

# Income from House Property

## [Section 22 to 27]

### 6.1 Basic Concept

The total income of an assessee and the tax payable by him can be included in five heads of income as per Section 14 of IT Act. Income from House Property is one of the important heads out of the five heads. When any assessee makes any income by giving his house on rent then that income is included under the head "Income from House Property".

### 6.2 Basis of Charge [Section 22] (Basis of Charge—Sec.22)

The "Annual Value" is the basis for calculating the income from house property and not the rent received from that property. Annual value is the inherent capacity of the property to earn income. The annual value means the amount for which the property can reasonably be expected to let from year to year.

### 6.3 Conditions to be satisfied for taxing income from property under the head "Income from House Property"

For taxing income from property under the head "Income from House Property" the following three conditions must be satisfied:

- (i) The property must consist of buildings and lands appurtenant thereto,
- (ii) The assessee must be the owner of such house property,
- (iii) The property can be used for any purpose but it should not be used by the owner for any other purposes like carrying on any business or profession the income of which is chargeable under the head "Profits and gains of business or profession"

### 6.4 House Property or Building

The definition of house property or building is not given in the IT Act. The interpretation is given on the basis of different court cases. According to that interpretation building is any land which is covered from all the four sides with walls and there may or may not be any ceiling. It includes all types of residential house, which is used for residential purposes or purposes like office, warehouse, godown, shop, cinema hall, auditorium, stadium, every flat of a big house etc. which is given on rent to earn some money [CIT vs. London Hotel (1968) 68 ITR 62 (Bom.)].



### 6.5 Land appurtenant thereto

The meaning of land appurtenant thereto in respect to residential house property or building means any land which is inseparably connected with the building. For example, road for conveyance, yard, vegetable field etc.

On the other hand the meaning of land appurtenant thereto with respect to house property or building not meant for residential purpose means garage for keeping car, playground, connecting road with the main road etc.

### 6.6 Vacant Land

Any income from vacant land shall be included under the head "Income from Other Sources"

### 6.7 Ownership of Property

According to Sec.22 of the IT Act for including any property income under the head "Income from House Property", the assessee must be the legal owner or deemed owner of that property. If any person makes any income from sub-letting the property then that income cannot be included under the head "Income from House Property". This type of income is to be included either under the head "Income from Other Sources" or "Profits and Gains of Business or Profession".

### 6.8 Owner of the Property

The owner of the property is that person in whose name the property is registered. It is not necessary that the owner of the property must be the owner of the land on which the property is constructed. He may or may not be the owner of the land. The owner may be the legal owner or beneficial owner. Besides the trustee, executor, assignee, and member of Cooperative housing society deemed to be the owner of the property.

### 6.9 Deemed Owner

According to Section 27 the following persons are considered as the deemed owner of the property:

- (1) **Transfer to a Spouse or Minor Child [Sec.27(i)]:** If any individual transfers any house property to his or her spouse otherwise than for adequate consideration (the property is transferred to a spouse where there is agreement to live apart) then the transferor is considered as the deemed owner of the property. Similarly when any individual transfers any house property to his minor child without adequate consideration (except in the case of minor married daughter) then the transferor is considered as the deemed owner of the property.
- (2) **Holder of an Impartible Estate [Sec.27(ii)]:** The holder of an impartible estate (i.e. a property which is not legally divisible) shall be deemed to be the independent individual owner of all properties comprised in the estate.
- (3) **Member of Co-operative Society [Se. 27(iii)]:** A cooperative society, company or other association of persons when allots or lease under a House Building Scheme of a society/company/association a building or part thereof to one of their members, then that member shall be considered as the deemed owner of that building or part thereof although the cooperative society/company/association is the legal owner of the building.



- (4) **Retaining possession of any building or part thereof [Sec.27(iia)]:** According to Section 53A of the Transfer of Property Act, 1882 due to part performance of a contract if any person is allowed to take or retain the possession of any building or part thereof then that person would be deemed to be owner of the property although it is not registered in his name.
- (5) **Lease for 12 or more than 12 years [Sec.27(iib)]:** A person who acquires any right by way of lease of any building or part thereof for 12 or more than 12 years then that person i.e. lessee shall be deemed to be the owner of that building or part thereof.

**Illustration 1 :**

Mr. Sen transfer his house property worth ₹11,00,000 to Mrs. Sen out of love and affection. Who will be liable to tax in this case?

**Solution :** In this case though Mr. Sen is the legal owner of the property but Mr. Sen will be treated as deemed owner of the property and liable to tax.

**Illustration 2:**

Mr. Kar lease his property to Mr. Sarkar for 15 years Mr. Sarkar earned ₹3,50,000 by letting that property. Who will be liable for this income?

**Solution :** In this case Mr. Sarkar has taken the lease of the property for more than 12 years. So according to Sec. 27(iib) Mr. Sarkar will be treated as deemed owner of the property.

