Advance Learning on Income from House Property (Practical)

Meaning of House Property:-
House property consists of any building or land appurtenant thereto of which the assessee is the owner. The appurtenant lands may be in the form of a courtyard or compound forming part of the building. But such land is to be distinguished from an open plot of land, which is not charged under this head but under the head ‘Income from Other sources’ or ‘Business Income’, as the case may be. Besides, ‘house property’ includes flats, shops, office space, factory sheds, agricultural land and farm houses.

Further, house property includes all type of house properties, i.e., residential houses, godowns, cinema building, workshop building, hotel building, etc.

Example:- Mr. X has one big house. It includes vast open area within its boundaries. The house has been let out at a rent of Rs. 1,00,000 p.m., out of which rent of Rs. 25,000 p.m. is attributable to the open land. In this case, entire rental income is taxable under the head house property.

Essential conditions for taxing income under this head
Income from house property is taxable in the hands of its legal owner in whose name the property stands. ‘Owner’ for this purpose means a person who can exercise the rights of the owner not on behalf of the owner but in his own right. A person entitled to receive income from a property in his own right is to be treated as its owner, even if no registered document is executed in his name.

The following three conditions must be satisfied before the income of the property can be taxed under the head “Income from House Property”:

- The property must consist of buildings and lands appurtenant thereto;
- The assessee must be the owner of such house property;
- The property may be used for any purpose, but it should not be used by the owner for the purpose of any business or profession carried on by him, the profit of which is chargeable to tax. If the property is used for own business or profession, it shall not be chargeable to tax.

Ownership includes both free-hold and lease-hold rights and also includes deemed ownership

Tax Chargeability [Sec. 22]
The annual value of property consisting of any building or lands appurtenant thereto of which the assessee is the owner shall be subject to Income-tax under the head ‘Income from House Property’ after claiming deduction under Sec. 24, provided such property or any portion of such property is not used by the assessee for the purpose of any business or profession, carried on by him, the profits of which are chargeable to Income-tax.

Deductions from income from house Property [Sec.24]
Income chargeable under the head “Income from house property” shall be computed after making the following deductions, namely:-
i) **Standard deductions:** From the net annual value computed, the assessee shall be allowed a standard deduction of a sum equal to 30% of the net annual value.

ii) **Interest on borrowed capital:** Where the property has been acquired, constructed, repaired, renewed or reconstructed with borrowed capital, the amount of any interest payable on such capital is allowed as a deduction.

The amount of interest payable yearly should be calculated separately and claimed as a deduction every year. It is immaterial whether the interest has been actually paid or not paid during the year. *[Circular No. 363, dated 24.06.1983]*

Interest attributable to the period prior to completion of construction: It may so happen that money is borrowed earlier and acquisition or completion of construction takes place in any subsequent year. Meanwhile interest becomes payable. In such a case interest paid/payable for the period prior to the previous year in which the property is acquired/constructed will be aggregated and allowed in five successive financial years starting from the year in which the acquisition/construction was completed.

Interest will be aggregated from the date of borrowing till the end of the previous year prior to the previous year in which the house is completed and not till the date of completion of construction.

➢ **Deductions provided under Sec.24**

The deductions under Sec. 24 include standard deduction and interest on borrowed capital and no other deduction is allowed from net annual value.

Any amount paid for brokerage or commission for arrangement of the loan will not be allowed as deduction. *[Circular No. 28, dated 20-8-1969]*

*Example:* ABC owns 3 house properties situated in Delhi.

The particulars of the houses are as under:

<table>
<thead>
<tr>
<th></th>
<th>House I Rs.</th>
<th>House II Rs.</th>
<th>House III Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Municipal Value</td>
<td>1,20,000</td>
<td>1,70,000</td>
<td>2,00,000</td>
</tr>
<tr>
<td>Fair Rent</td>
<td>1,60,000</td>
<td>2,00,000</td>
<td>2,40,000</td>
</tr>
<tr>
<td>Standard Rent</td>
<td>1,40,000</td>
<td>2,20,000</td>
<td>-</td>
</tr>
<tr>
<td>Actual Rent (per month)</td>
<td>12,000</td>
<td>18,000</td>
<td>21,000</td>
</tr>
<tr>
<td>Period of vacancy</td>
<td>Nil</td>
<td>1 Month</td>
<td>6 months</td>
</tr>
<tr>
<td>Municipal taxes for the year</td>
<td>20% of Municipal value</td>
<td>40,000</td>
<td>50,000</td>
</tr>
<tr>
<td>Municipal tax paid during the year</td>
<td>24,000</td>
<td>80,000</td>
<td>30,000</td>
</tr>
</tbody>
</table>

Compute the income under the head house property of all the 3 properties.

*Solution:*
**House I:** As the house property is let out throughout the previous year, the annual value shall be determined as per clauses (a) and (b) of Sec. 23(1).

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Amount (Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Step I:</strong> Compute gross annual value</td>
<td></td>
</tr>
<tr>
<td>The Gross Annual Value shall be higher of the following two:</td>
<td></td>
</tr>
<tr>
<td>a) Rs. 1,20,000 or Rs. 1,60,000 whichever is higher but subject to maximum Rs. 1,40,000</td>
<td>1,40,000</td>
</tr>
<tr>
<td>b) Actual rent received or receivable, i.e., Rs. 12,000 * 12</td>
<td>1,44,000</td>
</tr>
<tr>
<td><strong>Gross Annual Value</strong></td>
<td>1,44,000</td>
</tr>
<tr>
<td><strong>Step II:</strong> Deductions</td>
<td></td>
</tr>
<tr>
<td>Less:- Municipal tax paid during the previous year</td>
<td>24,000</td>
</tr>
<tr>
<td><strong>Net Annual Value</strong></td>
<td>1,20,000</td>
</tr>
<tr>
<td>Less:- Statutory Deduction @30%</td>
<td>36,000</td>
</tr>
<tr>
<td><strong>Income from house property</strong></td>
<td>84,000</td>
</tr>
</tbody>
</table>

**House II**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Amount (Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Step I:</strong> Determination of value as per Sec. 23(1)(a)</td>
<td></td>
</tr>
<tr>
<td>Municipal Value</td>
<td>Rs. 1,70,000</td>
</tr>
<tr>
<td>Fair rent</td>
<td>Rs. 2,00,000</td>
</tr>
<tr>
<td>Standard Rent</td>
<td>Rs. 2,20,000</td>
</tr>
<tr>
<td><strong>Value as per Sec. 23(1)(a)</strong></td>
<td>2,00,000</td>
</tr>
<tr>
<td><strong>Step II:</strong> Actual rent received/receivable (18,000*11)= Rs. 1,98,000</td>
<td>1,98,000</td>
</tr>
</tbody>
</table>

Since the actual rent received/receivable in spite of vacancy is more than the value determined as per clause (a), Sec. 23(1)(c) will not be applicable and the gross annual value shall be Rs. 1,98,000, being higher of the amount determined as per Sec. 23(1)(a) and Sec. 23(1)(b).

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Amount (Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Annual Value</td>
<td>1,98,000</td>
</tr>
<tr>
<td><strong>Less:</strong> Municipal tax paid</td>
<td>80,000</td>
</tr>
<tr>
<td>Net Annual Value</td>
<td>1,18,000</td>
</tr>
<tr>
<td><strong>Less:</strong> Statutory deduction @ 30%</td>
<td>35,400</td>
</tr>
<tr>
<td><strong>Income from House Property</strong></td>
<td>82,600</td>
</tr>
</tbody>
</table>
**House III**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Amount (Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Computation of Gross Annual Value</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Step I:</strong> Determination of value as per Sec. 23(1)(a)</td>
<td></td>
</tr>
<tr>
<td>It will be Rs. 2,00,000 or Rs. 2,40,000, whichever is higher as Standard rent is not applicable in this case</td>
<td></td>
</tr>
<tr>
<td><strong>Value as per Sec. 23(1)(a)</strong></td>
<td>2,40,000</td>
</tr>
<tr>
<td><strong>Step II:</strong> Actual rent received/receivable (21,000*6)</td>
<td>1,26,000</td>
</tr>
</tbody>
</table>

Since the property is let out and was vacant for part of the year and the actual rent received is less than the value determined **u/s 23(1)(a)**, **Sec. 23(1)(c)** would be applicable. Therefore, the gross annual value shall be the actual rent received or receivable,

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Amount (Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross annual value</td>
<td>1,26,000</td>
</tr>
<tr>
<td><strong>Less:</strong> Municipal tax paid</td>
<td>30,000</td>
</tr>
<tr>
<td>Net annual value</td>
<td>96,000</td>
</tr>
<tr>
<td><strong>Less:</strong> Statutory deduction @ 30%</td>
<td>28,800</td>
</tr>
<tr>
<td><strong>Income from House Property</strong></td>
<td>67,200</td>
</tr>
</tbody>
</table>

**Note:** Where the owner is assessable in India for the rent received in foreign currency, the rate of exchange for conversion of such foreign currency into Indian rupee shall be the Telegraphic Transfer Buying Rate (TT Buying Rate) of such currency on the specified date.
Determination of Annual Value

**What is Annual Value?**

Income from house property is taxable on the basis of annual value. Even if the property is not let out, notional rent receivable is taxable as its annual value.

As per **Sec. 23(1)(a)** the annual value of any property shall be the sum for which the property might reasonably be expected to be let out from year-to-year. In determining the annual value there are four factors which are normally taken into consideration. These are: i) Actual rent received or receivable, ii) Municipal value, iii) Fair rent of the property, iv) Standard rent.

**Computation of annual value of a property [Sec. 23(1)]**

As per the Act the annual value is the value after deduction of Municipal taxes, if any, paid by the owner. But for the sake of convenience, the annual value may be determined in the following steps:

**Step I:** Determine the gross annual value.

**Step II:** From the gross annual value compared in Step I, deduct Municipal tax actually paid by the owner during the previous year.

The balance shall be the net annual value which, as per the Income-tax Act is the annual value.

**Example:-** Mrs. X has let out one house property @ Rs. 62,000 p.m., Municipal Valuation Rs. 72,000 p.m., Fair Rent Rs. 90,000 p.m., Standard rent Rs. 1,00,000 p.m., Municipal Tax paid Rs. 40,000.

Compute Net Annual Value.

**Solution:-**

**Computation of Income under the head House Property:**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Annual Value</td>
<td>10,80,000</td>
</tr>
<tr>
<td>Working Note:</td>
<td></td>
</tr>
<tr>
<td>a) Fair Rent (Rs. 90,000 *12)</td>
<td>10,80,000</td>
</tr>
<tr>
<td>b) Municipal Value (Rs. 72,000 *12)</td>
<td>8,64,000</td>
</tr>
<tr>
<td>c) Higher of a) or b)</td>
<td>10,80,000</td>
</tr>
<tr>
<td>d) Standard Rent (Rs. 1,00,000 *12)</td>
<td>12,00,000</td>
</tr>
<tr>
<td>e) Expected Rent (Lower of c or d)</td>
<td>10,80,000</td>
</tr>
<tr>
<td>f) Rent received/receivable (Rs. 62,000 *12)</td>
<td>7,44,000</td>
</tr>
<tr>
<td><strong>Gross Annual Value shall be higher of e) or f)</strong></td>
<td>10,80,000</td>
</tr>
<tr>
<td><strong>Less: Municipal Tax</strong></td>
<td>40,000</td>
</tr>
</tbody>
</table>
The annual value has to be determined for different categories of properties. These categories are:

**Category A.** House property - Let out throughout the previous year.

**Category B.** House property - Let out and was vacant during the whole or part of the previous year.

**Category C.** House Property - Part of the year let out and part of the year occupied for own residence.

**Category A:** House property - Let out throughout the previous year

**Step 1:** Determining the gross annual value:

According to Sec. 23(1), the annual value of any property shall be deemed to be:

(a) The sum for which the property might reasonably be expected to let out from year-to-year (i.e., expected rent); or

(b) Where the property or any part of the property is let out and the actual rent received or receivable by the owner in respect thereof is in excess of the sum referred to in clause a), the amount so received or receivable, i.e., the actual rent.

For calculating Gross Annual Value of the property which is let out, first calculate expected rent as per clause (a) above and then compare the same with the actual rent received or receivable as per clause (b). If the actual rent so received or receivable is more than the expected rent computed as per clause (a), the Gross Annual Value shall be the actual rent so received or receivable. On the other hand, if the actual rent so received or receivable is less than the expected rent, then the Gross Annual Value shall be expected rent so computed.

**How to calculate expected rent:** The higher of the following two is taken to be the expected rent:

i) Municipal Valuation;

ii) Fair Rental Value.

