yes | No |

Answer: 3,50,000; 3,40,000; 2,80,000; 3,20,000; 3,00,000

B2 VACANCY – Compute the gross annual value for AY 2022-23 of a let out house property owned by Jaydeep in the following cases.

| Particulars | I | II | III | IV |
|---|----------|----------|----------|----------|
| Municipal valuation | 2,50,000 | 2,50,000 | 2,50,000 | 2,50,000 |
| Fair rent | 2,00,000 | 2,00,000 | 2,00,000 | 2,00,000 |
| Standard rent | 2,10,000 | 2,10,000 | 2,10,000 | 2,00,000 |
| Rent per month | 20,000 | 20,000 | 20,000 | 25,000 |
| Unrealized rent (Rule 4 conditions fulfilled) | 20,000 | - | 20,000 | 20,000 |
| Period for which property vacant (months) | - | 2 | 2 | 2 |

Answer: 2,20,000; 2,00,000; 1,80,000; 2,30,000

B3. MUNICIPAL TAXES – Compute the NAV of each house owned by Ruchi, a ROR, for the PY 2021-22, from the following information.

| Particulars | I | II | III | IV |
|---|----------|--------------|----------|--|
| Location of house | Pune | Chennai | Gurgaon | USA |
| Municipal valuation | 3,00,000 | 5,00,000 | 2,50,000 | 30,000 USD |
| Fair rent | 4,00,000 | 6,00,000 | 3,00,000 | 35,000 USD |
| Standard rent | 3,50,000 | 4,00,000 | 3,50,000 | - |
| Rent per month | 30,000 | 50,000 | 20,000 | 3,000 USD |
| Unrealized rent (Rule 4 conditions fulfilled) | 30,000 | - | 10,000 | - |
| Municipal taxes due for 2021-22 | 5% | 2% | 10,000 | 10% |
| Municipal taxes paid during 2021-22 | 10,000 | 3% | 12,000 | Nil for 2021-22, 500 USD for 2020-21 and 200 USD for 2022-23 |
| Municipal taxes paid by | Ruchi | 50% by Ruchi | Tenant | Ruchi |

1 USD = INR 75

Answer: 3,40,000; 5,92,500; 3,00,000; 26,47,500

B4. INTEREST – Compute the deduction allowable for PY 2021-22 in respect of interest on borrowed capital in the following situations.

| Particulars | I | II | III | IV |
|--|-------------|---------------|---------------|---------------|
| Status of property | Let out | Self occupied | Self occupied | Self occupied |
| Purpose of loan | Renewal | Construction | Construction | Repair |
| Loan taken from | SBI | Bajaj Finance | HDFC | Colleague |
| Amount of loan | 30 lakh | 40 lakh | 40 lakh | 10 lakh |
| Date when loan taken | 1 Apr 2014 | 1 Oct 2017 | 1 Oct 2015 | 1 Aug 2019 |
| Date when loan repaid | Outstanding | Outstanding | Outstanding | Outstanding |
| Date when work started for which loan taken | 1 May 2015 | 1 June 2017 | 1 June 2017 | 1 Oct 2019 |
| Date when work completed | 1 May 2020 | 1 Dec 2021 | 1 Dec 2021 | 1 Sep 2021 |
| Interest due for current year | 3,10,000 | 4,00,000 | 4,00,000 | 90,000 |
| Interest paid during current year | 2,40,000 | 4,50,000 | 4,50,000 | - |
| Prior period interest (1/5 th instalment) | 80,000 | 1,20,000 | 1,20,000 | 30,000 |

Answer: 3,10,000; 2,00,000; 30,000; 30,000

B5. PRIOR PERIOD INTEREST – CA2017(M) – Ganesh owns a commercial building whose construction got completed in June 2020. He took a loan of Rs. 15 lakh from his friend on 1.8.2019 and had been paying interest @ 15% p.a. He is eligible for pre construction interest deduction as per provisions of Income Tax Act. He has let out the commercial building at a monthly rent of Rs. 40,000 during FY 2021-22. He paid municipal tax of Rs. 18,000 each for FY 2020-21 and FY 2021-22 on 1.5.2021 and 5.4.2022, respectively. Compute IHP for AY 2022-23.

Answer: 68,400

B6. INTEREST – CA2017(N) – Jyoti purchased a house property costing Rs. 49 lakh on 1.5.2021. The property is used exclusively for her residential purpose. For this purpose, she obtained loan from DHFL of Rs. 35 lakh bearing interest @ 14% p.a. on 1.4.2021. She does not own any other house. State with brief reasons the deductions that can be claimed by Jyoti in respect of interest on loan for AY 2022-23.

Answer: 2,00,000

B7. INTEREST - Gaurav owns a house property in Chandigarh whose municipal valuation is Rs. 5,00,000 p.a. Rental value based on comparable properties in the locality is Rs. 6,00,000 p.a. Rent Control Act is applicable under which the Standard Rent is Rs. 3,50,000. Municipal taxes are levied @ 5% in respect of which he paid Rs. 7,500 on 15.12.2021 (out of which Rs. 2,500 pertained to PY 2020-21). He took a loan of Rs. 50,00,000 on 1.10.2017 from ICICI Bank @ 10% p.a. in respect of this property. Commission to arrange the loan was Rs. 50,000 which was paid on 10.10.2017. Repayment details are given as under:

| FY | Principal | Interest |
|---------|-----------|----------|
| 2017-18 | 1,00,000 | 2,25,000 |
| 2018-19 | 3,00,000 | 4,50,000 |
| 2019-20 | 4,00,000 | 4,00,000 |
| 2020-21 | 5,00,000 | 3,75,000 |
| 2021-22 | 6,00,000 | 3,50,000 |

He defaulted in payment of interest during FY 2021-22 for which he had to pay penal interest of Rs. 20,000 on 1.2.2022. Compute the income from house property for AY 2022-23 if:

- He has let out the house at a rent of Rs. 40,000 p.m. and he used the loan to construct the house which got completed on 15.9.2020.
- He has occupied the house for his own residence and he used the loan to construct the house which got completed on 15.9.2020.
- He has occupied the house for his own residence and he used the loan to reconstruct the house which got completed on 15.9.2020.

