TEST PAPER – 5
HOUSE PROPERTY

Illustration 1

Mrs. X (age 22 years) has occupied two houses for her residential purposes, particulars of which are as follows:

	House I Rs.	House II Rs.
Municipal valuation (MV)	8,00,000	11,00,000
Fair rent (FR)	9,00,000	10,00,000
Standard rent under the Rent Control Act (SR)	6,00,000	10,50,000
Municipal taxes paid	75,000	73,000
Interest on borrowed capital (amount borrowed during December 2015, construction completed within 2 years)	6,00,000	80,000
Repairs	Nil	600

Business income of Mrs. X is Rs.25,60,000. Besides Mrs. X is employed by a private limited company on annual salary of Rs.5,60,000. She contributes Rs.1,20,000 towards public provident fund during the previous year 2020 – 2021. Determine the taxable income and tax liability of Mrs. X for the assessment year 2021 – 2022.

Solution

Mrs. X has occupied two houses for her own residential purposes. These houses will be treated as self – occupied and income will be calculated as follows:

	Rs.
Annual value of two houses	Nil
Less: Deduction under section 24	
Standard deduction	Nil
Interest on borrowed capital (Rs.6,00,000 + Rs.80,000, but subject to maximum of Rs.2,00,000)	2,00,000
Income from House I and House II	(-) 2,00,000
Salary income (Rs.5,60,000 – Rs.50,000)	5,10,000
Business income	25,60,000
Gross total income	28,70,000
Less: Deduction under section 80C	1,20,000
Net income	27,50,000
Tax on net income	

Income tax	6,37,500
Add: Health and education cess	25,500
Tax liability (rounded off	6,63,000

Illustration 2

X (age 64 years), a salaried employee (drawing Rs.8,38,983 as annual salary) has occupied three houses for his residential purposes, particulars of which are as follows:

	I Rs.	II Rs.	III Rs.
Standard rent under the Poona Rent Control Act (SR)	63,000	11,85,000	73,000
Municipal valuation (MV)	70,000	11,90,000	69,000
Fair rent (FR)	53,000	11,78,000	71,000
Municipal taxes paid	4,000	42,000	6,000
Repairs	Nil	Nil	Nil
Ground rent due but outstanding	600		800
Insurance premium due but outstanding	900	2,000	1,200

X borrows from a relative Rs.40,00,000 @ 9 per cent per annum for construction of House II (date of borrowing June 1, 2017 date of repayment of loan May 31, 2020).

Construction of all the houses is completed in August 2019. Determine the taxable income and tax liability of X for the assessment year 2021 – 2022 on the assumption that X contributes Rs.46,000 towards statutory provident fund and Rs.8,000 towards National Relief Bonds.

Solution

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

Different options	Houses to be treated as self-occupied	Houses deemed to be let out
Option 1	House 1 and house 2	House 3
Option 2	House 1 and House 3	House 2
Option 3	House 2 and House 3	House 1

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

Step 1 – Find out income of 3 houses as if these are treated as "self-occupied property"

Step 2 – Find out income of 3 houses as if these are "deemed to be let out".

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

Pre – construction period is June 1, 2017 to March 31, 2019. Interest liability of this period on Rs.40,00,000 @ 9% comes to Rs.6,59,836 (i.e. Rs.40,00,000 x 0.09 x (1 year and 304 days). Annual instalment of deductible interest pertaining to pre-construction period comes to Rs.1,31,967. Besides, interest of April 1, 2020 to May 31, 2020 which comes to Rs.59,016 (i.e., Rs.40,00,000 x 0.09 x 60 ÷ 366 days) is further deductible. The aggregate amount comes to Rs.1,90,983.