**Step 2:** Taxes levied by any local authority in respect of the property, i.e., Municipal taxes (including taxes levied for services) to be deducted. Municipal taxes, etc., levied by local authority are to be deducted from the gross annual value calculated as above, if the following conditions are fulfilled:

a) the Municipal taxes have been borne by the owner, and

b) these have been actually paid during the previous year.

Therefore, deduction for Municipal taxes, etc., levied by any local authority is allowed if they are borne and actually paid by the owner. It must be noted that the taxes are allowed as deduction only in the previous year in which these are paid. Municipal taxes, etc., due but not paid shall not be allowed as deduction. However, Municipal taxes, etc., paid during the previous year are allowable even if they relate to past years or future years.
Category B.:- House Property- Let out and was vacant during the whole or part of the previous year:

According to Sec. 23(1), the annual value of such house property shall be deemed to be:-

a) the sum for which the property might reasonably be expected to let out from year-to-year, i.e., the expected rent; or

b) where the property or any part of the property is let out and the actual rent received or receivable by the owner in respect thereof is in excess of the sum referred to in clause (a), the amount so received or receivable, i.e., the actual rent; or

c) where the property or any part of the property is let out and was vacant during the whole or any part of the previous year and owing to such vacancy the actual rent received or receivable by the owner in respect thereof is less than the sum referred to in clause (a), the amount so received or receivable, i.e., the actual rent, if any:

From the perusal of the above, the following two scenarios emerge:-

Scenario1: Where the property is let out and was vacant for part of the year and the actual rent received or receivable is more than the sum determined under clause (a) in spite of vacancy period.

In this case, clause (c) shall not be applicable as it will be applicable only when actual rent received or receivable is less than the sum referred under clause (a). Hence, the gross annual value in this case shall be:

1) the sum for which the property might reasonably be expected to be let out from year-to-year; or

2) actual rent received or receivable, whichever is higher.

Example:- Municipal Value of house is Rs.1,00,000, Fair Rent Rs. 1,40,000, Standard Rent Rs.1,30,000. The house property has been let out for Rs.13,000 p.m. and was vacant for one month during the previous year 2011-12. Municipal taxes paid during the year were Rs. 50,000. Compute the annual value for assessment year 2012-13.

Solution:-

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Annual Value</td>
<td>1,43,000</td>
</tr>
</tbody>
</table>

**Working Note:**

a) Fair Rent                        | 1,40,000 |

b) Municipal Value                  | 1,00,000  |

c) Higher of a) or b)               | 1,40,000  |

d) Standard Rent                    | 1,30,000  |

e) Expected Rent (Lower of c or d)  | 1,30,000  |

f) Rent received/receivable         | 1,43,000  |
Scenario 2: Where the property is let out and was vacant for whole or part of the year and the actual rent received or receivable owing to such vacancy is less than the sum determined under clause (a).

The annual value of the property shall be determined under this situation if all the following 3 conditions are satisfied:

1) The property is let out;
2) It was vacant during the whole or part of the previous year;
3) Owing to such vacancy, the actual rent received or receivable is less than the value determined under clause Sec. 23(1)(a).

In this case, both clause (a) and clause (b) shall not be applicable but clause (c) shall be applicable and the gross annual value shall be the actual rent received or receivable.

Example: Consider the above illustration and assume that the property was vacant for 3 months. Determine the annual value for the assessment year 2012-13

Solution:-

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Amount (Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Expected rent (as determined above)</td>
<td>Rs. 1,30,000</td>
</tr>
<tr>
<td>b) Actual rent received/receivable (Rs. 13,000*9)</td>
<td>Rs. 1,17,000</td>
</tr>
</tbody>
</table>

As the actual rent received or receivable owing to vacancy is less than the sum determined under clause (a), it will fall under situation 2, i.e., Sec. 23(1)(c) and, therefore, net annual value shall be determined as under:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Amount (Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actual rent receive or receivable</td>
<td>Rs. 1,17,000</td>
</tr>
<tr>
<td>Less:- Municipal Taxes Paid</td>
<td>Rs. 50,000</td>
</tr>
<tr>
<td>Net Annual Value</td>
<td>Rs. 67,000</td>
</tr>
</tbody>
</table>
Category C:- House Property- Let out for part of year and rest of the year occupied for own residence

Where a house property is let out for part of the year and rest of the year occupied for own residence, its annual value shall be determined as per the provision of Sec. 23(1) relating to let out property. In this case the period of occupation of property for own residence shall be irrelevant and the annual value of such house property shall be determined as if it is let out for part of the year. Hence, the expected rent as per Sec. 23(1) (a) shall be taken for full year but the actual rent received or receivable shall be taken only for the period it is let out and the gross annual value shall be higher of these two.

Example:- R has a house property in Delhi whose Municipal Value is Rs. 1,20,000 and the Fair Rental Value is Rs. 1,40,000. It was self occupied by R. From 1.4.2011 to 31.7.2011. W.e.f. 1.8.2011 it was let out at Rs.10,000 p.m. Compute the annual value of the house property for assessment year 2012-13 if the Municipal taxes paid during the year were Rs.40,000.

Solution:-

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Amount (In Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>The gross annual value shall be higher of the following two:</td>
<td>1,40,000</td>
</tr>
<tr>
<td>a) Expected rent (Municipal Value Rs. 1,20,000 or FR Rs. 1,40,000, whichever is higher)</td>
<td></td>
</tr>
<tr>
<td>b) Actual rent received/receivable for let out period, i.e., Rs. 10,000*8</td>
<td>80,000</td>
</tr>
<tr>
<td>Gross Annual Value a) or b), whichever is higher)</td>
<td>1,40,000</td>
</tr>
<tr>
<td>Less: Municipal Taxes</td>
<td>40,000</td>
</tr>
<tr>
<td>Net Annual Value</td>
<td>1,00,000</td>
</tr>
</tbody>
</table>

Treatment of unrealised rent [Explanation to Sec. 23(1)]

As per the Explanation, the actual rent received or receivable mentioned in Sec. 23(1)(b) and (c) shall not include the amount of rent which the owner cannot realise, subject to the rules made in this behalf. In other words, unrealised rent, if any, should be deducted from clause (b) or (c) of Sec. 23(1).

Rules for unrealised rent

The amount of rent which the owner cannot realise shall be equal to the amount of rent payable but not paid by a tenant of the assessee and so proved to be lost and irrevocable where-

(a) The tenancy is bona fide;
(b) The defaulting tenant has vacated, or steps have been taken to compel him to vacate the property;
(c) The defaulting tenant is not in occupation of any other property of the assessee;
(d) The assessee has taken all reasonable steps to institute legal proceedings for the recovery of the unpaid rent or satisfies the Assessing Officer that legal proceedings would be useless.

**Important Note:-**

Explanation to Sec. 23(1) provides that unrealised rent should be deducted from clause (b) or clause (c) of Sec. 23(1), i.e., the actual rent received or receivable. It does not provide that it should be deducted from clause (a), i.e., from expected rent. Thus, problem will arise when gross annual value is to be taken as expected rent instead of actual rent received or receivable, as the assessee in that case cannot take the deduction of unrealised rent.

However, in the income-tax return forms, unrealised rent has been shown as deduction from the gross annual value (i.e., after taking expected rent or actual rent, whichever is higher). It is, therefore, recommended that unrealised rent should be deducted after computation of gross annual value.

Similarly, where a house is vacant for part of the year, Sec. 23(1)(c) provides that gross annual value is to be taken as actual rent if the same is less than the expected rent. In this case also unrealised rent should be deducted after computation of gross annual value (i.e., the actual rent).

Schedule House Property of the income-tax return form in which details of income from house property are to be given is given below:

**Schedule House Property : Details of Income from House Property**

<table>
<thead>
<tr>
<th></th>
<th>Details</th>
<th>Amount (Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>a)</td>
<td>Annual letable value/rent received or receivable (higher if let out for whole of the year, lower if let out for part of the year)</td>
<td></td>
</tr>
<tr>
<td>b)</td>
<td>The amount of rent which cannot be realized</td>
<td></td>
</tr>
<tr>
<td>c)</td>
<td>Tax paid to local authorities</td>
<td></td>
</tr>
<tr>
<td>d)</td>
<td>Total (1b+1c)</td>
<td></td>
</tr>
<tr>
<td>e)</td>
<td>Balance (1a-1d)</td>
<td></td>
</tr>
<tr>
<td>f)</td>
<td>30% of 1e</td>
<td></td>
</tr>
<tr>
<td>g)</td>
<td>Interest payable on borrowed capital</td>
<td></td>
</tr>
<tr>
<td>h)</td>
<td>Total (1f+1g)</td>
<td></td>
</tr>
<tr>
<td>i)</td>
<td>Income from house property 1 (1e-1h)</td>
<td></td>
</tr>
</tbody>
</table>

**Example:-** ABC furnishes the following particulars in respect of a house property owned by him in Delhi.

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Amount (Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Municipal Value</td>
<td>1,00,000</td>
</tr>
</tbody>
</table>
The tenant vacated the property on 31.10.2012 and thereafter the property was let out for Rs. 15,000 p.m.

ABC could not realise the rent for the months of September and October, 2012 due to the death of the earlier tenant.

**Query i)** Compute the annual value of the property for the assessment year 2013-14.

**Query ii)** What will be your answer if the unrealised rent is for one month instead of two months?

**Solution:-**

**Solution to Query i)**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Amount (In Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Step I:</strong> Determine the value as per Sec. 23(1)(a)</td>
<td>1,40,000</td>
</tr>
<tr>
<td>It shall be Rs. 1,00,000 or Rs. 1,40,000, whichever is higher</td>
<td></td>
</tr>
<tr>
<td><strong>Step II:</strong> Actual rent received/receivable</td>
<td>1,52,000</td>
</tr>
<tr>
<td>(Rs. 11,000<em>7 + 15,000</em>5)</td>
<td></td>
</tr>
<tr>
<td>Gross Annual Value</td>
<td>1,52,000</td>
</tr>
<tr>
<td>Less: Unrealised Rent</td>
<td>22,000</td>
</tr>
<tr>
<td>Less: Municipal Tax Paid</td>
<td>10,000</td>
</tr>
<tr>
<td>Net Annual Value</td>
<td>1,20,000</td>
</tr>
</tbody>
</table>

**Solution to Query ii)**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Amount (In Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Step I:</strong> Determine the value as per Sec. 23(1)(a)</td>
<td>1,40,000</td>
</tr>
<tr>
<td>It shall be Rs. 1,00,000 or Rs. 1,40,000, whichever is higher</td>
<td></td>
</tr>
<tr>
<td><strong>Step II:</strong> Actual rent received/receivable</td>
<td>1,52,000</td>
</tr>
<tr>
<td>(Rs. 11,000<em>7 + 15,000</em>5)</td>
<td></td>
</tr>
<tr>
<td>Gross Annual Value</td>
<td>1,52,000</td>
</tr>
<tr>
<td>Less: Unrealised Rent</td>
<td>11,000</td>
</tr>
<tr>
<td>Less: Municipal Tax Paid</td>
<td>10,000</td>
</tr>
<tr>
<td>Net Annual Value</td>
<td>1,31,000</td>
</tr>
</tbody>
</table>
Computation of Income of a property which is self occupied for residential purposes or which could not actually be self occupied owing to employment at other place [Sec. 23(2), (3) & (4)]

i) Where the annual value of such house shall be nil [Sec. 23(2)(a) & (b)]:
Where the property consists of house or part of a house which:-
   a) is in occupation of the owner for the purposes of his own residence, or
   b) cannot actually be occupied by the owner owing to his employment, business or profession carried on at any other place, he has to reside at that other place in a building not belonging to him, the annual value of such house or part of house shall be taken to be NIL.

ii) Where the annual value of such house shall not be nil [Sec. 23(3)]
The annual value of self-occupied house shall not be nil:
   i) if such house or part of the house is actually let out during the whole or any part of the previous year, or
   ii) any other benefit thereon is derived by the owner from such house.