Answer: (2,34,250); (2,00,000); (30,000)

SPECIAL SITUATIONS

B8. DLOP – CA2018(N) (modified) – Mr. Chakrobarty, a resident aged 35 years, works as a Deputy Manager in Dews Ltd. located in Noida since April 2014. He owns three houses and uses it for self-purpose. The following information relates to the houses for the PY 2021-22.

| Particulars | House I – Noida – He and his family reside | House II – Gurgaon – His father resides | House III – Chennai – His mother resides |
|---|--|---|--|
| Municipal value p.a. | 8,00,000 | 9,00,000 | 10,00,000 |
| Fair rent | 9,20,000 | 8,80,000 | 9,50,000 |
| Standard rent p.a. | 8,40,000 | 9,20,000 | 9,00,000 |
| Actual rent p.m. | - | - | - |
| Municipal taxes paid during the year (paid for Houses I and II) | 8% | 10% | 5% |
| Date of completion of construction of properties | 31.3.2014 | 25.5.2021 | 15.1.2018 |

He had taken a loan of Rs. 18,00,000 for the construction of House II and of Rs. 5,00,000 for repair of House III, on 1.4.2019. Interest was payable @ 10% p.a. Till date, no payment was made towards the principal amount.

Mr. Chakrobarty seeks your professional advice to plan his tax liability. Give suggestion to Mr. Chakrobarty as to which houses should be considered and treated as self occupied properties so that his house property income is minimum for AY 2022-23. Also compute the income from house property.

Answer: 1,91,794

B9. DLOP – CA2018(M) – Rohan, a resident individual, owns three houses in Chennai. One house is self occupied by him, second house is self occupied by his major son and the third house is vacant during the year. You are required to highlight the steps involved to compute 'Income from house property' for Rohan under deemed to be let out concept.

Answer: Login to www.taxwithsharad.com

B10. SOP/UOP + LOP (PERIOD) – CA2018(N) – Disha Khanna, a resident of India, owns a house property at Bhiwani in Haryana. Municipal value of the property is Rs. 7,50,000. Fair rent of the property is Rs. 6,30,000 and standard rent is Rs. 7,20,000. Property was let out for Rs. 75,000 p.m. for the period April 2021 to December 2021. Thereafter, the tenant vacated the property and Disha used the house for self occupation. Rent for November and December 2021 could not be realized from the tenant. The tenancy was bonafide but the defaulting tenant was in occupation of another property of the assessee, paying rent regularly. She paid municipal taxes @ 12% during the year and paid interest of Rs. 35,000 during the year for amount borrowed towards repairs of the property. Compute the income from house property for AY 2022-23.

Answer: 4,06,000

B11. SOP/UOP + LOP (AREA) – Sarika owns a house at Delhi. During the PY 2021-22, 3/4th portion of the house is self occupied and 1/4th portion is let out for residential purposes on a rent of Rs. 7,000 p.m. Municipal valuation of the house is Rs. 2,00,000 and fair rent is Rs. 2,40,000. She incurs the following expenditure in respect of the house property: Municipal taxes Rs. 60,000; Repairs Rs. 20,000; Fire insurance premium Rs. 3,500; Land revenue Rs. 4,000; Ground rent Rs. 2,000 were paid during the year. A loan of Rs. 9,00,000 was taken on 1.4.2016 @ 15 p.a. for the construction of the house which was completed on 15.3.2019. Nothing was repaid on loan account so far. Find out her income from house property for AY 2022-23.

Answer: (1,40,700)

B11a. SOP + LOP (AREA) – CA2021(JULY) – Ramesh constructed a big house (construction completed in PY 2009-10) with 3 independent units. Unit-1 (50% of floor area) is let out for residential purpose at monthly rent of Rs. 15,000. A sum of Rs. 3,000 could not be collected from the tenant and a notice to vacate the unit was given to the tenant. No other property of Ramesh is occupied by the tenant. Unit-1 remains vacant for 2 months when it is not put to any use. Unit-2 (25% of floor area) is used by Ramesh for the purpose of his business, while Unit-3 (the remaining 25%) is utilized for the purpose of his residence.

Other particulars of the house are as follows: Municipal valuation – Rs. 1,88,000; fair rent – Rs. 2,48,000; Standard rent under the Rent Control Act – Rs. 2,28,000; Municipal taxes – Rs. 20,000; repairs – Rs. 5,000; interest on capital borrowed for the

construction of the property – Rs. 60,000; ground rent – Rs. 6,000 and fire insurance premium paid – Rs. 60,000. Income of Ramesh from the business is Rs. 1,40,000 (without debiting house rent and other incidental expenditure).

Determine the taxable income of Ramesh for AY 2022-23 if he does not opt to be taxed u/s 115BAC.