**6.10 Disputed Ownership**

Where the ownership is disputed and under court trial, then in that case Income tax department is going to decide who will be the owner and taxable so far as the court case is settled.

**6.11 Property owned by Co-owners**

When two or more persons become the joint owner of any property and the portion of each of them is specific and determinable then for determining the income of those persons from that property they shall not be considered as Association of Persons (AOP). In this case according to Secs.22-25 of the IT Act income from the property is to be determined and depending on each persons share in the property income, the total income of each person is to be determined by including his portion of income from that property.

**6.12 Cases where property is used by the owner for the purpose of his own business or profession / Rental income is not treated as income from house property**

The basis of charge under the head income from house property is building or land appurtenant thereto. In the following cases the rental income shall be included under the head "Income from House Property".

1. The assessee may let the property for residential or commercial purpose,
2. The business of the assessee to own and give the house on rent,
3. A property belonging to the business but not used for business purpose is chargeable under



4. Property held by the assessee as stock in trade of business.

But in the following cases rental income from house property shall not be considered as income under the head "Income from House Property" but determined and included under the head "Profits and Gains of Business or Profession".

In the following cases rental income shall not be treated as 'income from house property' but treated as income under the head 'Profits and Gains of Business or Profession'.

1. If the assessee use a portion of the house property for the purpose of his business or profession, provided profits of such business or profession are chargeable to income tax.
  - **Example:** A building is owned by the assessee which is used by him in running a hotel or paying guest accommodation. In this case income from the building shall be taxable under the head "Income from House Property". But if the hotel building itself is let out then income from the hotel building shall be taxable under the head "Profits and Gains of Business or Profession".
2. If the assessee let out the property to the employees of his own business with the object of carrying the business in an efficient manner but it is incidental to main business, then in that case income from the property shall be taxable under the head "Profits and gains of business or profession".
3. If the quarter built by the assessee is used as staff quarter for employees engaged of his own business then in that case rent shall be considered as income under the head "Profits and gains of business or profession" [(CIT vs. Delhi Cloth & General Mills Co.Ltd(1966)].
4. If the assessee gives his premises to any Government agency for locating a branch of a bank, police station, post office etc. for the purpose of running the business efficiently, then the income of such premises shall be treated as business income.

### 6.13 Income from house property situated in foreign country

Assessee	Taxability
1. For Resident Indian	Income from house property whether brought to India or not, taxable in India.
2. Fro Not Ordinarily Resident or Non-resident	Income from house property if brought in India is taxable, otherwise not.

### 6.14 Income from House property which is not taxable or exempted from tax

1. Local authority's income from house property.
2. Income of a political party from house property.
3. House property used for own residential purpose.
4. Income from farm house.
5. House property income of an approved scientific research organization, any university, educational institution or hospital.

### 6.15 Composite Rent

In some cases, the owner charge rent not only for the house property but also for the various facilities provided with the house. Such rent is called composite rent. The taxability of this type of composite rent is given below:



**(1) Rent of house property includes charge/rent for services:**

If the composite rent includes rent of house property and rent for other services like lift, gas, water supply, air-conditioning etc. then in that case rent/value of providing services needs to be separated from rent of house property. Rent for the use of the house property shall be included under the head "Income from House Property" and value or rent of providing other services needs to be included under the head "Income from Other Sources" [CIT vs. Kanak Investments (P) Ltd.(1974)].

**(2) Letting of house property with other inseparable assets:** If composite rent includes rent for letting the house property and letting of other inseparable assets like machinery, furniture etc. and in that case if the rent for letting of house property can be separated from letting of other inseparable assets then income from letting of house property shall be taxable under the head "Income from House Property" and letting of other inseparable assets shall be taxable under the head "Income from Other Sources". But if the composite rent cannot be separated then total composite rent shall be taxable either under the head "Profits and gains of business or profession" or "Income from Other Sources". Example: rent from paying guest shall be taxable under the head "Income from Other Sources".**6.16 Computation of Income from House Property or Properties**

Income from the house property means Gross Annual Value from which Municipal Tax, Sewerage Tax, Water tax is to be deducted in order to arrive at *Net Annual Value*. This Net Annual Value is actually the income from the house property. From this income deducting statutory deductions u/s 24 and interest on borrowed capital which gives the income from house property.

The income from house property can be classified into:

**(Income from House Property / Net Annual Value)**

**6.16.1** Basics of computing income from let-out house property or properties

**6.16.2.** Determination of taxable income from self-occupied house property or properties

**6.16.2.1** If such property is used by the owner for the purpose of carrying on his business or profession

**6.16.2.2** If such property is used for the residence of the owner and his family members

**6.16.2.2(A)** If one property is used by the owner for his own residential purpose

**6.16.2.2(B)** If two or more properties are used for residential purpose by the owner

\* Amended from the A.Y. 2020-21.