In the above cases, the annual value shall be determined as per provisions applicable to let out properties, i.e., under clause (a), (b) or (c) of Sec. 23(1).

iii) Where assessee has more than one house for self occupation [Sec.23(4)]
If there are more than one residential houses, which are in the occupation of the owner for his residential purpose, then he may exercise an option to treat any one of the houses to be self-occupied. The other house(s) will be deemed to be let out and annual value of such house(s) will be determined as per Sec. 23(I)(a), i.e., the sum for which the property might reasonably be expected to be let out from year-to-year. The assessee in this case, should exercise his option in such a manner that his taxable income is the minimum. Such option may changed from year-to-year. However, if the assessee has a house property which consists of two or more residential units and all such units are self occupied, the annual value of the entire house property shall be taken as nil as there is only one house property, though it has more than one residential units.

iv) Deduction in respect of one self occupied house where annual value in nil:
Where annual value of one self-occupied house is nil, the assessee will not be entitled to the standard deduction of 30%, as the annual value itself is nil. However, the assessee will be allowed deduction on amount of interest (including 1/5 th of the accumulated interest of pre-construction period) as under:-

| a) Where the property is acquired or constructed with capital borrowed on or after 1.4.1999 and such acquisition or construction is completed within 3 years of the end of the financial year in which the capital was borrowed. | Actual interest payable, subject to maximum Rs. 1,50,000 if certificate mentioned in point 2 in box given below is obtained. |
In any other case, i.e., borrowed for repairs or renewal or conditions mentioned in clause (a) are not satisfied. Actual interest payable subject to maximum of Rs. 30,000

Example: Y has two houses, both of which are self-occupied. The particulars of the houses are as under:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>1st House Amount (Rs.)</th>
<th>2nd House Amount (Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Municipal Value</td>
<td>70,000</td>
<td>1,00,000</td>
</tr>
<tr>
<td>Fair Rental Value</td>
<td>82,000</td>
<td>1,30,000</td>
</tr>
<tr>
<td>Standard Rent</td>
<td>-</td>
<td>1,10,000</td>
</tr>
<tr>
<td>Date of completion</td>
<td>1.1.1994</td>
<td>1.10.1994</td>
</tr>
<tr>
<td>Municipal taxes</td>
<td>7,000 paid during the year</td>
<td>10,000 paid during the year</td>
</tr>
</tbody>
</table>

Suggest which house should be opted by Y to be assessed as self-occupied so that his tax liability is minimum.

Solution:-
Assume both houses to be let out

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Deemed to be let out 1st House Amount (Rs.)</th>
<th>Deemed to be let out 2nd House Amount (Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Annual Value</td>
<td>82,000</td>
<td>1,10,000</td>
</tr>
<tr>
<td>Less: Municipal Taxes</td>
<td>7,000</td>
<td>10,000</td>
</tr>
<tr>
<td>Net Annual Value</td>
<td>75,000</td>
<td>1,00,000</td>
</tr>
<tr>
<td>Less: Statutory Deduction @30%</td>
<td>22,500</td>
<td>30,000</td>
</tr>
<tr>
<td>Net Annual Value</td>
<td>52,500</td>
<td>70,000</td>
</tr>
</tbody>
</table>

If house I is opted to be self occupied the income of house property shall be:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Amount (Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>House I</td>
<td>Nil</td>
</tr>
<tr>
<td>House II</td>
<td>70,000</td>
</tr>
<tr>
<td><strong>Income from House Property</strong></td>
<td><strong>70,000</strong></td>
</tr>
</tbody>
</table>
If house II is opted to be self occupied the income of house property shall be:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Amount (Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>House I</td>
<td>52,500</td>
</tr>
<tr>
<td>House II</td>
<td>Nil</td>
</tr>
<tr>
<td><strong>Income from House Property</strong></td>
<td><strong>52,500</strong></td>
</tr>
</tbody>
</table>

Therefore, he should opt for house II to be self occupied.

**Computation of income of house property which is partly let out and partly self occupied**

In this case the annual value, deductions and the income of the part of the property which is let out shall be computed separately under the let out property and the income of the portion or the part of the property which is self occupied shall be determined as mentioned under the para “self-occupied property” category.

**Example:-**

Where one unit is let out and the other unit is self occupied, the whole property cannot be taken as a single unit. Municipal value or fair rent if not given separately, shall be apportioned between the let out portion and self occupied portion on built-up area basis.

Similarly, where, in a building the ground floor is self-occupied and the first floor is let out or vice-versa, such a property shall not be treated as a single unit. Instead, income from first floor which is let out shall be computed separately as per let out provisions and the floor which is self-occupied shall be computed separately as per self-occupied provisions. Municipal tax and interest shall also be apportioned on the basis of built-up/floor area.

**Interest when not deductible from “Income from House Property” [Sec. 25]**

Interest on borrowed money which is payable outside India shall not be allowed as deduction u/s 24(b), unless the tax on the same has been paid or deducted at source and in respect of which there is no person in India, who may be treated as an agent of the recipient for such purpose.

**Unrealised rent received subsequently to be charged to income-tax [Sec. 25AA]**

Where the assessee could not realise rent from a property let to a tenant and the same was allowed as deduction and, subsequently, the assessee has realised any amount in respect of such rent, the amount so realised shall be deemed to be the income chargeable under the head “Income from house property” and, accordingly, charged to income-tax as the income of that previous year in which such rent is realized, whether or not the assessee is the owner of that property in the previous year.

**Special provisions for arrears of rent received [Sec. 25B]**

Where the assessee:

a) is the owner of an property consisting of any buildings or lands appurtenant thereto which has been let out to a tenant; and
b) has received any amount, by way of arrears of rent from such property, not charged to income-tax for any previous year; the amount so received, after deducting a sum equal to 30% of such amount, shall be deemed to be the income chargeable under the head income from house property. Further, it will be charged to income-tax as the income of that previous year in which such rent is received, whether the assessee is the owner of that property in that year or not.

**Property owned by co-owners [Sec. 26]**

Sometimes the property consisting of buildings or the buildings and land appurtenant thereto is owned by two or more persons, who are known as co-owners. In such cases, if their representative shares are definite and ascertainable, such persons shall not be assessed as an AOP in respect of such property, but the share of each such person in the income from the property, as computed in accordance with Sec. 22-25, shall be included in his total income as under:-

a) **Where house property is self occupied by each co-owner:**

Where the house property owned by the co-owners is self occupied by each of the co-owner, the annual value of the property for each of such of co-owner shall be *nil* and each of the co-owner shall be entitled to the deduction of Rs. 30,000/ 1,50,000 under Sec. 24(b) on account of interest on borrowed money.

b) **Where the entire or part of the property is let out:**

As regard, the property or part of the property which is owned by co-owners is let out, the income from such property or part thereof shall be first computed as if this property or part thereof is owned by one owner and thereafter the income so computed shall be apportioned amongst each co-owner as per their definite share.

**Can Annual Value (Net Annual Value) be negative?**

The Annual Value (NAV) can be negative only when Municipal taxes paid by the owner are more than the gross annual value.

**Can there be any loss under the head income from house property?**

This brings us to the question as to whether there can be any loss under this head?

1) In so far as income from a self-occupied property is concerned, the annual value is taken as *nil*. No deductions are allowed except for interest on borrowed funds up to a maximum of Rs. 30,000/1,50,000. Naturally, therefore, there may be a loss in respect of such property up to a maximum of Rs. 30,000/1,50,000, as the case may be.

2) In respect of any other type of house property, namely, a house property which is a fully let out or let out during part of the year, etc., there are no restrictions on deductions and, therefore, there can be loss under this head in respect of such properties due to Municipal taxes as well as deductions. Similarly, deductions under Sec. 24 in case of property deemed to be let out can be more than net annual value.

**Example:**
ABC is a marketing officer at Lucknow. He owns two residential houses. The first is in Delhi and was constructed on 31.12.1991. This has been let out on a rent of Rs. 3,000 p.m. to a company for its office. The second house is in Lucknow which was constructed on 1.3.2011 and has been occupied by him as his own residence since then. He took a loan of Rs. 90,000 on 1.8.2009 @ 8% per annum interest for the purpose of construction of this house. The entire loan is still outstanding.

Other relevant particulars in respect of these houses are given below:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>1st House</th>
<th>2nd House</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount (Rs.)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Municipal Valuation</td>
<td>24,000</td>
<td>18,000</td>
</tr>
<tr>
<td>Municipal Tax</td>
<td>10% of Municipal Value</td>
<td>8% of Municipal Value</td>
</tr>
<tr>
<td>Expenses on repairs</td>
<td>2,000</td>
<td>6,000</td>
</tr>
<tr>
<td>Fire Insurance Premium</td>
<td>200</td>
<td>--</td>
</tr>
<tr>
<td>Ground Rent</td>
<td>175</td>
<td>130</td>
</tr>
<tr>
<td>Land Revenue</td>
<td>1,000</td>
<td>650</td>
</tr>
<tr>
<td>Interest on Loan</td>
<td>--</td>
<td>7,200</td>
</tr>
</tbody>
</table>

The ground rent of the Delhi house and Municipal tax and land revenue of the Lucknow house are unpaid.

ABC was transferred to Mumbai on 1.12.2011 where he resides in a house at a monthly rent of Rs. 4,000 and his house at Lucknow was let out on the same day on rent of Rs. 2,000 per month.

Compute the “Income from house property” in respect of Mr. ABC.

Solution:-

<table>
<thead>
<tr>
<th>Particulars</th>
<th>1st House (Let Out)</th>
<th>Amount (Rs.)</th>
<th>2nd House</th>
<th>Amount (Rs.)</th>
<th>Amount (Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Annual Value (Rent Received)</td>
<td></td>
<td>36,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less:- Municipal Taxes</td>
<td></td>
<td>2,400</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Annual Value</td>
<td></td>
<td>33,600</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less:- Deduction u/s 24</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Statutory Deduction @ 30%</td>
<td></td>
<td>10,080</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(I) Income from House Property</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>23,520</td>
</tr>
<tr>
<td>Particulars</td>
<td>Amount (Rs.)</td>
<td>Amount (Rs.)</td>
<td>Amount (Rs.)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>---------------------------------------------------------------------------</td>
<td>--------------</td>
<td>--------------</td>
<td>--------------</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>IInd House (Part of the year let out and part of the year self occupied)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Gross Annual Value higher of the following two:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) Municipal value or Fair rent, whichever is more, i.e., Rs 18,000 or Rs. 24,000</td>
<td>24,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>b) Actual rent received or receivable 2,000 *4</td>
<td>8,000</td>
<td>24,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Less:- Municipal taxes</strong></td>
<td>--</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Net Annual Value</strong></td>
<td></td>
<td></td>
<td>24,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Less:- Deduction u/s 24</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) Statutory Deduction @30%</td>
<td>7,200</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>b) Interest on Loan (7,200+960)</td>
<td>8,160</td>
<td>15,360</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>(II) Income from House Property</strong></td>
<td></td>
<td></td>
<td>8,640</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Income from House Property (I + II)</strong></td>
<td></td>
<td></td>
<td>32,160</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Deemed Ownership [Sec. 27]**

As per Sec. 27, though the following persons are not the legal owners of the property, yet deemed to be the owners for the purpose of Sec. 22 to 26:

- **Transfer to a spouse/child [Sec. 27(i)]:**
  If an individual transfers any house property to his or her spouse/ minor child otherwise than for adequate consideration, the transferor in that case is deemed to be the owner of the house property so transferred. This would, however, not cover cases where property is transferred to a spouse (or minor married daughter) in connection with an agreement to live apart.

  **Note:-** Where the individual transfers cash to his/her spouse or minor child and the transferee acquires a house property out of such cash, the transferor shall not be treated as deemed owner of the house property. Such transaction will, however, attract clubbing provisions.

- **Holder of an impartible estate [Sec. 27(ii)]:**
  The holder of an impartible estate shall be deemed to be the individual owner of all properties comprised in the estate. The impartible estate, as the word itself suggests, is a property which is not legally divisible.

- **Member of a Co-operative Society, etc. [Sec. 27(iii)]:**
A member of a co-operative society, company or other association of person to whom a building or part thereof is allotted or leased under a House Building Scheme of a society/company/association, shall be deemed to be owner of that building or part thereof allotted to him, although the co-operative society/company association is the legal owner of that building.

**Person in possession of a property [Sec. 27(iiiia)]**

A person who is allowed to take or retain the possession of any building or part thereof in part performance of a contract of the nature referred to in sec. 53A of the Transfer of Property Act shall be the deemed owner of that house property. This would cover cases where the **a)** possession of property has been handed over to the buyer; **b)** sale consideration has been paid or promised to be paid to the seller by the buyer ; **c)** sale deed has not been executed like power of attorney/agreement to sell/will, etc., have been executed. The buyer would be deemed to be the owner of the property, although it is not registered in his name.

**Person having right in a property for a period not less than 12 years [Sec. 27(iiiib)]**

A person who acquires any right in or with respect to any building or part thereof, by virtue of any transaction as is referred to in sec. 269UA(f), i.e., transfer by way of lease for not less than 12 years shall be deemed to be the owner of that building or part thereof. This will not cover the case where any right by way of lease is acquired on month-to-month basis or for a period not exceeding one year.

**Set Off and Carry Forward of loss**

As per **Sec. 70** if any person has loss from any house property, such loss can be set off from income of any other house property. It is called inter-source adjustment or intra-head adjustment., e.g., Mr. X has two houses; there is loss of Rs. 34,000 from one house and income of Rs. 80,000 from other house, in this case, loss from one source (house) can be set off from income of the other source (house).