Answer: Login to www.taxwithsharad.com

B12. SOP/UOP + LOP (AREA) – CA2013(N), CA2008(N) – Krishna owns a residential house in Delhi. The house is having two identical units. First unit of the house is self-occupied by Krishna and another unit is rented for Rs. 12,000 p.m. Rented unit was vacant for 3 months during the year. Particulars of the house for PY 2021-22 are as under:

| Particulars | Amount |
|-------------------------------|---------------|
| Standard rent | 2,20,000 p.a. |
| Municipal valuation | 2,44,000 p.a. |
| Fair rent | 2,35,000 p.a. |
| Municipal tax paid by Krishna | 12% of MV |
| Light and water charges | 800 p.m. |
| Interest on borrowed capital | 2,000 p.m. |
| Insurance charges | 3,500 p.a. |
| Painting expenses | 16,000 p.a. |
| Repairs | 12,000 p.a. |

Compute IHP for AY 2022-23.

Answer: 41,352

B12a. SOP/UOP + LOP (AREA + PERIOD) – Mr. X and Mr. Y, brothers, own a house each with a ground and first floor of equal area. The construction of these houses was completed on 1.4.2021 and 1.10.2021, respectively. While Mr. X used the house for self residence, Mr. Y, resided in ground floor and let out the first floor immediately from the date the construction was complete. The tenant vacated the house after 3 months after which Mr. Y occupied the first floor as well for his residence. Other particulars are given below.

| Particulars | Mr. X | Mr. Y |
|---|--|--|
| Monthly rent for floor let out | - | 40,000 |
| Fair rent p.a. for each floor | 2,00,000 | 2,00,000 |
| Municipal value p.a. for each floor | 1,50,000 | 1,50,000 |
| Municipal taxes paid by owner for the house | 20,000 | 20,000 |
| Repair, maintenance and insurance for the house | 10,000 | 15,000 |
| Housing loan from Bank of India for construction of house @ 10% p.a. (fully outstanding on 31.3.2022) | Loan taken on 1.4.2019 for Rs. 20 lakh | Loan taken on 1.7.2020 for Rs. 12 lakh |

Compute the income from house property for AY 2022-23.

Answer: X: (2,00,000); Y: (61,000)

B13. SOP + LOP – CA2017(N) - Aditya, a RNOR during AY 2022-23, owns two houses, one in Dubai and other in Mumbai. House in Dubai is let out at a rent of DHS 20,000 p.m. (1 DHS = INR 18). Entire rent is received in India. He paid property tax of DHS 2,500 and sewerage tax of DHS 1,500 there for FY 2021-22. House in Mumbai is self occupied. He had taken a loan of Rs. 25 lakh to construct the house on 1.6.2018 @ 12%. Construction was completed on 31.5.2020 and he occupied the house on 1.6.2020. Entire loan is outstanding as on 31.3.2022. Property tax paid in respect of second house is Rs. 2,400 for the FY 2021-22. Compute IHP for AY 2022-23.

Answer: 27,73,600

B13a. SOP + LOP – Ronny is a citizen of Denmark and a resident but not ordinarily resident in India for PY 2021-22. He has two houses in Denmark, one used as his residence and the other let out at 10,000 Kroner p.m. 1 Krone = Rs. 12.

He purchased a house in Chandigarh on 1.7.2021 for residence while in India. He came to India on 1.12.2021 and was in India for 80 days. Fair rent and municipal valuation of the house is Rs. 2,50,000 p.a. and Rs. 2,00,000 p.a., respectively. He paid Rs. 10,000 as municipal taxes for this house on 15.12.2021. He purchased the house using a loan of Rs. 25,00,000 taken from Dena Bank on 1.1.2021 @ 10% p.a. The loan is fully outstanding as on 31.3.2022.

He also owns a house in Coimbatore which he has let out at Rs. 50,000 p.m. Fair rent, municipal valuation and standard rent are Rs. 4,50,000 p.a., Rs. 4,25,000 p.a. and Rs. 4,00,000, respectively. Municipal tax is levied at 5% which was paid on 15.4.2022. This house was acquired using a loan of Rs. 30,00,000 taken from his friend, residing in Denmark and a non-resident, at 10% p.a. interest. Loan was taken on the same date the house was acquired and it is fully outstanding as on 31.3.2022.

Compute the income from house property for AY 2022-23.

Answer: (80,000)

B14. CO-OWNER – CA2009(N) - Raman is a co-owner of a house property along with his brother.

| Particulars | Amount |
|--|-------------|
| Municipal value of the property | 1,60,000 |
| Fair rent | 1,50,000 |
| Standard rent under the Rent Control Act | 1,70,000 |
| Rent received | 15,000 p.m. |

Loan for construction of this property is jointly taken and interest charged by the bank is Rs. 25,000 out of which Rs. 21,000 has been paid. Interest on unpaid interest is Rs. 450. To repay this loan, Raman and his brother have taken a fresh loan and interest charged on this loan is Rs. 5,000. Municipal taxes of Rs. 5,100 have been paid by the tenant. Compute IHP chargeable in the hands of Raman for AY 2022-23.

Answer: 48,000

B15. CO-OWNER – Ram and Shyam own a self occupied residential house property in Jodhpur, having share in the ratio 60 : 40. Shyam owns another house in Meerut in which his parents reside. Ram and Shyam had taken a loan of Rs. 45,00,000 from Canara Bank on 15.8.2020 @ 10% p.a. interest, to purchase the property in Jodhpur. House was purchased on 25.8.2020. In addition, Shyam had also taken a loan of Rs. 5,00,000 from SBI on 10.10.2019 @ 10% p.a. interest for repair of house in Meerut. Both loans are fully outstanding as on 31.3.2022. Expected rental value of house in Jodhpur and Meerut is Rs. 15,00,000 p.a. and Rs. 10,00,000 p.a., respectively. Municipal taxes of Rs. 15,000 were paid during the year for house in Jodhpur. Ram failed to pay municipal taxes of Rs. 7,500 for Meerut house. Compute income from house property in the hands of Ram and Shyam for AY 2022-23.

Answer: (2,00,000) each.