	House 1 Rs.	House 2 Rs.	House 3 Rs.
Step 1 – Computation of income if these are self – occupied properties:			
Net annual value	Nil	Nil	Nil
Less: Interest on borrowed capital	Nil	1,91,967	Nil
Income from property (a)	Nil	(-) 1,91,967	Nil
Step 2 – computation of income if these are deemed to be let out:			
Gross annual value (being municipal value or fair rent, whichever is lower but subject to maximum of standard rent)	63,000	11,85,000	71,000
Less: Municipal tax	4,000	42,000	6,000
Net annual value	59,000	11,43,000	65,000
Less: Deduction under section 24			
Standard deduction	17,700	3,42,900	19,500
Interest on borrowed capital	Nil	1,91,967	Nil
Income from property (b)	41,300	6,08,133	45,500
Step 3 – Analysis	**Option 1**	**Option 2**	**Option 3**
HP1	NIL(So)	NIL(So)	41300(DLO)
HP2	-1,91,967(SO)	6,08,133(DLO)	-1,91,967(SO)
HP 3	45500(DLO)	NIL(So)	(So)
Income from properties	-1,46,467	6,08,133	-150667

Computation of income of X:

	Rs.
Salary (Rs.8,38,983 x 12 – Standard deduction Rs.50,000)	7,88,983
Income from house property (Rs.41,300 – Rs.1,90,983)	(-) 1,50,667
Gross Total Income	6,38,316

Less: Deduction under section 80C (investment in National Relief Bonds is not eligible for deduction)	46,000
Net income (rounded off)	5,92,316
Tax on net income	
Income tax	28,464
Add: Health and education cess	1,138
Tax liability (rounded off)	29,602

Illustration 3

Mrs. X (age 51 years) submits the following particulars of her income relevant for the previous year ending March 31, 2021:

Business income:

- Profit of business A Rs.2,40,000
- Loss of business B Rs.3,000
- Loss of business C Rs.7,500

A residential house property: Municipal valuation Rs.8,00,000, fair rent Rs. 8,10,000, standard rent under the Delhi Rent Control Act Rs.9,00,000, municipal taxes paid Rs.78,000, repairs Rs.47,000, interest on capital borrowed for purpose of construction of house property (amount borrowed Rs.8,00,000, rate of interest 11 per cent, date of borrowing June 30, 1998, date of repayment of loan June 20, 2019, date of completion of construction June 30, 2010), and annual charge not created by Mrs. X Rs.4,000. Besides, on May 24, 2017, Mrs. X borrows Rs.75,000 @ 10.5 per cent per annum for the purpose of reconstruction of house property.

The house is self-occupied from April 1, 2019 to March 15, 2020, from March 16, 2020 it is let out on monthly rent of Rs.11,000. During the previous year, Mrs. X is employed by a company on monthly salary of Rs.70,000. Determine the taxable income and tax liability of Mrs. X for the assessment year 2021 – 2022. She contributes Rs.80,000 towards Indira Vikas Patra.

Solution

Computation of gross annual value

	Rs.
Step 1: Reasonable expected rent of the property (MV or FR, whichever is higher, but subject to maximum of SR)	8,10,000
Step 2: Rent received / receivable after deducting unrealized rent but before adjusting loss due to vacancy	5,500
Step 3: Amount computed in Step 1 or Step 2, whichever is higher	8,10,000

Step 4: Loss due to vacancy	Nil
Step 5: Gross annual value is Step III minus Step IV	8,10,000
Less: Municipal tax	78,000
Net annual value	7,32,000
Less: Deductions under section 24	
Standard deduction @ 30%	2,19,600
Interest on borrowed capital:	Nil
- pre-construction period's interest (deductible only in first 5 years after completion of construction)	Nil
- current year interest on Rs.8,00,000 up to June 20, 2019 (i.e. Rs.8,00,000 x 0.11 x 81 ÷ 366)	19475
- current year interest on Rs.75,000 @ 10.5%	7,875
Income	4,85,050
Computation of income of Mrs. X	
Salary (Rs.70,000 x 12 – Standard deduction Rs.50,000)	7,90,000
Income from house property	4,85,050
Business income (Rs.2,40,000 – Rs.3,000 – Rs.7,500)	2,29,500
Gross total income	15,04,550
Less: Deduction under section 80C (Indira Vikas Patra is not a qualifying investment)	Nil
Net income	15,04,550
Tax on net income	
Income tax	2,63,865
Add: Health and education cess	10,554
Tax liability (rounded off)	2,74,420