As per **Sec. 71** unadjusted loss can be set off from incomes of other heads but as per **Sec.58 (4)**, such loss can be set off from casual income. It is called inter-head adjustment., e.g., Mr. X has loss from house property, Rs. 3,00,000 and income from business/profession Rs. 5,00,000, in this case, loss is allowed to be set off but if he has any casual income, loss cannot be set off from casual income.

As per **Sec.71B** unadjusted loss is allowed to be carried forward to the subsequent years but for a maximum period of 8 years starting from the subsequent to the year in which the loss was incurred and in the subsequent years, loss can be set off only from income under the head house property., e.g., Mr. X has incurred loss under the head house property in the previous year 2012-13. It could not be set off in the same year, it can be carried forward upto previous year 2020-21.

**e.g.,** Mr. X has loss under the head house property of the previous year 2004-05 of Rs. 5,00,000 and income under the head house property of Rs. 5,00,000 in previous year 2012-13. In this case, loss shall be allowed to be set off because it will be allowed to be carried forward upto a period of 8 years starting from previous year 2005-06.
Other Aspects:-

i.) Cost of changing house before three years:-

The cost of selling a house is high. If an individual sells a property before three years, sale will attract short-term capital gains tax chargeable at the rate of 30%. In addition, individual will have to pay stamp duty (6-8%), and brokerage (1-2%) on purchase of a new house. Therefore, a house should be purchased and held on to for at least 3-5 years. Liquidity is another factor to consider before an individual decides to change his/her house. It can take time to sell a house at his/her desired price. Even if he/she wants to change house, wait for at least three years so that his/her profit earned becomes long-term capital gain, because, if the gain is long-term capital gain, he/she can save tax by investing it in another house. Short term capital gain must be avoided on house property.

If an individual has transferred/sold any land/building for an amount lesser than the value adopted by the State government’s stamp valuation authority, then the value adopted by the authority will be considered as the sale value for the purpose of computing income-tax. Selling a house even before 5 years is not tax efficient. If an individual sells the house property before 5 years, then the deduction claimed under section 80 C for principal repayment in the earlier years will be withdrawn. This amount will be added to his/her income and taxed as per income-tax slabs.

ii.) Buying a house through loan is better than renting:-

Buying a house is one of the most important decisions of an individual’s lifetime. If an individual has available down payment (typically 15% of house value), then he/she can borrow balance 85% against the house he/she intends to buy. The benefits of home loan interest deduction and repayment of principal will be more than the house rent allowance deduction. Most important benefit in buying a house is the hidden appreciation of the cost of property. Buying a house using home loan is also an investment for retirement. It is like a disciplined saving for his/her safe retirement. An individual can reverse mortgage the house after attaining 60 years of age. Individual monthly expenses could be met by the tax-free amount he/she will receive from reverse mortgage.

iii.) Ownership and possession is a must to claim interest:-

Ownership and possession is a must to claim deduction on home loan interest.

An individual has to report income/loss from property only if he/she is the owner of that property. An owner is a person who has the legal title of the property and has the right to receive income from it.

Solely Owned Property:- If an individual is the sole owner of a property, then he/she should report the entire income/loss from the property in his income-tax return.

Jointly Owned Property:- A property which has more than one owner is a jointly owned property. The owners are called co-owners and their share in the property is generally documented in the registry.

Depending on the share, co-owners should report the income from house property
separately in their returns. Suppose an individual own 30% of a property, then he/she should report 30% of the income in his/her return. In case of jointly-owned self-occupied property, both he/she and the other owner can separately claim home loan interest deduction up to Rs.1,50,000 in his/her respective income-tax return.

iv.) Property owned by partners of the firm:
It is the partners of the firm taken as a whole who are owners of the house property. But when these partners go by a firm’s name in their collective capacity, and when a particular immovable property or properties happen to be included in the assets of the firm, the income from such property can and should be assessed in the hands of the firm. In law, the joint effects of a partnership firm belong to the firm; a partner has no individual right in any specific asset of the firm and he/she has no exclusive right to possess or use the property. Hence, it is not open to any partner to be assessed as an individual qua his share in the firm.
FAQ

1. What kind of income is taxed under the head “Income from house property”?
Rent and other income from any flat, building or land appurtenant thereto are generally taxed under the head ‘Income from house property’.
As per Sec. 22 “House Property” does not include vacant land. Income derived from a vacant land is charged either under the head ‘Income from Business or Profession” or under the head “Income from other sources”, depending upon its nature. However, if the owner occupies the house property for the purposes of his own business or profession, no tax is to be paid under this head in respect of such property.

Examples:-

a.) Cases where income assessed falls under the head “Income form house property.”
   i. Income from own building used partly for business and portions let out on rent.
   ii. Rent from setting-up a market.
   iii. Income form shops in Malls with limited rights is mall management and business center and this is income from business and profession.
   iv. Annual value of a property is liable to be charged to income-tax even in a case where the property is mortgaged and no income is derived from it.

b.) Cases where income assessed doesn’t falls under the head “Income form house property.”
   i. Rent from vaults for storage of films.
   ii. Rent from furnished accommodation.
   iii. Warehousing charges received for storing goods in warehouse is assessable as business income.
   iv. Income from letting out surplus portions of the non-factory building including godown.

2. What is the “annual value” of a house property and how it is determined?
The annual value means the amount for which the property might be reasonably be expected to be let out from year-to-year. However, if the actual rent received or receivable in respect of any let out property exceeds the reasonable amount, the tax is charged on the actual amount of rent received or receivable. However, in place when the rent control law is in operation, the standard rent under such law should be taken as the basis of determining the annual value.

3. What are the computing factors which are taken into consideration in determining the annual value of a property?
The annual value of a property which is let out throughout the previous year shall be computed in the following steps:

   Step 1: Determine the gross annual value:
According to Sec. 23(1), the annual value of any property shall be deemed to be-

   a) the sum for which the property might reasonably be expected to let from year-to-year; or
where the property or any part of the property is let out and the actual rent received or receivable by the owner in respect thereof is in excess of sum referred to in clause (a), the amount so received or receivable.

For calculating Gross Annual Value of the property which is let out, one has to calculate reasonable expected rent as per clause a) above and then compare the same with the actual rent received or receivable as per clause b). If the actual rent so received or receivable as per clause b) is more than the reasonable expected rent computed as per clause a), the Gross Annual Value shall be the actual rent so received or receivable. On the other hand, if the actual rent so received or receivable is less than expected rent then the Gross Annual Value shall be expected rent so computed.

As per clause (a) cited above, the first step for determining of gross annual value is to calculated the sum for which the property might reasonably be expected to be let out from year-to-year. For estimation of the same, the higher of the following two is taken to be expected rent:

i) Municipal Valuation

ii) Fair rental Value

Step 2: Taxes levied by any local authority in respect of the property, i.e., Municipal taxes (including service taxes) to be deducted: Municipal taxes, etc, levied by local authority are to be deducted from the gross annual value calculated as above, if the following conditions are fulfilled:

a) Municipal taxes have been borne by the owner, and

b) These have been actually paid during the previous year.

Therefore, deduction for Municipal taxes, etc, levied by local authority is allowed if they are borne and actually paid by the owner. It must be noted that the taxes are allowed as deductions only in the previous year in which these are paid. Municipal taxes, etc., due but not paid shall not be allowed as deductions. However, Municipal taxes, etc, paid during the previous are allowable even if they relate to past or future years.

4. What deductions are available from annual value?

From the annual value the following deductions are available u/s 24 of the Income-tax Act –

(a) a deduction u/s 24(a) of sum equal to 30% of the annual value,

(b) where the property has been acquired, constructed, repaired, renewed or reconstructed with borrowed capital, the amount of any interest payable on such capital u/s 24(b).

However, the amount of said deduction for interest in respect of a self-occupied property, shall be as under:-

i) Where the property is acquired or constructed with capital borrowed on or after 1.4.99 and such acquisition or construction is completed before 3 years from the end of the financial year in which capital was borrowed, the amount of deduction shall be limited to Rs. 1,50,000 w.e.f. the asst. year 2002-03.

The said higher deduction of Rs. 1,50,000 will not be available, unless the assessee files a certificate from the lender specifying the amount of interest payable by the assessee for the purpose of such acquisition or construction of property or conversion of the whole or any
part of capital borrowed which remains to be repaid as a new loan (3rd proviso to Sec.24, w.e.f. the asst. year 2003-04). However, no such supporting evidences are now permitted to be enclosed with the new IT Return forms. It is advised that the assessee should obtain such certificate and keep with him. Whenever required by the Assessing Officer, it should be furnished.

ii) In other cases, where the amount was borrowed prior to 1.4.99- Rs. 30,000.
It may further be noted that interest payable by an assessee in respect of funds borrowed for the purpose of acquisition or construction of house property prior to previous year in which such property has been acquired or constructed is deductible in five equal installments commencing from the previous year in which the house is acquired or constructed. However, the benefit of such prior interest will not be permissible if the interest has been claimed under any other section.

In case of self occupied house property, for which annual value has been taken as Nil none of the above deductions except the interest on borrowed capital subject to limit mentioned above is admissible.

5. What are the factors taken into consideration in determining the annual value of a property?
In determining the annual value there are four factors which are normally taken into consideration. These are as follows:

i) Actual rent received or receivable:-
Actual rent received/receivable is an important factor in determining the annual value of a property.

ii) Municipal Value:-
This is the value as determined by the Municipal authorities for levying Municipal taxes on house property. Municipal authorities normally charge house tax/Municipal taxes on the basis of annual letting value of such house property.

iii) Fair rent of the property:-
Fair rent is the rent which a similar property can fetch in the same or similar locality, if it is let out for a year.

iv) Standard Rent:-
The standard rent is fixed under the Rent Control Act. If the standard rent has been fixed for any property under the Rent Control Act, the owner cannot be expected to get a rent higher than the standard rent fixed under the Rent Control Act.

6. How can one compute the annual value of a property which is let out and was vacant during the whole or part of previous year?
According to Sec. 23(1), the annual value of such house property shall be deemed to be:-
a) the sum for which the property might reasonably be expected to let out from year-to-year; or

b) where the property or any part of the property is let out and the actual rent received or receivable by the owner in respect thereof is in excess of the sum referred to in clause a), the amount so received or receivable; or
c) where the property or any part of the property is let out and was vacant during the whole or any part of the previous year and owing to such vacancy the actual rent received or receivable by the owner in respect thereof is less than the sum referred in clause a) the amount so received or receivable.

7. How can one compute the annual value of a property which is let out for part of the year and was occupied by the owner for his own residence for a part of the previous year?

Where a house property is, during part of the year let out and part of the year occupied for own residence, its annual value shall be determined as per the provisions of Sec. 23(1) relating to let out property. In this case, the period of occupation of property for own residence shall be irrelevant and the annual value of such house property shall be determined as if it is let out. Hence, the expected rent as per Sec. 23(1)(a) shall be taken as full year but the actual rent received or receivable shall be taken only for the period let out.

8. What is the treatment of the interest attributable to the period prior to completion of construction?

Sometimes it happens that money is borrowed earlier and acquisition or completion of construction takes place in any subsequent year. Meanwhile interest becomes payable. In such a case interest paid/payable for the period prior to previous year in which the property is acquired/constructed will be aggregated and allowed in five successive financial years, starting from year in which the acquisition/construction was completed. Interest will be aggregated from the value of borrowing till the end of the previous year prior to previous year in which the house is completed and not till the date of completion of construction.

9. How is the income of a property which is self-occupied for residential purpose or could not actually be self occupied owing to employment computed?

Where the property consists of a house or part of house which-

a) is in the occupation of the owner for the purposes of his own residence; or

b) cannot actually be occupied by the owner by reason of the fact that owing to his employment, business or profession carried on at any other place, he has to reside at other place in a building not belonging to him, the annual value of such house or part of house shall be taken to be nil.

10. What is the treatment of the recovery of unrealised rent?

As per Sec. 25AA, where the assessee cannot realise rent from a property let out to a tenant and, subsequently, the assessee has realised any amount in respect of such rent, the amount so realised shall be deemed to be income chargeable under the head ‘Income from house property’ and, accordingly, charged to income-tax as the income of that previous year in which such rent is realized, whether or not the assessee is the owner of that property in that previous year.

Sec. 25AA neither provides that deduction of 30% of amount recovered shall be allowed nor it states that it will not be allowed. Hence, unless specifically provided, it should be allowed.
MCQ

1. Whether house property includes only agricultural land?
   a) True b) False
   **Correct Answer: b)**

   **Justification of correct answer:**
   The term house property includes flats, shops, office space, factory sheds, agricultural land and farm houses. House property also includes all type of house properties, i.e., residential houses, godowns, cinema building, workshop building, hotel building, etc. Thus, option b) is correct.