B16. CO-OWNER – Raghav and Madhav are friends and co-owners (having equal share) of a house property situated in Panaji having four identical floors. Each of them has self occupied one floor. Other floors have been let out. Fair rent of the house is Rs. 1,00,000 p.m. while each floor is actually let out at Rs. 30,000 p.m. Standard rent of the house under the Rent Control Act is Rs. 90,000 p.m. Municipal taxes were levied at 5% of the municipal value of Rs. 10,00,000 p.a. but were paid during the year to the extent of 60%. Insurance premium and other expenses for the house amounted to Rs. 50,000. Raghav and Madhav also spent Rs. 20,000 towards repairs of the house. They had taken a loan of Rs. 20,00,000 on 1.4.2020 for renovation of the house. The loan carries interest @ 10% p.a. Repayment of principal has not yet started. Both the let out floors were vacant for one month each during the year. Compute income from house property for AY 2022-23 in the hands of Raghav and Madhav.

Answer: 1,45,750 each.

B17. 5. 25A – Compute income from house property for AY 2022-23 from the details given below.

| Particulars | Amount |
|---|----------|
| Expected rent p.a. | 3,00,000 |
| Rent p.m. | 20,000 |
| Municipal taxes paid during the year by tenant | 15,000 |
| Interest on loan taken to purchase the house | 50,000 |
| Unrealized rent pertaining to PY 2017-18 recovered on 10.8.2021 (not deducted while computing IHP of PY 2017-18 since Rule 4 conditions were not satisfied) | 30,000 |
| Arrears of rent for PY 2020-21 received on 15.12.2021 (on account of retrospective increase of rent) | 20,000 |

Answer: 1,74,000

B18. SOP + LOP + 25A – CA2015(N) - Raphael constructed a shopping complex. He had taken a loan of Rs. 25 lakh for construction of this property on 1.8.2019 from SBI @ 10% for 5 years. Construction was completed on 20.6.2020. Rental income received from shopping complex is Rs. 30,000 p.m. let out for whole year. Municipal taxes paid Rs. 8,000. Arrears of rent received from shopping complex Rs. 1,20,000. Interest paid on loan taken from SBI for purchase of house for use as own residence for the period 2021-22 is Rs. 3 lakh. Compute IHP for AY 2022-23.

Answer: (1,52,933)

B19. SOP + 25A – Vikas is a citizen of Australia who has stayed in India during PY 2021-22 for a period of 240 days. His stay in India during the preceding seven PYs amounted to 775 days. He owns two house properties used for self occupation, one in Sydney and the other in Delhi. Annual value of the house in Sydney is Rs. 20,00,000 (converted to INR) and that in Delhi is Rs. 15,00,000. He stayed in the house in Delhi while in India and stayed in the house in Sydney while in Australia for the rest of the year. He paid Rs. 40,000 (converted in INR) as municipal taxes in Sydney and Rs. 20,000 as municipal taxes in Delhi (out of which 8,000 was water tax). He constructed the house in Delhi using a home loan for Rs. 10,00,000 that he took from Dena Bank on 1.10.2019 @ 10% p.a. interest. The construction was completed on 10.5.2021. Loan is fully outstanding as on 31.3.2022. He also owned a house in Hyderabad which he had sold on 15.11.2018. In respect of this house, he received Rs. 75,000 as arrears of rent in respect of the PY 2018-19 which were not taxed in that year. Compute income from house property in the hands of Vikas for AY 2022-23.

Answer: (77,500)

B20. 25A – CA2012(M) – Explain the treatment of unrealized rent and its recovery in subsequent years under the provisions of Income-tax Act, 1961. – See para 85

COMPREHENSIVE

B21. CA2019(M) – Mr. Madhvan is a finance manager in Star Private Limited. He gets a salary of Rs. 30,000 per month. He owns two houses, one of which has been let out to his employer and which is in-turn provided to him as rent free accommodation. Following details (annual) are furnished in respect of two house properties for FY 2021-22.

| Particulars | House 1 | House 2 |
|--------------------------------|-------------------------|---------------------|
| Fair rent | 75,000 | 1,95,000 |
| Actual rent | 65,000 | 2,85,000 |
| Municipal valuation | 74,000 | 1,90,000 |
| Municipal taxes paid | 18,000 | 70,000 |
| Repairs | 15,000 | 35,000 |
| Insurance premium for building | 12,000 | 17,000 |
| Ground rent | 7,000 | 9,000 |
| Nature of occupation | Let out to Star Pvt Ltd | Let out to Ms. Puja |

Rs. 17,000 was paid as interest on loan taken by mortgaging House 1 for construction of House 2. Determine the taxable income of Mr. Madhvan for AY 2022-23. All workings should form part of your answer.

Answer: 5,37,400

B22. MASTER QUESTION – Shyamal, a resident, aged 35 years, works as a manager in Chandigarh with Sure Ltd. He owns four properties but has to reside in Chandigarh in a flat not belonging to him. He gifted the Delhi house to his wife on 1 October 2021. Compute IHP for AY 2022-23 from the following information.

