TEST 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 2021 – 2022. Determine the taxable income and tax liability of Mrs. X for the assessment year 2022 – 2023.

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, 2018 date of repayment of loan May 31, 2021).

Construction of all the houses is completed in August 2021. Determine the taxable income and tax liability of X for the assessment year 2022 – 2023 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 – Find out the difference between income of each house computed under Step 1 and Step 2

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

Pre – construction period is June 1, 2019 to March 31, 2021. 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, 2021 to May 31, 2021 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	1,90,983	Nil
Income from property (a)	Nil	(-) 1,90,983	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	1,90,983	Nil
Income from property (b)	41,300	6,09,117	45,500
Step 3 – Step 1 minus Step 2 ((a) – (b))	(-) 41,300	(-) 8,00,100	(-) 45,500
Step 4 – Selection: House 2 and House 3 (to be taken as self-occupied properties)			
Income of House 2 and House 3 (self-occupied properties)	-	(-) 1,90,983	Nil
Income of House 1 (deemed to be let out property)	41,300		
Income from properties	41,300	(-) 1,90,983	Nil

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)	(-) 1,49,683
Gross Total Income	6,39,300
Less: Deduction under section 80C (investment in National Relief Bonds is not eligible for deduction)	46,000
Net income (rounded off)	5,93,300

Tax on net income	
Income tax	28,660
Add: Health and education cess	1,146
Tax liability (rounded off)	29,810

Illustration 3

Mrs. X (age 51 years) submits the following particulars of her income relevant for the previous year ending March 31, 2022:

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, 2021, date of completion of construction June 30, 2011), and annual charge not created by Mrs. X Rs.4,000. Besides, on May 24, 2018, 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, 2021 to March 15, 2022, from March 16, 2022 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 2022 – 2023. 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, 2020 (i.e. Rs.8,00,000 x 0.11 x 80 ÷ 365)	19,288
- current year interest on Rs.75,000 @ 10.5%	7,875
Income	4,85,237
Computation of income of Mrs. X	
Salary (Rs.70,000 x 12 – Standard deduction Rs.50,000)	7,90,000
Income from house property	4,85,237
Business income (Rs.2,40,000 – Rs.3,000 – Rs.7,500)	2,29,500
Gross total income	15,04,737
Less: Deduction under section 80C (Indira Vikas Patra is not a qualifying investment)	Nil
Net income	15,04,740
Tax on net income	
Income tax	2,63,922
Add: Health and education cess	10,557
Tax liability (rounded off)	2,74,480

Illustration 4

X (age 28 years) is owner of a house property in Chennai which is let out for Rs.9,82,000 (which includes Rs.76,000 for maintenance of lift and garden). Municipal valuation Rs.9,00,000, fair rent Rs.9,05,000, standard rent Rs.9,03,000, rent of ½ month could not be collected (1/24 of Rs.9,82,000) Rs.40,917. The local taxes, payable by the owner, amounts to Rs.59,200 but the tenant has undertaken to pay it. The tenant has also undertaken to bear cost of repairs. However, X bears the following expenditure during the previous year 2021 – 2022.

Annual charges Rs.6,000, insurance of house Rs.10,000, ground rent Rs.7,500, life maintenance (including depreciation) Rs.58,000, salary of gardener Rs.24,000, interest on borrowed capital Rs.1,350.

Assuming that business income is Rs.18,00,000, determine the income (and tax thereon) for the assessment year 2022 – 2023. The construction of the house was completed on March 31, 2013. During the previous year 2011 – 2012, X had claimed and allowed a deduction of unrealized rent of Rs.80,000. On March 10, 2022, X recovers Rs.60,000 from the defaulting tenant (legal expenditure on recovery of rent Rs.43,000). X contributes Rs.81,000 towards National Savings Certificates, VIII issue on April 1, 2021.

Solution

	Rs.
Property income (see note 1)	6,72,750
Business income	18,00,000
Income from other sources (see note 2)	(-) 9,167
Gross total income	24,63,583
Less: Deduction under section 80C (investment after the end of the previous year is eligible for deduction in the next year)	Nil
Net income (rounded off)	24,63,580
Tax on net income	
Income tax	5,51,574
Add: Health and Education cess	22,063
Tax liability (rounded off)	5,73,640
Notes:	
1. Income from house property	
Municipal value (MV)	9,00,000
Fair Rent (FR)	9,05,000
Standard rent (SR)	9,03,000
Step 1: Reasonable expected rent of the property (MV or FR, whichever is higher, but subject to maximum of SR)	9,03,000
Step 2: Rent received / receivable after deducting unrealizable rent but before adjusting loss due to vacancy ((Rs.9,82,000 – Rs.76,000) x (12 month – ½ month) ÷ 12 months)	8,68,250
Step 3: Amount computed in Step 1 or Step 3, whichever is higher	9,03,000
Step 4: Loss due to vacancy	Nil
Step 5: Gross annual value of Step 3 minus Step 4	9,03,000
Less: Municipal tax	Nil
Net annual value	9,03,000
Less: Deductions under section 24	
Standard deduction @ 30%	2,70,900
Interest on borrowed capital	1,350
Income	6,30,750
Recovery of unrealized rent (Rs.60,000 – 30%)	42,000
House property income chargeable to tax	6,72,750
2. Income from other sources:	
Amount actually collected from the tenant on account of maintenance of lift and garden (Rs.76,000 minus ½ of 1/12 of Rs.76,000)	72,833
Less: Lift maintenance including depreciation	58,000
Less: Salary of gardener	24,000

Balance	(-) 9,167