   **Comment on incorrect answer:**
   *Sec.22* defines the term house property as follows: house property consists of any building or land appurtenant thereto of which the assessee is the owner. The appurtenant lands may be in the form of a courtyard or compound forming part of the building. But such land is to be distinguished from an open plot of land, which is not charged under the head but under the head ‘Income from Other Sources’ or ‘Business Income’, as the case may be. Besides, ‘house property’ includes flats, shops, office space, factory sheds, agricultural land and farm houses. Thus Option a) is incorrect.

2. Whether income from house property is taxable in the hands of owner only?
   a) True b) False
   **Correct Answer: a)**

   **Justification of correct answer:**
   Income from house property is taxable in the hands of its legal owner in whose name the property is registered. ‘Owner’ for this purpose means a person who can exercise the rights of the owner not on behalf of the owner but in his own right. Thus, Option a) is correct.

   **Comment on incorrect answer:**
   As per *Sec. 27* income from house property is taxable in the hands of its legal owner in whose name the property stands. ‘Owner’ for this purpose means a person who can exercise the rights of the owner not on behalf of the owner but in his own right. A person entitled to receive income from a property in his own right to be treated as its owner, even if no registered document is executed in his name. Thus, Option b) is incorrect.

3. Whether open land would be charged under Income from house property?
   a) True b) False
   **Correct Answer: b)**

   **Justification of correct answer:**
   Open plot of land is charged either under the head ‘Income from Other sources’ or ‘Business Income, as the case may be. Thus, option b) is correct.

   **Comment on incorrect answer:**
Sec. 22 defines the term house property as follows: house property consists of any building or land appurtenant thereto of which the assessee is the owner. The appurtenant lands may be in the form of a courtyard or compound forming part of the building. But such land is to be distinguished from an open plot of land, which is not charged under the head but under the head ‘Income from Other Sources’ or ‘Business Income’, as the case may be. Besides, ‘house property’ includes flats, shops, office space, factory sheds, agricultural land and farm houses. Thus, Option a) is incorrect.

4. Whether other than property owner the person entitled to receive income from house property will be considered as property owner?
   a) True b) False
   Correct Answer: a)
   Justification of correct answer:
   A person entitled to receive income from a property in his own right is to be treated as its owner, even if no registered document is executed in his name. Thus, option a) is correct.
   Comment on incorrect answer:
   As per Sec. 27 income from house property is taxable in the hands of its legal owner in whose name the property stands. ‘Owner’ for this purpose means a person who can exercise the rights of the owner not on behalf of the owner but in his own right. A person entitled to receive income from a property in his own right is to be treated as its owner, even if no registered document is executed in his name. Thus, Option b) is incorrect.

5. Whether any conditions need to be fulfilled before the income of the property can be taxed under the head “Income from House Property”?
   a) True b) False
   Correct Answer: a)
   Justification of correct answer:
   Any income which needs to be taxed under the head “Income from House Property” needs to satisfy following three conditions:
   - The property must consist of buildings and lands appurtenant thereto;
   - The assessee must be the owner of such house property;
   - The property may be used for any purpose, but it should not be used by the owner for the purpose of any business or profession, the profit of which are chargeable to tax. If the property is used for own business or profession, it shall not be chargeable to tax.
   Thus, option a) is correct.
   Comment on incorrect answer:
   To fall under the head income from house property the property must fulfill certain conditions, i.e., it must consist of building and lands appurtenant thereto, assessee must be the owner of house property and the property must used by the owner for any purpose. Thus, Option b) is incorrect.
6. What is the tax charging section for Income from house property?
   a) Sec.22  b) Sec.23(1)(a)
   **Correct Answer: a)**

   **Justification of correct answer:**
   The annual value of property consisting of any building or lands appurtenant thereto of which the assessee is the owner shall be subject to Income-tax under **Sec. 22**. Thus, option a) is correct.

   **Comment on incorrect answer:**
   **Sec. 23(1)(a)** defines income from house property which, is taxable on the basis of annual value. Even if the property is not let-out, notional rent receivable is taxable as its annual value. Its not a charging section. Thus, option b) is incorrect.

7. Whether any deductions are available under the head “Income from House Property”?
   a) True  b) False
   **Correct Answer: a)**

   **Justification of correct answer:**
   Income chargeable under the head “Income from house property” shall be computed after making the following deductions, namely:-
   a. Standard Deduction
   b. Interest on borrowed capital
   Thus, option a) is correct.

   **Comment on incorrect answer:**
   Under **Sec.24** standard deduction & interest on borrowed capital are allowable as deductions. In case of any interest paid on outstanding amount of interest, same will not be allowed as deduction. Thus, option b) is incorrect.

8. How much standard deduction is available while calculating annual value?
   a) 20%  b) 30%
   **Correct Answer: b)**

   **Justification of correct answer:**
   From the net annual value computed, the assessee shall be allowed a standard deduction of a sum equal to 30% of the net annual value. Thus, option b) is correct.

   **Comment on incorrect answer:**
   Under **Sec.24** from the net annual value computed, the assessee shall be allowed a standard deduction of a sum equal to 30% of net annual value. Thus, option a) is incorrect.
9. Whether property constructed with borrowed money will amount to deduction under Income from house property?

a) True  b) False

Correct Answer: a)

Justification of correct answer:
Where the property has been acquired, constructed, repaired, renewed or reconstructed with borrowed capital, the amount of any interest payable on such capital is allowed as a deduction.

Furthermore, interest payable for the pre-construction period, i.e., prior to previous year in which such property has been acquired or constructed, shall be deducted in five equal installments commencing from previous year in which the house was acquired or constructed.

Thus, option a) is correct.

Comment on incorrect answer:
As per Sec. 24 interest payable in India on borrowed capital, where the property has been acquired, constructed, repaired, renovated or reconstructed with borrowed capital is allowable as a deduction. Thus, option b) is incorrect.

10. Whether for claiming deduction on account of interest it is necessary that same need to be paid in same year?

a) True b) False

Correct Answer: b)

Justification of correct answer:
The amount of interest payable yearly should be calculated separately and claimed as a deduction every year. It is immaterial whether the interest has been actually paid or not during the year. Thus, option b) is correct.

Comment on incorrect answer:
As per Sec. 24(b), where the property has been acquired, constructed, repaired or renewed or reconstructed with borrowed capital, the amount of any interest payable on such capital shall be allowed to be deducted while computing income under the head house property. Only simple interest is allowed on due basis. Thus, option a) is incorrect.

11. Whether interest amount payable before completion of construction is allowable as deduction under Income from house property?

a) True b) False

Correct Answer: a)

Justification of correct answer:
Interest amount paid/payable will be deducted. Same will be aggregated first and allowed in five successive financial years starting from the year in which the acquisition/construction was completed. Thus, option a) is correct.
Comment on incorrect answer:
As per Sec. 24(b) where the property has been acquired or constructed with borrowed capital, the interest, if any, payable on such capital borrowed for a period prior to previous year in which the property has been acquired or constructed, shall also be deducted in equal instalments for the previous year and for each of the four immediately succeeding previous years. Thus, option b) is incorrect.

12. When property is not let out how the annual value can be considered?
   a) Notional Rent, b) Municipal Rent
Correct Answer: a)
Justification of correct answer:
Income from house property is taxable on the basis of annual value. Even if the property is not let out, notional rent receivable is taxable as its annual value. Thus, option a) is correct.

Comment on incorrect answer:
As per Sec. 23(1)(a) the annual value of property is the sum which the property might reasonably be expected to fetch if the property is let from year-to-year. In the absence of rental value, notional rent will be considered as its annual value. Thus, option b) is incorrect.

13. What are the important factors for calculating the annual value?
   a) Actual rent received, b) Municipal value, c) Actual rent received & Municipal value
Correct Answer: c)
Justification of correct answer:
In determining the annual value there are four factors which are normally taken into consideration. These are: i) Actual rent received or receivable, ii) Municipal value, iii) Fair rent of the property, iv) Standard rent. Thus, option c) is correct.

Comment on incorrect answer:
In determining reasonable rent factors such as location of the property, annual rateable value of the property fixed by Municipalities, rents of similar properties in the neighborhood and rent which the property is likely to fetch, having regard to demand and supply are to be considered. Thus, option a) and b) is incorrect.

14. When fair rent is higher than Municipal value what will be the annual value?
   a) Fair Rent, b) Standard Rent
Correct Answer: a)
Justification of correct answer:
In calculating annual value, fair rent or Municipal value which even is higher will be considered as the annual value. Thus, option a) is correct.

Comment on incorrect answer:
Fair rent is the rental value which the property is expected to fetch, depending on the prevailing rents in the neighborhood and other market conditions. Municipal value is the rateable value of the property determined for the purpose of levy of Municipal taxes. Standard rent is the maximum rent for a property which its owner can legally charge from a tenant, as per the Rent Control Act. The reasonable rent for a property can be said to be the higher of its Municipal value or the fair rental value, but it shall not be, in any case, more than the standard rent for such property. Thus, option b) is incorrect.

15. When Municipal value is higher than standard rent what will be the annual value?
   a) Standard Rent, b) Municipal value
   
   Correct Answer: a)
   
   Justification of correct answer:
   In calculating annual value if the standard rent is lower than Municipal value same will be considered as the annual value. Thus, option a) is correct.

   Comment on incorrect answer:
   Fair rent is the rental value which the property is expected to fetch, depending on the prevailing rents in the neighborhood and other market conditions. Municipal value is the rateable value of the property determined for the purpose of levy of Municipal taxes. Standard rent is the maximum rent for a property which its owner can legally charge from a tenant, as per the Rent Control Act. The reasonable rent for a property can be said to be the higher of its Municipal value or the fair rental value, but it shall not be, in any case, more than the standard rent for such property. Thus, option b) is incorrect.

16. Whether actual rent amount should include the unrealised rent?
   a) True b) False
   
   Correct Answer: b)
   
   Justification of correct answer:
   The actual rent received or receivable mentioned shall not include the rent amount which the owner cannot realise. Thus, option b) is correct.

   Comment on incorrect answer:
   As per Rule 4 in determining the amount received or receivable, amount of unrealised rent shall not be included. The amount of unrealised rent shall be equal to amount of rent payable but not paid by a tenant of the assessee and proved to be lost and irrevocable. Thus, option a) is incorrect.

17. Whether annual value of house property can be considered as Nil?
   a) True b) False
   
   Correct Answer: a)
   
   Justification of correct answer:
**As per Sec. 23(2) (a) & (b)** where the property consists of house or part of a house which:- a) is in occupation of the owner for the purposes of his own residence, or b) cannot actually be occupied by the owner owing to his employment, business or profession carried on at any other place, he has to reside at that other place in a building not belonging to him, the annual value of such house or part of house shall be taken to be \textit{NIL}. Thus option a) is correct.

**Comment on incorrect answer:**

As per \textit{Sec.23 (3)} annual value of house shall not be \textit{nil}. Where the house or part of the house is actually let out during the whole or any part of the previous year or any other benefit there from is derived by the owner from such house. Thus, option b) is incorrect.

18. **Whether a person who is not legal owner of property can be considered as deemed owner ?**
a) True b) False

**Correct Answer:** a)

**Justification of correct answer:**

As per \textit{Sec. 27}, the following persons, though not the legal owners of the property, get are deemed to be the owners:

\textit{i)} to spouse

\textit{ii)} Holder of an impartible estate

\textit{iii)} Member of a co-operative society

\textit{iv)} Person in possession of property.

\textit{v)} Person having right in a property for a period of not less than 12 years.

Thus, option a) is correct.

**Comment on incorrect answer:**

Where the individual transfers cash to his/her spouse or minor child and the transferee acquires a house property out of such cash, the transferor shall not be treated as deemed owner of the house property. Such transaction will, however, attract clubbing provisions.

Thus, option b) is incorrect.

19. **Whether annual value of house can be consider as \textit{Nil}?**
a) True b) False

**Correct Answer:** a)

**Justification of correct answer:**

Where the assessee owns only one house property and it cannot actually be occupied by him because it is situated at a place other than a place where he is employed or carries on business or profession, in such a case also the annual value of the property is taken as \textit{Nil}, provided the property is not actually let out and no other benefit is derived by the assessee from such property.

Thus, option a) is correct.
Comment on incorrect answer:
As per Sec. 23(3), the annual value of self-occupied house shall not be nil: i) if such house or part of the house is actually let out during the whole or any part of the previous year, or ii) any other benefit thereon is derived by the owner from such house. In the above mentioned cases, the annual value shall be determined.
Thus, option b) is incorrect.

20. Where the property is acquired or constructed with capital borrowed on or after 1.4.1999 and such acquisition or construction is completed within 3 years how much deduction is available?
a) Rs. 1,50,000 b) Rs. 30,000
Correct Answer: a)
Justification of correct answer:
For getting deduction of interest of maximum of Rs. 1,50,000, it will be necessary to obtain a certificate from the person to whom such interest is payable specifying the amount of interest payable by the assessee for the purpose of acquisition/construction of property or conversion of whole or any part of the capital borrowed which remains to be repaid as a new loan.
Thus, option a) is correct.