| Particulars | Delhi | Gurgaon – Unit 1 (50% portion) | Gurgaon – Unit 2 (50% portion) | Patna (equally co-owned with brother) | Shimla |
|----------------------|-----------------------------------|--------------------------------|--------------------------------|---------------------------------------|--|
| Use of property | His wife resides when not let out | His children reside | Let out | His parents reside | Unoccupied (since works in Chandigarh) |
| Fair rent p.a. | 3,00,000 | | 3,00,000 | 3,00,000 | 3,00,000 |
| Municipal value p.a. | 2,50,000 | | 2,50,000 | 2,50,000 | 2,50,000 |
| Standard rent p.a. | 2,60,000 | | 2,60,000 | 2,60,000 | 2,60,000 |
| Let out for | 2 months | - | 8 months | - | - |
| Rent p.m. | 30,000 | - | 15,000 | - | - |

| | | | | | |
|---|-----------|---------------------------------|----------|-----------------------------------|----------------------|
| Unrealized rent (Rule 4 conditions satisfied) | - | - | 2 months | - | - |
| Municipal taxes paid during year by Shyamal | 10% | 10% (50% paid) | | 10% | 10% (paid by tenant) |
| Maintenance | 20,000 | 10,000 | 10,000 | 20,000 | 20,000 |
| Loan taken for | Renewal | Construction | | Repaying original loan for repair | Construction |
| Work completed | 1.5.2011 | 1.5.2020 | | 1.5.2011 | 1.5.2016 |
| Loan amount | 10,00,000 | 50,00,000 | | 10,00,000 | 30,00,000 |
| Loan taken on | 1.7.1998 | 1.10.2019 | | 1.7.1998 | 1.7.2009 |
| Loan taken from | Bank | Financial institution | | Friend | NBFC |
| Loan status on 31.3.22 | Fully O/S | Repaid fully on 30.9.2021* | | Fully O/S | Fully O/S |
| Interest rate | 10% p.a. | 10% p.a. | | 10% p.a. | 10% p.a. |
| Interest paid | 90,000 | 3,00,000 (+ 900 penal interest) | | - | 3,20,000 |
| Penal interest | - | - | | - | - |
| Arrears of rent of 2006 | - | 30,000 | | - | - |

*No repayment of principal was made before this date.

Answer: (3,03,875)

Income from House Property

MCQ

BASIS OF CHARGE & COMPUTATION

M1. Lease rent for vacant site is taxable as:

- (a) IHP (b) PGBP or IHP
(c) IFOS or PGBP (d) IFOS or IHP

M2. Income from which of the following use case of a building is taxable as IHP?

- (a) Letting of office premises (b) Use of factory for own manufacturing business
(c) Sub-letting of house (d) Running own office on first floor of the house

M3. Annual value of building held as stock-in-trade is taxable as business income.

- (a) True (b) False

M4. Shane is a non-resident and national of Australia. Which of his following incomes from property owned by him, is taxable in India?

- (a) Rent from house in Sydney received there (b) Rent from house in Delhi, occupied by Rachel, a resident of Australia, received in Sydney
(c) Rent from shop in Sydney occupied by Rahul, a resident of India, received in Sydney (d) Fair market rent of a flat in Sydney used by him to run his business with clients in India

M5. Mr. Jain moved to Mumbai. He took a property on rent for his residential purpose. However, the property was not fully occupied by him. He let out the property to his friend at Rs. 15,000 p.m. from 1.4.2021 to 31.3.2022. He is of the view that income from subletting of property is taxable as IHP. Whether his view is correct?

- (a) Correct as any income from a house property is taxable as IHP (b) Incorrect as he is not the owner of property let out by him. Income from subletting shall be taxable as PGBP
(c) Incorrect as he is not the owner of property let out by him. Income from subletting shall be taxable as IFOS (d) Correct as income from subletting of a property is directly attributable to the property itself and, hence, chargeable to tax as IHP

M6. If Raj owns three houses of which two are self occupied and one is unoccupied since he resides in another city where he stays on rent, what options are available to him under the Act?

- (a) He can select any 2 houses as SOP once and then the same treatment will apply in future years (b) 2 houses will be treated SOP in the order they were purchased
(c) He can select any 2 houses as SOP and the selection can be changed every year (d) All the houses will be treated as SOP

M7. Rishi owns 3 houses. The house in Delhi is used for own residence. His parents reside in the house in Mumbai. His elder son resides in his flat in Gurgaon. Which of the following is correct?

- (a) Annual value of Delhi and Mumbai houses is Nil (b) Annual value of all houses is Nil
(c) Annual value of any two houses is Nil as opted by him (d) Annual value of Mumbai and Gurgaon houses is Nil

M8. Ravi carries on his profession in Chennai where he stays on rent. He owns a flat in Jodhpur in which his parents reside. Before coming to Chennai, he used to reside in his other flat in Delhi which now remains unoccupied. The annual value of his flats is:

- (a) Nil for both flats (b) Nil for Jodhpur flat only
(c) Nil for Delhi flat only (d) Fair rent for both the flats

M9. Ruhi owns four houses which are self occupied during the year. However, one of the flats is let out on rent for one month. What will be the tax treatment for the flats?

- (a) SOP/UOP (3 houses), LOP (1 house) (b) SOP/UOP (3 houses), DLOP (1 house)
(c) SOP/UOP (2 houses), DLOP (1 house), LOP (1 house) (d) DLOP (3 houses), LOP (1 house)

M10. Fair rent of a let out flat is Rs. 2 lakh, municipal value is Rs. 1 lakh and Standard Rent is Rs. 1.5 lakh. The gross annual value will be:

- (a) 2 lakh (b) 1.5 lakh
(c) 1 lakh (d) Nil

M11. How is unrealized rent treated?

- (a) Deducted from expected rent (b) Deducted from actual rent
(c) Deducted from net annual value (d) Deducted from both expected and actual rent

M12. Rishi lets out his house @ 20,000 p.m. whose fair rent is Rs. 2 lakh p.a. and municipal value is Rs. 1.5 lakh p.a. Rent for 3 months could not be realized. He has evicted the tenant and taken all legal steps to recover the rent. The gross annual value will be:

- (a) 1.8 lakh (b) 2 lakh
(c) 1.5 lakh (d) 2.4 lakh

M13. Raja could not realize rent of 2 months from his tenant. He has evicted the tenant from the flat in which he was residing but he is still occupying a shop belonging to Raja. Raja will get benefit of deduction of unrealized rent.

- (a) True (b) False

M14. In which of the following cases is vacancy allowance available?

- (a) Property is self occupied but not actually occupied during part of the year (b) Annual rent is more than expected rent with or without vacancy
(c) Annual rent is more than expected rent without vacancy and less than expected rent due to vacancy (d) All the above

M15. Vacancy allowance is deducted from GAV, along with municipal taxes, to arrive at NAV.

- (a) True (b) False

M16. Gauri let out a shop for 10,000 p.m. whose fair rent was Rs. 1,00,000 p.a. and municipal value was Rs. 90,000 p.a. The tenant vacated the shop on 1 January 2022 and the subsequent tenant occupied the shop on 1 May 2022. Annual value of the shop for AY 2022-23 is:

- (a) 1,00,000 (b) 1,20,000
(c) 70,000 (d) 90,000

M17. Municipal taxes to be deducted from GAV should be:

- (a) Paid by tenant during PY (b) Paid by owner during PY
(c) Due during PY, whether paid or not (d) Paid during PY either by tenant or owner

M18. Jay owns a building whose municipal value is Rs. 3,00,000 p.a. and gross annual value is Rs. 4,00,000. Out of the municipal taxes levied @ 5%, Jay paid Rs. 5,000, his tenant paid Rs. 5,000 and the rest remained unpaid during the year. Net annual value of the building is:

- (a) 2,95,000 (b) 3,90,000
(c) 3,95,000 (d) 3,85,000

M19. Mr. Hero owns a house whose gross annual value is Rs. 25,000 and municipal value is Rs. 3,00,000 p.a. Municipal taxes @ 10% were paid by him during the year. Repair, maintenance and insurance amounted to Rs. 6,000. Income from house property will be:

- | | |
|------------|-------------------|
| (a) Nil | (b) Loss of 5,000 |
| (c) 17,500 | (d) Loss of 6,500 |

M20. Standard deduction is allowed in which of the following cases:

- | | |
|-------------------------------|---------------------|
| (a) Property is self occupied | (b) NAV is negative |
| (c) NAV is nil | (d) NAV is positive |

M21. Maximum deduction of interest payable on loan taken to repay the original loan taken for construction of self occupied property can be:

- | | |
|--------------|--------------|
| (a) 2,00,000 | (b) Nil |
| (c) 30,000 | (d) No limit |

M22. Maximum deduction of interest payable on loans taken for acquisition of two self occupied properties can be:

- | | |
|---|-------------------------|
| (a) 2,00,000 per property | (b) 2,30,000 |
| (c) 2,00,000 in all for both properties | (d) 30,000 per property |

M23. To what extent is interest deductible in case of loan taken for repair of a let out property?

- | | |
|--|---|
| (a) Current year and prior period interest without limit | (b) Current year interest without limit |
| (c) Current year and prior period interest up to 2 lakh | (d) Current year and prior period interest up to 30,000 |

M24. Mr. Zero took a loan of Rs. 20 lakh from HDFC Bank on 1 June 2011 for constructing a house in which he resides. The construction was completed on 1 June 2019 and the loan was fully repaid in the year 2020. Total interest from 1 June 2011 to 1 June 2019 amounted to Rs. 5,20,000 and from 1 June 2011 to 31 March 2019 it was Rs. 5,00,000. Interest deductible for PY 2021-22 is:

- | | |
|--------------|--------------|
| (a) 1,00,000 | (b) 2,00,000 |
| (c) 30,000 | (d) Nil |

M25. Which of the following dates is not relevant in determining the limit of deduction of interest u/s 24(b) for construction of self occupied house?

- | | |
|--------------------------------------|---------------------------|
| (a) Date when loan taken | (b) Date when loan repaid |
| (c) Date when construction completed | (d) All the above |

M26. Mr. Buddu has taken loans @ 10% p.a. on 1.4.2021 of Rs. 5 lakh for repair of House I which is self occupied, Rs. 10 lakh for construction of House II which is let out and Rs. 30 lakh for acquisition of House III which is also self occupied. Repair and acquisition of House I and III are completed on 1 October 2021. Construction of House II is completed on 1 October 2022. All loans are fully outstanding as on 31 March 2022. Interest deductible u/s 24(b) for PY 2021-22 is:

- | | |
|--------------|--------------|
| (a) 3,50,000 | (b) 2,00,000 |
| (c) 2,50,000 | (d) 3,00,000 |

M27. Jyoti purchased a house property costing Rs. 49 lakh on 1 May 2021. Property is used exclusively for her residence. For this purpose, she obtained a loan from DHFL of Rs. 35 lakh bearing interest @ 14% p.a. on 1 April 2021. She does not own any other house. What is the amount of interest deduction she can claim for AY 2022-23?