Comment on incorrect answer:
Rs. 30,000 deduction is allowed for purpose of repair or renewal or reconstruction of a house property.
Thus, option b) is incorrect.

21. Where the money is borrowed for repairs or renewal how much deduction is available?
a) Rs. 1,50,000, b) Rs. 30,000
Correct Answer: b)
Justification of correct answer:
Interest payable, subject to maximum Rs. 30,000.
Thus, option b) is correct.

Comment on incorrect answer:
If any person has taken any loan w.e.f. 01.04.1999 onwards for purchase or construction of the house, interest shall be allowed upto Rs.1,50,000. However, he must complete the construction or purchase it within three years from the end of the financial year in which the loan was taken and also he must submit a certificate from the person from whom loan has been taken, carrying the amount of interest.
Thus, option a) is incorrect.
22. Whether computation of income of house property which is partly let out and partly self occupied can be done?

a) True  
b) False

Correct Answer: a)

Justification of correct answer:
In this scenario the annual value, deductions and the income of the part of the property which is let out shall be computed separately under the let out property and the income of the portion or the part of the property which is self occupied shall be determined as mentioned under the para “self-occupied property”.

Thus, option a) is correct.

Comment on incorrect answer:
Where in a building the ground floor is self-occupied and first floor is let out or vice versa, such a property shall not be treated as a single unit. Instead, income from first floor which is let out shall be computed separately as per let out provisions and floor which is self-occupied shall be computed separately as per self-occupied provisions.

Thus, option b) is incorrect.

23. Whether Interest on borrowed money which is payable outside India shall be allowed as deduction?

a) True  
b) False

Correct Answer: b)

Justification of correct answer:
Interest on borrowed money which is payable outside India shall not be allowed as deduction u/s 24(b), unless the tax on the same has been paid or deducted at source and in respect of which there is no person in India, who may be treated as an agent of the recipient for such purpose. Thus, option b) is correct.

Comment on incorrect answer:
As per sec. 24 interest payable on borrowed capital, where the property has been acquired, constructed, repaired, renovated or reconstructed with such borrowed capital is allowable as deduction. Thus, option a) is incorrect.

24. Whether unrealised rent received subsequently is to be charged to income-tax?

a) True  
b) False

Correct Answer: a)

Justification of correct answer:
Where the assessee could not realise rent from a property let out in earlier years to a tenant and the same was allowed as deduction and, subsequently, the assessee has realised any amount in respect of such rent, the amount so realised shall be deemed to be income chargeable under the head “Income from house property”. Thus, option a) is correct.
Comment on incorrect answer:
Under sec. 25AA once assessee realises the money, same shall be deemed to be income chargeable under the head Income from house property. Thus, option b) is incorrect.

25. Whether property owned by co-owners is entitled for interest deduction on money borrowed?
a) True b) False

Correct Answer: a)

Justification of correct answer:
Where the house property owned by the co-owners is self occupied by each of the co-owner, the annual value of the property for each of such of co-owner shall be *nil* and each of the co-owner shall be entitled to the deduction of Rs. 30,000/1,50,000 under Sec. 24(b) on account of interest on borrowed money. Thus, option a) is correct.

Comment on incorrect answer:
Under Sec. 24(b) co-owner shall be entitled to the deduction of Rs. 30,000/1,50,000. Thus, option b) is incorrect.

26. Whether on property owned by co-owners is let out partially & for a specified period tax will be payable?
a) True b) False

Correct Answer: a)

Justification of correct answer:
The property or part of the property which is owned by co-owners and is let out, the income from such property or part thereof shall be first computed as if this property or part thereof is owned by one owner and thereafter the income so computed shall be apportioned amongst each co-owner as per their definite share. Thus, option a) is correct.

Comment on incorrect answer:
Where a part of property is let out and a part of it is self occupied, then annual value of different parts shall be determined separately as per provisions. Thus, option b) is incorrect.

27. Can there be any loss under the head income from house property?
a) True b) False

Correct Answer: a)

Justification of correct answer:
A house property which is a fully let out or for part of the year is let out, etc., there are no restrictions on deductions and, therefore, there can be loss under this head in respect of such property due to Municipal taxes as well as deductions. Thus, option a) is correct.

Comment on incorrect answer:
The Annual Value (NAV) can be negative only when the municipal taxes paid by the owner are more than the gross annual value. Thus, option b) is incorrect.
28. Whether a loss from house property can be set off against income of any other house property?
   a) True  b) False
   **Correct Answer: a**
   **Justification of correct answer:**
   As per **Sec. 70** if any person has incurred losses from any house property, such loss can be set off from income of any other house property. It is called as, inter-source adjustment. Thus option a) is correct.
   **Comment on incorrect answer:**
   Losses incurred can be set off against profits made from other house property. Thus, option b) is incorrect.

29. Whether unadjusted loss under income from house property can be set off from income of other head?
   a) True  b) False
   **Correct Answer: a**
   **Justification of correct answer:**
   As per **Sec. 71** unadjusted loss can be set off from incomes on other heads but as per **Sec. 58 (4)**, such loss can be set off from casual income. Thus, option a) is correct.
   **Comment on incorrect answer:**
   Unadjusted loss can be offset against the casual income. Thus, option b) is incorrect.

30. Whether unadjusted loss is allowed to be carried forward to the subsequent years?
   a) True  b) False
   **Correct Answer: a**
   **Justification of correct answer:**
   As per **Sec. 71B** unadjusted loss is allowed to be carried forward to the subsequent years but for a maximum period of 8 years starting from the subsequent year in which the loss was incurred and in the subsequent years loss can be set off only from income under the head house property. Thus, option a) is correct.
   **Comment on incorrect answer:**
   Unadjusted loss can be carried forward upto maximum of 8 years under Sec. 71B. Thus, option b) is incorrect.

31. Whether buyer of second house is liable to pay tax on same house property?
   a) True  b) False
   **Correct Answer: a**
   **Justification of correct answer:**
Buyer is required to pay tax on the income from house property. If he/she owns more than one house, he/she has to pay tax on the rent earned from the house he/she is not occupying. Even if the house is lying vacant, he/she has to pay tax on deemed rental income from that property, based on the prevailing rate in that area. Only one of the properties will be allowed to be treated as self occupied and the others will earn a notional income, which will be taxed at the normal rate after 30% standard deduction. Thus, option a) is correct.

Comment on incorrect answer:
Under sec. 23(4) if there are more than one residential houses, which are in the occupation of the owner for his residential purposes then he may exercise an option to treat any one of the houses to be self occupied. The other house will deemed to be let out and the annual value of such house will be determined as per Sec. 23(1)(a). Thus, option b) is incorrect.

32. Whether tax will be applicable if assessee buys a second house in the name of spouse?

a) True b) False
Correct Answer: a)
Justification of correct answer:
As per income-tax provisions there is no problem if one spouse gives money to the other. After all, it is their money and spouses are in list of specified relatives whom one can gift any sum without attracting a gift tax. But if that money is invested and earns an income, the clubbing provisions of the Income Tax Act come into play. Sec. 64 of the Income Tax Act says that income derived from money gifted to a spouse will be treated as the income of the giver. It will be clubbed with his (or her) income for the year and taxed accordingly. For instance, if he/she buys a house his/her spouse’s name but he/she has not monetarily contributed to the purchase, then the rental income from that house would be treated as his/her income and taxed at the applicable rate. Similarly, if he/she gives money to his/her spouse as a gift and he/she puts it in a fixed deposit, the interest would be taxed in his/her income. Thus, option a) is correct.

Comment on incorrect answer:
Sec. 64 takes care of clubbing provision, if income derived from money gifted to a spouse will be treated as the income of the giver. The same will be clubbed in the giver’s income. Thus, option b) is incorrect.

33. Whether a salaried person can claim tax benefit on account of interest on home loan?

a) True b) False
Correct Answer: a)
Justification of correct answer:
The total interest deductible limit is Rs. 1,50,000 for self occupied house. The interest rate of home loan has been on the rise. Today effective interest rate is attractive, i.e., home loan interest @ 10% is effective. He/she can claim full interest as deduction in the case of let out
property, even if it exceeds Rs. 1,50,000. He/she can take loan from his/her friends and relatives and claim interest deduction. However, the principal payment will not be eligible for deduction under Sec. 80C. Thus, option a) is correct.

Comment on incorrect answer:
Under sec.24 interest payable in India on borrowed capital, where the property has been acquired, constructed, repaired, renovated or reconstructed with such borrowed capital is allowable as deduction. Thus, option b) is incorrect.

34. Whether it makes sense for a buyer to change the house before three years ?
   a) True b) False
   Correct Answer: b)
   Justification of correct answer:
The cost of selling a house is high. If he/she sells a house property before three years, sale will attract short-term capital gains tax chargeable at the rate of 30%. In addition, he/she will have to pay a stamp duty (6-8%), and brokerage (1-2%) on purchase of new house. Therefore, a house should be purchased and held on to for at least 3-5 years. Thus, option b) is correct.

Comment on incorrect answer:
Before three year sale will attract huge taxes, i.e., @ 30%; buyer should have possession of same between three to five years. Thus, option a) is incorrect.

35. Whether buying house through loan is better than renting house?
a) True b) False
   Correct Answer: a)
   Justification of correct answer:
Buying a house is one of the most important decisions of an individual’s lifetime. If he/she has available down payment (typically 15% of house value), then he/she can borrow balance 85% against the house he/she intends to buy.

The benefit of home loan interest deduction and repayment of principal will be more than the house rent allowance deduction. Most important benefit in buying a house is the hidden appreciation of the value of the property. If he/she delays the decision to buy a house, the value may so appreciate that he/she may not be able to afford it.

Buying a house using home loan is also an investment for retirement. It is like a disciplined saving for his/her safe retirement. He/she can reverse mortgage the house after attaining 60 years of age. Thus, option a) is correct.

Comment on incorrect answer:
Buying/renting is an option depends upon individual requirements. From long-term investments perspective one should buy a property. Thus, option b) is incorrect.
36. Whether ownership and possession are must to claim interest?

a) True  b) False

Correct Answer: a)

Justification of correct answer:
Ownership and possession are must to claim deduction on home loan interest. An individual can report income/loss from property only if he/she is the owner of that property. An owner is a person who owns the legal title to the property and has the right to receive income from it.

If an individual is the sole owner of a property, then he/she should report the entire income/loss from the property in his/her income tax return.

A property which has more than one owner is a jointly owned property. The owners are called as co-owners and their share in the property is generally documented in the registry. Depending on the share, co-owners should report the income from house property separately in their returns. Suppose an individual owns 40% of a property, then he/she should report 40% of the income in his/her return. In case of jointly owned self occupied property, both he/she and the other owner can separately claim home loan interest deduction up to Rs. 1,50,000 in their respective income-tax returns. Thus, option a) is correct.

Comment on incorrect answer:
Income from house property is taxable in the hands of its owner, even if he is not in receipt of income from such property. Owner means the legal owner. However, it also includes deemed owner. Thus, option b) is incorrect.

37. Whether deduction can be claimed in respect of brokerage amount for arrangement of loans?

a) True  b) False

Correct Answer: b)

Justification of correct answer:
Any amount paid for brokerage for arrangement of the loan will not be allowed as deduction. Thus, option b) is correct.

Comment on incorrect answer:
Under sec. 24 brokerage paid to different brokers for introducing parties for renting out premises is not allowable deduction. Thus, option a) is incorrect.

38. Whether Municipal taxes paid on a property situated outside India are allowable as deductions?

a) True  b) False

Correct Answer: a)

Justification of correct answer:
In case of a resident assessee total global income is taxable and, as such, income from house property situated outside India will be computed as per Sec. 22 in the same manner as is done for a property situated in India. Hence, Municipal taxes paid for such house property shall be allowed as deductions. Thus, option a) is correct.

Comment on incorrect answer:
Under Sec. 23(1) in case of a let-out property, the local taxes such as Municipal taxes, water and sewage taxes, fire tax, and education cess levied by authority are deductible while computing the annual value. Thus, option b) is incorrect.

39. Whether annual value of a property can be negative?

a) True  b) False

Correct Answer: a).

Justification of correct answer:
The Annual Value (NAV) can be negative only when the Municipal taxes paid by the owner are more than the gross annual value. Thus, option a) is correct.

Comment on incorrect answer:
Municipal taxes paid when than are higher the rent amount they will make the annual value negative. Thus, option b) is incorrect.

40. If assessee lets out his house to his employer, who, in turn, gives the same to the assessee as rent-free accommodation, can the assessee treat the house as self-occupied?

a) True  b) False

Correct Answer: b).

Justification of correct answer:
Assessee can’t occupy his own house in the capacity of owner. Thus, option b) is correct.