- | | |
|--------------|------------|
| (a) 4,90,000 | (b) 30,000 |
| (c) 2,00,000 | (d) Nil |

M28. Ragini paid interest of Rs. 1,00,000 (includes pre-acquisition interest of Rs. 20,000) for a house used as her residence, Rs. 40,000 (includes pre-construction interest of Rs. 20,000) for a house self occupied for 3 months and let out for 9 months and Rs. 35,000 (includes prior period interest of Rs. 10,000) for repairs of another flat self occupied during the year. Interest deductible u/s 24(b) for the year is:

- | | |
|--------------|--------------|
| (a) 1,75,000 | (b) 1,65,000 |
| (c) 1,55,000 | (d) 1,25,000 |

M29. Heera started construction of a house on 1 April 2016 which got completed on 1 March 2020. For this purpose, he took a loan from bank on 1 September 2017 which was fully repaid on 1 June 2021. The prior-period interest will be deductible as under:

- | | |
|---|--|
| (a) Interest from 1.9.2017 to 31.3.2019 deductible in 5 equal installments from PY 2019-20 onward | (b) Interest from 1.4.2016 to 1.6.2021 deductible in 5 equal installments from PY 2021-22 onward |
|---|--|

- (c) Interest from 1.9.2017 to 31.3.2021 deductible in 5 equal installments from PY 2021-22 onward
- (d) Interest from 1.9.2017 to 31.3.2019 deductible in 5 equal installments from PY 2020-21 onward

M30. Meera paid interest of Rs. 60,000 along with penal interest of Rs. 1,000 against interest liability of Rs. 90,000 accruing during the PY 2021-22 in respect of loan taken from a housing finance company for reconstruction of a house self occupied by her. She also incurred brokerage and commission charges of Rs. 5,000 towards arranging the loan. Total interest deductible u/s 24(b) for PY 2021-22 will be:

- (a) 66,000 (b) 31,000
(c) 96,000 (d) 30,000

SPECIAL SITUATIONS

M31. Raju owns a residential house, let out on a monthly rent of Rs. 15,000. Fair rental value for the let out period is Rs. 1,50,000. House was self occupied from 1.1.2022 to 31.3.2022. He has taken loan from bank of Rs. 20 lakh for construction of property and has repaid Rs. 1,05,000 (including interest of Rs. 40,000) during PY. Compute IHP for AY 2022-23.

- (a) 50,000 (b) 75,000
(c) 1,00,000 (d) 1,50,000

M32. Raju has three houses for self occupation. What will be the tax treatment for AY 2022-23 in respect of income from house property?

- (a) One house at his option will be treated as SOP. Other two houses will be DLOP. (b) Two houses at his option will be treated as SOP. The other house will be DLOP.
(c) One house at the option of AO will be treated as SOP. Other two houses will be DLOP. (d) Two houses at the option of AO will be treated as SOP. The other house will be DLOP.

M33. Sridevi owns three houses used for self occupation. For each house, expected rent is Rs. 1,00,000 p.a. and municipal taxes paid during the year is Rs. 5,000. Interest on loan for Houses 1, 2 and 3 is Rs. 10,000, 20,000 and 30,000, respectively. What can be the minimum possible IHP for AY 2022-23.

- (a) (-) 6,500 (b) Nil
(c) 6,500 (d) 73,000

M34. Shiva resided in his house till 31 December 2021 when it was let out at Rs. 20,000 p.m. owing to he being required to leave for Mumbai for employment. IHP will be computed as if the house is:

- (a) Self occupied (b) Let out
(c) Deemed to be let out (d) Vacant

M35. In case a property is self occupied for a part of year and let out for remaining part:

- (a) Municipal tax is taken for the let out period (b) Fair rent is taken for the let out period
(c) Actual rent is taken for the whole year (d) Actual rent is taken for the let out period

M36. Mr. Z has a house property in Delhi whose municipal value is Rs. 1,00,000 and fair rental value is Rs. 1,20,000. Standard rent is fixed at Rs. 1,08,000. It was self occupied by him from 1.4.2021 to 31.7.2021. W.e.f. 1.8.2021 it was let out at Rs. 10,000 p.m. Compute NAV of house property for AY 2022-23 if municipal taxes paid by him during the year were Rs. 20,000.

- (a) 1,00,000 (b) 88,000
(c) 60,000 (d) 1,08,000

M37. Where a portion of house is self occupied while another portion is let out:

- (a) Expected rent is taken for the entire house (b) Actual rent is taken for the let out portion
(c) Interest on loan is allowed for entire house without any limit (d) Municipal tax is to be deducted for the entire house

M38. Rishabh owns a house which has ground + 2 floors. The ground floor is let out for commercial purposes, first floor is let out for 9 months and used by his parents as residence for the rest of the year and the second floor is used by him for his residence. How will the IHP be computed for AY 2022-23?

- (a) Ground LOP, 1st floor SOP, 2nd floor SOP (b) All floors LOP
(c) Ground LOP, 1st floor LOP, 2nd floor SOP (d) All floors SOP

M39. Govind owns a residential house in Delhi. House is having two identical units. First unit is self occupied and another unit is rented for Rs. 12,000 p.m. Rented unit was vacant for three months during the year. Particulars of house for PY 2021-22 are as under:

| | |
|------------------------------|---------------|
| Standard rent | 2,20,000 p.a. |
| Municipal valuation | 2,44,000 p.a. |
| Fair rent | 2,35,000 p.a. |
| Municipal tax paid by Govind | 12% of MV |
| Light and water charges | 800 p.m. |
| Interest on borrowed capital | 2,000 p.m. |
| Insurance charges | 3,500 p.a. |
| Painting expenses | 16,000 p.a. |

Compute IHP for AY 2022-23.

- (a) 41,352 (b) 53,352
(c) 12,000 (d) 65,432

M40. In case Ram and Shyam co-own a self-occupied property and Ram owns another self-occupied property, interest on loan taken for acquisition of these properties can be deducted in the hands of Ram to the maximum extent of:

- (a) Actual interest payable (b) Rs. 2 lakh in the aggregate
(c) Rs. 2 lakh for each property (d) Rs. 4 lakh in the aggregate

M41. Gyan and Ryan are co-owners of a self occupied property. They own 50% share each. Interest payable by each co-owner during PY 2021-22 on loan taken for acquisition of property during the year 2006 is Rs. 2,05,000. Amount of allowable deduction to each co-owner is:

- (a) 2,05,000 (b) 1,02,500
(c) 2,00,000 (d) 1,00,000

M42. Sujal and his brother jointly own a bungalow having equal share. They had taken a housing loan to purchase the bungalow. Loan was sanctioned in the name of Sujal and his brother in the year 2017 and they purchased the bungalow in the year 2018. Interest on housing loan for PY 2021-22 amounted to Rs. 5 lakh which was payable equally by Sujal and his brother. Bungalow is used by them for their residence. They don't own any other house. What will be the income from house property taxable in the hands of Sujal for AY 2022-23?

- (a) Loss of 30,000 (b) Loss of 2,00,000
(c) Loss of 1,00,000 (d) Loss of 2,50,000

M43. Jay and Viru are friends who co-own a shop having share in the income 60:40. The shop is let out on monthly rent of Rs. 10,000 p.m. Fair rent of the shop is Rs. 1,50,000 p.a. which is more than municipal valuation but less than standard rent. Municipal taxes of Rs. 10,000 were paid on 31 March 2022. Interest on loan taken to renew the shop is Rs. 40,000. IHP taxable in the hands of Jay for AY 2022-23 is:

- (a) 18,800 (b) 29,000
(c) 28,800 (d) 34,800

M44. If unrealized rent of Rs. 20,000 pertaining to PY 2019-20 could not be deducted in computing the annual value of property for that PY, it cannot be taxed upon recovery during PY 2021-22.

- (a) True (b) False

M45. Reena received Rs. 30,000 as arrears of rent during PY 2021-22. Amount taxable u/s 25A would be:

- (a) 30,000 (b) 21,000
(c) 20,000 (d) 15,000

M46. Vijaya received Rs. 90,000 in May 2021 towards recovery of unrealized rent, which was deducted from actual rent during PY 2019-20 for determining annual value. Legal expense incurred in relation to unrealized rent is Rs. 20,000. Amount taxable u/s 25A during PY 2021-22 would be:

- (a) 70,000 (b) 63,000
(c) 60,000 (d) 49,000

M47. Vijay sold his house on 1 March 2021 which was let out earlier to Jay who did not pay Rs. 50,000 rent owing to a dispute being litigated in court of law. Such rent was not taxed earlier. Vijay incurred legal expenses of Rs. 30,000 in recovering the arrears of rent which he finally received on 1 October 2021. He claims that Rs. 20,000 (recovery net of expenses) should be taxed as IFOS. How will this amount be taxed for AY 2022-23?

- (a) 20,000 as IFOS (b) 20,000 as IHP
(c) 35,000 as IHP (d) 50,000 as IFOS

M48. Where a building is let out along with plant, machinery and furniture as an integrated offering which cannot be separated:

- (a) Entire income is taxable as IHP (b) Income is split between IHP and PGBP/IFOS
(c) Entire income is taxable as PGBP/IFOS (d) Entire income is taxable as PGBP/IFOS only if a composite rent is received

M49. Prem has rented his office space on Rs. 25,000 p.m. which includes Rs. 5,000 towards services of security, gardener and maintenance. Fair rent of the property is Rs. 2,00,000 p.a. The tenant is liable to pay municipal taxes. IHP for AY 2022-23 will be:

- (a) 2,10,000 (b) 1,68,000
(c) 1,40,000 (d) Nil (taxable as IFOS)

M50. Annual value of property held as stock-in-trade is taken as nil for a period of 2 years immediately succeeding the year in which certificate of completion of construction is obtained from the competent authority.

- (a) True (b) False

M51. Jagdamba Builders Ltd. has unsold stock of 10 flats lying vacant during the whole of PY 2021-22. Fair rent for each flat is Rs. 5,00,000 p.a. While certificate of completion of construction was obtained for 4 flats on 1 May 2019, certificate for remaining flats was obtained on 1 May 2021. Total interest on loan taken for constructing these flats payable during the PY 2021-22 is Rs. 5,00,000. IHP for AY 2022-23 will be:

- (a) Nil (b) (5,00,000)
(c) (2,00,000) (d) 30,00,000

M52. In which of the following cases will income from house property be taxed in the hands of Raj?

- (a) He sells his house to his wife for Rs. 15 lakh (market value is Rs. 15 lakh) (b) He gifts his flat to his daughter, 16 years, who is married
(c) He acquires a building on lease of 10 years (d) He is allotted a flat in a group housing society of which he is a member

M53. Heera entered into an agreement in writing to buy a building from Beera on 1 March 2022. He paid sales consideration on 10 March 2022 and took possession of the property on 15 March 2022. Sale deed was executed and property registered in his name on 1 May 2022. Income from house property will be taxable in his hands for the PY 2021-22.

- (a) True (b) False

Answer Key for MCQs

| | | | | | | | | | |
|----|---|----|---|----|---|----|---|----|---|
| 1 | C | 2 | A | 3 | B | 4 | B | 5 | C |
| 6 | C | 7 | C | 8 | A | 9 | C | 10 | B |
| 11 | B | 12 | B | 13 | B | 14 | C | 15 | B |
| 16 | D | 17 | B | 18 | C | 19 | B | 20 | D |
| 21 | A | 22 | C | 23 | B | 24 | C | 25 | B |
| 26 | B | 27 | C | 28 | B | 29 | A | 30 | D |
| 31 | C | 32 | B | 33 | C | 34 | B | 35 | D |
| 36 | B | 37 | B | 38 | C | 39 | A | 40 | B |
| 41 | C | 42 | B | 43 | D | 44 | A | 45 | B |
| 46 | B | 47 | C | 48 | C | 49 | B | 50 | B |
| 51 | B | 52 | D | 53 | A | 54 | - | 55 | - |

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