Comment on incorrect answer:
Under Sec. 22 annual value of the property consisting of any building or lands appurtenant thereto of which the assessee is the owner shall be subject to income-tax under the head income from house property. If it is a single house there would not be any taxability on same. Thus, option a) is incorrect.

41. Whether deductions are available in computation of income where assessee has more than one house for self occupation?

a) True  b) False

Correct Answer: a)

Justification of correct answer:
If there are more than one residential houses, which are in occupation of the owner for his residential purposes then he may exercise an option to treat any one of the houses to be self-occupied. The other house(s) will be deemed to be let out and the annual value of such house(s) will be determined as per Sec. 23(1)(a), i.e., the sum for which the property might reasonably be expected to let out from year-to-year.
However, if an assessee has a house property which consists of two or more residential units and all such units are self-occupied, the annual value of entire house property shall be taken as **nil** as there is only one house property, though it has more than one residential units. Thus, option a) is correct.

**Comment on incorrect answer:**
Under sec. 23(4) If there are more than one residential houses, which are in the occupation of the owner for his residential purposes then he may exercise an option to treat any one of the houses to be self occupied. The other house will deemed to be let out and the annual value of such house will be determined as per Sec.23(1)(a). Thus, option b) is incorrect.

42. **Whether deduction can be claimed in respect of an expenditure incurred on stamp duty or registration of lease/rent deed ?**

a) True  b) False  
**Correct Answer: b)**

**Justification of correct answer:**
Any expenditure incurred on stamp duty or registration of the lease deed is not deductible from the annual value of the house property. Thus, option b) is correct.

**Comment on incorrect answer:**
Under Sec.24 standard deduction at 30% of the net annual value of property is allowed. Thus, option a) is incorrect.

43. **Whether interest on interest is deductible ?**

a) True  b) False  
**Correct Answer: b)**

**Justification of correct answer:**
The assessee is entitled to deduct only the interest payable by him on the capital borrowed, and not the additional interest which is payable because of his failure to pay the interest on the due date. Thus, option b) is correct.

**Comment on incorrect answer:**
As per Sec. 24 interest payable on interest will not be allowed. Thus, option a) is incorrect.

44. **Whether erection of fence or a boundary wall constitutes a building ?**

a) True  b) False  
**Correct Answer: b)**

**Justification of correct answer:**
The erection of a mere fence or boundary wall is not a building. But where such a wall is built so as to enable the occupier of the main house to use the enclosed area as part of his habitation and not merely as a boundary or fence, it comes within the definition of a building. Thus, option b) is correct.

**Comment on incorrect answer:**
House property consists of any building or land appurtenant thereto of which the assessee is the owner. The appurtenant lands may be in the form of a courtyard or compound forming part of the building. Thus, option a) is incorrect.

45. Who will decide whether ownership of property is under dispute?

a) Assessee  b) Department

Correct Answer: b)

Justification of correct answer:

If the title of the ownership of the property is under dispute in a Court of law, the decision on who will be the owner and chargeable to income-tax under Sec. 22 will be of the Income-tax Department till the Court gives its decision on the suit filed in respect of such property. Thus, option b) is correct.

Comment on incorrect answer:

Under Sec.22 department will take the view of ownership. Thus, option a) is incorrect.

46. Whether the use of part of building is relevant for charging the income under the head “Income from House Property”?

a) True  b) False

Correct Answer: a)

Justification of correct answer:

The ABC is a co-operative housing society. It has received the rent from XYZ to use portion of the terrace. It has shown the income from house property and claimed the deduction under Sec. 24 of the Income tax Act. Thus, option a) is correct.

Comment on incorrect answer:

As per Sec.23(1)(b) where the property or any part thereof is let out, the annual value of such property or part shall be: (i) the reasonable rent for that property or part, or (ii) the actual rent received or receivable, whichever is higher. Thus, option b) is incorrect.

47. When the owner uses the house property for the purpose of his own business under which head the income in the hands of the assessee will be taxable?

a) Profit under business or profession, b) Income from House Property

Correct Answer: b)

Justification of correct answer:

In case the owner uses the house property for the purpose of his own business, the annual value of such property will not be assessable U/s 22, provided profit of such business or profession is capable of being assessed. Further, in such cases while computing business income of such assessee, no deduction on account of notional rent of such house property will be permissible. Thus, option b) is correct.

Comment on incorrect answer:
U/s. 22 the annual value of property consisting of any building or lands appurtenant thereto of which the assessee is the owner shall be subject to income-tax under the head Income from house property. Thus, option a) is incorrect.

48. Where the house property is occupied by employees of sister concern will it be treated as property held for business?
   a) True b) False
   **Correct Answer: b)**
   **Justification of correct answer:**
   Income from the property, occupied by the employees of a sister concern of the assessee, shall not be treated as occupied by the assessee for the purpose of his business and profession and shall be assessed under the head income from house property. Thus, option b) is correct.
   **Comment on incorrect answer:**
   U/s. 22 the annual value of property consisting of any building or lands appurtenant thereto of which the assessee is the owner shall be subject to income-tax under the head Income from house property. Thus, option a) is incorrect.

49. When the owner lets out the house property to a tenant who uses it for carrying on his own business under which head the income in the hands of the assessee will be taxable?
   a) Profit under Business or Profession, b) Income from House Property
   **Correct Answer: b)**
   **Justification of correct answer:**
   In case the property is let out to a tenant who uses it for carrying on his own business, the annual value of such property will be chargeable to income-tax under the head “Income from House Property”, in the hands of owner of the property. Thus, option b) is correct.
   **Comment on incorrect answer:**
   U/s. 22 the annual value of property consisting of any building or lands appurtenant thereto of which the assessee is the owner shall be subject to income-tax under the head Income from house property. Thus, option a) is incorrect.

50. Whether registration of sale deed is necessary for the purpose of Sec.22?
   a) True b) False
   **Correct Answer: b)**
   **Justification of correct answer:**
   If purchaser has been put in possession of property on his paying full consideration, he can be treated as ‘owner’ for the purpose of Sec.22, even though no registered document required u/s 54 of Transfer of Property Act, has been executed in his favour. Thus, option b) is correct.
   **Comment on incorrect answer:**
No registration u/s. 54 of Transfer of property Act is required to claim ownership. Thus, option a) is incorrect.

51. Whether the rent for putting up hoarding/telephone tower on top of the building can be taxable under the head income from house property?

a) True b) False

Correct Answer: b)

Justification of correct answer:
Rent for putting up hoardings on top of the building is not income from house property and, the same will be taxable under the head income from other sources as hoarding does not form part of building. Thus, option b) is correct.

Comment on incorrect answer:
Sec. 22 defines chargeability of income from house property. House property consists of any building or land appurtenant thereto of which the assessee is the owner. The appurtenant lands may be in the form of a courtyard or compound forming part of the building. Thus, option a) is incorrect.

52. Where a house property is not let out, can Municipal value be taken as fair rent?

a) True b) False

Correct Answer: a)

Justification of correct answer:
Unless the actual rent received in respect of house property is higher, revenue should adopt Municipal valuation to arrive at gross annual rent. Thus, option a) is correct.

Comment on incorrect answer:
As per Sec. 23(1)(a) the annual value of any property shall be the sum for which the property might reasonably be expected to be let out from year-to-year. Thus, option b) is incorrect.

53. If rent is received by an owner in foreign currency, what will be the rate of conversion?

a) TT Buying, b) TT Selling

Correct Answer: a)

Justification of correct answer:
Where the owner is assessable in India for the rent received in foreign currency, the rate of exchange for conversion of such foreign currency into Indian rupees shall be the Telegraphic Transfer Buying rate (TT Buying Rate) of such currency as on the specified date. The specified date in this case shall be last day of previous year. Thus, option a) is correct.

Comment on incorrect answer:
TT buying rate always needs to consider where the foreign currency is coming from. Thus, option b) is incorrect.
54. Whether owner is liable to pay the tax of a property which is let out for part of the year and was occupied by the owner for a part of the previous year?

a) True  
b) False

Correct Answer: a)

Justification of correct answer:

Where a house property is during part of the year let out and part of the year occupied for own residence, its annual value shall be determined as per the provisions of Sec. 23(1) relating to let out property. In this case, the period of occupation of property for own residence shall be determined as if it is let out. Hence, the expected rent as per Sec. 23(1)(a) shall be taken only for the period of letting out. Thus, option a) is correct.

Comment on incorrect answer:

Sec.23(1)(a) states that where a part of the property is let-out and a part of it is self occupied, then annual value shall be determined accordingly. Thus, option b) is incorrect.

55. In case if assessee takes a fresh loan to repay the original loan, can he claim deduction in respect of interest on the second loan?

a) True  
b) False

Correct Answer: a)

Justification of correct answer:

Where a fresh loan has been raised to repay the original loan if the second borrowing has really been used merely to repay the original loan and this fact is proved to the satisfaction of the ITO, the interest paid on the second loan would also be allowed as a deduction under Sec. 24(1)(vi). Thus, option a) is correct.

Comment on incorrect answer:

As per Sec. 24 where a fresh loan has been raised and used to repay the original loan, the interest paid on the second loan would also be allowed as deduction. Thus, option b) is incorrect.

56. Whether interest paid to tenant on the advance received from him due to non-allotment of the residential premises is an allowable deduction?

a) True  
b) False

Correct Answer: b)

Justification of correct answer:

Where the owner of a property cannot deliver the property to the tenant within stipulated time, and he had to pay interest on the advance amount, such interest is not allowable as interest on borrowed capital U/s 24(1)(vi) against the property income. Thus, option b) is correct.

Comment on incorrect answer:
U/s 24 interest payable in India on borrowed capital, where the property has been acquired, constructed, repaired or renovated or reconstructed with such borrowed capital, is allowable as deduction. Thus, option a) is incorrect.

57. Whether the arrears of rent received for earlier years can be taxed in the year of its receipt?
   a) True  b) False

Correct Answer: a)

Justification of correct answer:
As per Sec.25AA introduced by the Finance Act, 2001 where the assessee cannot realise rent from a property let out to a tenant and, subsequently, the assessee has realised an amount in respect of such rent, the amount so realised shall be deemed to be income chargeable under the head “Income from House Property” and, accordingly, charged to tax as the income of that previous year in which such rent is realised whether or not the assessee is the owner of that property in that previous year. Thus, option a) is correct.

Comment on incorrect answer:
Sec.25AA states about arrears of rent, the amount so realised shall be chargeable under the head “Income from House Property” and charged to income-tax as the income in case same rent is realised. Thus, option b) is incorrect.

58. Whether the arrears of rent received before 31.03.2000 can be taxed in the year of its receipt?
   a) True  b) False

Correct Answer: b)

Justification of correct answer:
Since the Finance Act, 2000 had introduced the new Sec.25B w.e.f. asst. year 2000-01, the arrears of rent actually received on or before 31.03.2000, are not taxable in the year in which these are received. Thus, option b) is correct.

Comment on incorrect answer:
Sec.25B states about that arrears of rent received on or before 31st March 2000 are not taxable in the year in which these are received. Thus, option a) is incorrect.

59. Whether interest is deductible from income from house property, if same is being paid to a person outside India without deducting TDS?
   a) True  b) False

Correct Answer: b)

Justification of correct answer:
As per Sec.25 notwithstanding anything contained in Sec. 24 any interest chargeable under the Income-tax Act, which is payable outside India on which tax has not been paid or deducted under Chapter XVII-B and in respect of which there is no person in India who may be treated as an agent u/s 163, shall not be deducted in computing the income chargeable under the head “Income from House Property”. Thus, option b) is correct.
**Comment on incorrect answer:**
Under Sec. 24(b) interest on borrowed money which is payable outside India shall not be allowed for deduction. Thus, option a) is incorrect.

60. Where a house is sub-let by a tenant at a higher rent, can the Assessing Officer consider the rent paid by the sub-tenant as fair rent for assessment of the owner of the house property?
   a) True b) False
   **Correct Answer: a)**
   **Justification of correct answer:**
   It is not unusual for a tenant to sub-let the property and realise a larger income. That does not mean that the landlord can be assessed with reference to income based upon sub-tenancy, if the tenancy is found to be genuine. The property income has to be assessed on the basis of the income that is realised, or what might reasonably be expected if let out from year-to-year. It does not allow that the real income based upon a genuine tenancy agreement could be rejected. Thus, option a) is correct.

**Comment on incorrect answer:**
As per Sec. 23(1)(a) the annual value of any property shall be the sum for which the property might reasonably be expected to be let out from year-to-year. Thus, option b) is incorrect.

61. Whether it is necessary that the same person who owns the building should also own the land?
    a) True b) False
    **Correct Answer: b)**
    **Justification of correct answer:**
    Ownership need not extend both to the site on which building stands as well as to the superstructure thereon. An assessee who builds a superstructure upon a site held by him under lease, may have to transfer the superstructure to the lessor free of cost on the expiry of the term. Thus, option b) is correct.

**Comment on incorrect answer:**
Sometimes land can be given subject to lease terms; it is not necessary land and building both should belong to same person. Thus, option a) is incorrect.

62. Whether property owned by partnership firm can be taxable in the hands of individual partners?
    a) True b) False
    **Correct Answer: b)**
    **Justification of correct answer:**
    When the partners go by a firms-name in their collective capacity, and when a particular immovable property or properties happen to be included in the assets of the firm, the income from such property can and should be assessed in the hands of the firm only. Thus, option b) is correct.
Comment on incorrect answer:
The joint effects of a partnership firm belong to the firm; a partner has no individual right in any specific asset of the firm and he/she has no exclusive right to possess or use the partnership property. Thus, option a) is incorrect.

63. Mr. X is owning an immovable property at Mumbai which is given on rent. He has spent money on repairs but unfortunately he lost those bills. In the absence of such bills, etc., and other documentary evidences whether he will be able to claim deduction in respect of repairs?

a) True b) False

Correct Answer: a)

Justification of correct answer:
Mr. X is entitled to deduction of expenses in respect of repairs to the immovable property. Under the Income-tax Law in terms of section 24 he is entitled to get a deduction equal to 30 per cent of the annual value of the property by way of repairs, etc. For claiming this deduction he is not required to maintain any record or details, etc. Thus, option a) is correct.

Comment on incorrect answer:
Under Sec. 24 from the annual value, the assessee shall be allowed a standard deduction of a sum equal to 30% of the net annual value. Thus, option b) is incorrect.

64. Mr. X has a commercial property which is given on rent and the rental income is Rs. 1,80,000 per annum. He has taken loan against this property and he is required to make payment of interest equal to Rs. 2,50,000 during the year. Whether the tax liability will be there in respect of rental income from commercial property in this case?

a) True b) False

Correct Answer: b)

Justification of correct answer:
Gross rental income of Mr. X is Rs.1,80,000 rupees and he can claim deduction of 30 per cent, being the standard deduction for repairs, collection charges, etc. Thus, the sum of Rs. 54,000 will be deducted towards standard deduction from his rental income of Rs. 1,80,000 thereby the balance rental income will be Rs. 1,26,000. Now from this house property income of Rs. 1,24,000 he is entitled to get a deduction in respect of interest on loan taken for the property. As he is going to pay Rs. 2,50,000 interest on loan, this amount will be deducted leaving a net negative balance of Rs. 1,24,000. This amount will be treated as a loss from house property which will be adjusted against any income of the year. Thus, option b) is correct.

Comment on incorrect answer:
In case deductions admissible u/s 24 exceed the annual value of a property, the net income from such property is loss. This loss can be adjusted against income from any other house property. Thus, option a) is incorrect.
65. Mr. X takes a loan from a close relative for his residential house property. He gets a tax deduction equal to Rs. 1,50,000 by way of interest payment. Whether he will be allowed such interest deduction?

a) True  
b) False

Correct Answer: a)

Justification of correct answer:
The deduction of Rs. 1,50,000 is allowed as a deduction whether Mr. X takes the loan from the bank or he takes the loan from any other person. Hence, in this case if he has taken loan for house property from friends and relatives, the entire interest payment up to maximum limit of Rs. 1,50,000 will be allowed as a deduction. Thus, option a) is correct.

Comment on incorrect answer:
Under the Income-tax Law the maximum amount which qualifies for tax deduction in respect of interest on housing loan is Rs. 1,50,000. Thus, option b) is incorrect.

66. Mr. X is the owner of a big multi-storeyed building which is given on rent to commercial establishments. Some of the tenants do not make payment of the rent in time while some tenants are not making payment of rent at all. Hence, Mr. X has filed legal cases. In the current financial year Mr. X spent nearly Rs. 38,000 being the payment made to lawyers, etc., for fighting legal case to recover the rent from the tenants. Whether Mr. X will be allowed to deduct legal expenses incurred for making payment of legal fees?

a) True  
b) False

Correct Answer: b)

Justification of correct answer:
No amount will be allowed as a deduction in respect of the legal expenses incurred by Mr. X for making payment to lawyers fees, etc. This is mainly because of the fact that under the Income-tax Law only one single deduction equal to 30 per cent of the rental value is allowed as a deduction for taking care of repairs incurred for the property as well as taking care to realize the rent and other expenses, if any. Hence, no expenditure by way of legal expenses will be allowed separately as a deduction. Thus, option b) is correct.

Comment on incorrect answer:
Under Sec. 24 from the annual value the assessee shall be allowed a standard deduction of a sum equal to 30% of the net annual value. Thus, option a) is incorrect.

67. Mr. X and his wife jointly own a HIG flat in Delhi. Both have contributed to case of the single flat. They are owners in the ratio of 50:50. For the year ending 31st March, 2012 the total interest payable in respect of housing loan for this flat will be Rs. 3 lakhs. Whether they will get a tax deduction of Rs. 1,50,000 or whether separately they can claim tax deduction of Rs. 1,50,000?

a) Mr. X,  
b) Wife,  
c) Mr. X and Wife

Correct Answer: c)
**Justification of correct answer:**

In this scenario both the husband and wife will be entitled to tax deduction of Rs. 1,50,000, being interest on housing loan individually. Thus, Mr. X can claim deduction in his individual Income-tax Return of Rs. 1,50,000 being the housing loan interest. Similarly, his wife can separately claim tax deduction of Rs. 1,50,000 on the interest payment for the property. Thus, option c) is correct.

**Comment on incorrect answer:**

Under Sec. 24(b) where the house property owned by the co-owners is self occupied by each of the co-owners, the annual value of the property for each of such co-owner shall be nil and each of the co-owners shall be entitled to the deduction of Rs. 30,000/1,50,000. Thus, option a) & b) is incorrect.

68. Mr. X purchased a residential house property with a bank loan some 15 years ago. But now Mr. X requires a small loan amount from the bank for repairs of his existing house property. The interest on this loan which has been taken for the purpose of repairs will come to nearly Rs. 95,000. Whether the same can be claimed as deduction?

a) True b) False

**Correct Answer: b)**

**Justification of correct answer:**

The maximum amount that Mr. X will be allowed as a deduction will be only Rs. 30,000, being the interest on loan taken for a residential property for repairs of the property. Thus, option b) is correct.

**Comment on incorrect answer:**

Under the Income-tax Law the maximum amount which qualifies for tax deduction in respect of interest on repairs or renewal or reconstruction of house property is Rs. 30,000, but is restricted to one property only. Thus, option a) is incorrect.

69. Mr. X has purchased two LIG flats in one upcoming residential project in Gurgaon. Mr. X, making a payment of total interest payment of Rs. 1,40,000 to the bank in respect of these two flats. Mr. X is will like to know how much deduction will be allowed to him under the Income-tax law?

a) True b) False

**Correct Answer: b)**

**Justification of correct answer:**

The maximum amount of interest on housing loan which is allowed as a tax deduction is Rs.1,50,000 per annum. In the above mentioned scenario the amount which will be allowed as a deduction to Mr. X by way of interest on housing loan for residential house property will be Rs. 70,000 only, because the deduction is allowed only for one house property and not for two properties. Thus, option b) is correct.

**Comment on incorrect answer:**

Under the Income-tax Law the maximum amount which qualifies for a tax deduction in respect of interest on housing loan is Rs. 1,50,000 but is restricted to one property only. Thus, option a) is incorrect.
70. Mr. X has applied for purchasing a flat in a new colony in Gurgaon. Loan has also been sanctioned to him for this property. He has started making payment of the EMI. The possession of the property will be ready by July 2014. How much deduction he will be able to claim in respect of the interest paid by him for this property?

a) True  b) False

Correct Answer: b)

Justification of correct answer:
Mr. X will not get any deduction in respect of interest paid by him. This is mainly because of the fact that the house property is yet not ready. The deduction in respect of interest will be allowed only when the house property is ready for use. Thus, option b) is correct.

Comment on incorrect answer:
As per Sec. 24 interest payable for the pre-construction period, i.e., prior to previous year in which such property has been acquired or constructed, shall be deducted in five equal installments commencing from the previous year in which the house was acquired or constructed. Thus, option a) is incorrect.

71. Mr. X is the owner of two residential properties—one in New Delhi and the other one in Mumbai. In one of the properties he stays along with his wife while as in another property his son stays. Whether there will be the tax applicability in respect of these properties which are standing in Mr. X's name?

a) True  b) False

Correct Answer: a)

Justification of correct answer:
Under the Income-tax Law in respect of one self occupied house property there is no liability to income-tax at all. Now in the mentioned case as Mr. X is occupying two residential properties for one property there will be no tax liability but for the second property there will be a tax liability and this liability will be calculated based on the fair market value of the property if let out. Thus, option a) is correct.

Comment on incorrect answer:
Under Sec. 23(4) income from more than one houses which are self occupied will be taxable in the hands of assessee. Thus, option b) is incorrect.

72. Mr. A is the owner of a huge property in Delhi. This property has been let out to very old tenants. He maintains meticulous proof in respect of the expenses on repairs to the building. Nearly 60 per cent of the amount of rent collected is spent away just by way of making payment for repairs to maintain the building. Whether Mr. A can get deduction from the rental income in respect of the expenses on repairs which is equivalent to 60 per cent of the rent receipt?

a) True  b) False

Correct Answer: b)

Justification of correct answer:
Even if Mr. A maintains full details in respect of the expenses incurred by him on repairs to the building, he will not get deduction equal to 60 per cent of the rental amount which he has actually spent on repairing the building. Under the Income-tax Law the maximum and the minimum amount which is allowed as a deduction from the rental income is equal to 30 per cent of the annual value only. Thus, option b) is correct.

Comment on incorrect answer:
As per Sec.24 standard deduction at 30% of the annual value of property is permissible. Thus, option a) is incorrect.

73. For the year ending 31st March, 2012 Mr. X is required to make payment of Rs. 1,22,000 in respect of the interest on loan taken by him from the bank. However, due to very bad financial position he is not in a position to make payment of the interest this year. Mr. X will, however, make the payment of interest in the subsequent year. Mr. X’s question is where interest on housing loan has not actually been paid in the financial years whether the deduction will be allowed of the interest payable by him?

a) True b) False

Correct Answer: a)

Justification of correct answer:
Ans. Mr. X has not made payment of the interest for the housing loan and his circumstances are such that he will not be able to make payment of the interest on loan, even then under the provisions contained in the Income-tax Law, the interest on loan for the house property will be allowed to him as a deduction, even when the same is not actually paid by him. Thus, option a) is correct.

Comment on incorrect answer:
As per Sec.24 interest payable in India on borrowed capital, where the property has been acquired, constructed, repaired, renovated or reconstructed with such borrowed capital is allowable as deduction on accrual basis. Thus, option b) is incorrect.

74. Whether arrears of rent received are charged to income-tax as income of the previous year in which rent was received?

a) True b) False

Correct Answer: a)

Justification of correct answer:
Where the assessee receives any amount by way of arrears of rent in respect of any property consisting of buildings or land appurtenant thereto of which he is the owner, the amount so received shall be chargeable to tax under the head “Income from House Property”. It shall be charged to tax as the income of the previous year in which such rent is received, even if the assessee is no longer the owner of such property. In computing the income chargeable to tax in respect of the arrears so received, 30% shall be allowed as a deduction and, consequently 70% alone shall be chargeable to tax. The deduction of 30% is irrespective of the actual expenditure incurred.
Thus, option a) is correct.

**Comment on incorrect answer:**

As per section 25B, the arrears of rent will be charged to tax in the year in which these are received, whether or not the assessee is the owner of the property at that time.

Thus, option b) is incorrect.

**75. Mr. X is engaged in the business of constructing residential and commercial properties. One of the building properties was included in the closing stock in the Balance Sheet. The said building was let out on a monthly rent basis as a suitable buyer could not found. Whether the income by way of rent from unsold property is assessable as income under income from house property?**

a) True b) False

**Correct Answer: a)**

**Justification of correct answer:**

Under Sec. 22, the charging section for “income from house property”, the only exception provided is the income derived from property used/occupied by the assessee for his own business. Therefore, income derived from letting out of house property will always be taxable under the head “Income from house property”. Even if business of the assessee is to own and give houses on rent or to trade in houses, the annual value of the houses owned by him during the previous year would be taxable as “Income from house property”. It will be so taxable even if property is held by the assessee as stock-in-trade of his business. Thus, option a) is correct.

**Comment on incorrect answer:**

Income derived from letting out of house property will be taxable under Sec. 22. This section provides only exception to income derived from property used/occupied by the assessee. Thus, option b) is incorrect.