Contd. in next page



- I. Annual value of self-occupied house property which is used by the owner for his own residence [Section 23(2)(a)]
- II. House property which could not actually be self-occupied due to employment else-where [section 23(2)(b)]
- III. When a part of the property is self-occupied by the owner and a part is let-out
- IV. Where a house property is self-occupied a part of the year and let-out for other part of the year

**Format for Computation of Income from Let-out House Property-Under both Old Tax Regime and New Tax Regime**

*Computation of income from House Property of .... a resident individual for the Assessment Year 2024-25 relating to Previous year 2023-24*

Particulars	Old Tax Regime		New Tax Regime	
	Self occupied for residence	Let out / Deemed let out	Self occupied for residence	Let out / Deemed let out
Gross Annual Value (GAV)	N/A	XXXX	N/A	XXXX
Less: Municipal Tax	N/A	(XX)	N/A	(XX)
Net Annual Value (NAV)	N/A	XXXX	N/A	XXXX
Less: Standard Deduction @ 30% of NAV [Section 23 (a)]	N/A	(XX)	N/A	(XX)
Less: Interest on borrowed capital on home loan [Section 24 (b)]	(XXX)	(XXX)	N/A	(XXX)
Income / loss from house property	(XXXX)	XXXX	Nil	XXXX

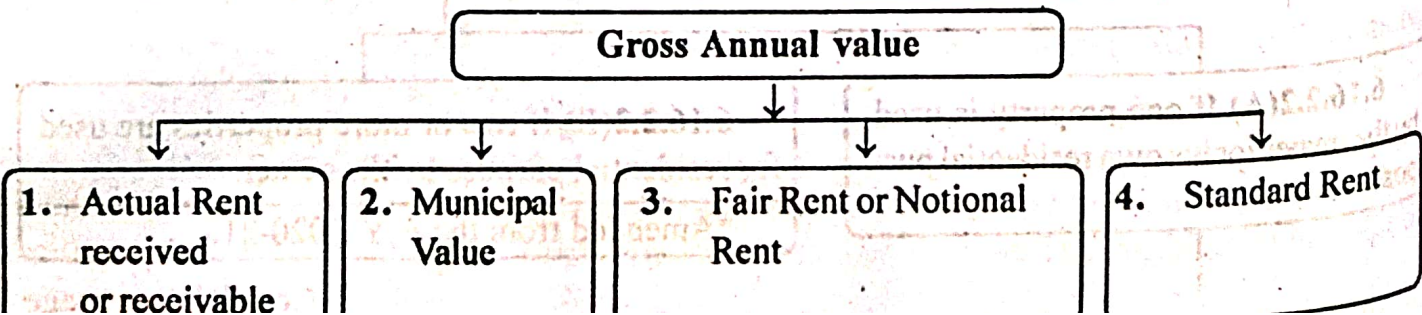
N/A means Not Allowed

**6.16.1. Basis of computing income from let-out house property or properties :**

● **Gross Annual Value [Section 23(1)]:**

The gross annual value of any house property shall be the sum for which the property might reasonably be expected to be let from year to year. This is the inherent earning capacity of the property which is neither actual rent received or municipal valuation. It is the estimated or notional rent which could have been derived had the property being let. So, the gross annual value is that value on which tax is imposed.

Gross Annual Value is determined based on four factors:





**1. Actual Rent Received or Receivable:** The income from any house property can be determined based on the rent received from the property. Here rent means *de facto* rent. The rent which the owner of the property receives includes the cost of other ancillary services like electricity, water, watchman etc. In this case for determining the defacto rent, from rent received or receivable we have to deduct money received from other services.

**Defacto Rent = Actual Rent Received or Receivable (-) Cost of providing other amenities or services**

## 2. Municipal Value

### Gross Municipal Value

1. Net Municipal Value

2. Determination of Gross Municipal Value from Net Municipal Value

● **Net Municipal Value:** In metropolitan cities like Chennai, Delhi, Mumbai, Kolkata, municipal authorities levy municipal taxes on Net Municipal Value. This Net Municipal Value is determined after deducting 10% from Gross Municipal value due to repairs of the house. Besides the other service taxes like Sewerage tax, Education cess, water tax etc. is determined as a percentage of Net Municipal Value and it is deducted from Net Municipal Value.

So, the relationship between Gross Municipal Value and Net Municipal Value is given below:

**In Metro Cities:**

Particulars	Amount (₹)
Gross Municipal Value (GMV)	xxx
Less : 10% of GMV for repairs	xxx
<b>Net Municipal Value (NMV)</b>	<b>xox</b>
Less : Sewerage tax / Water tax as a % of NMV (xox)	xxx
	xxx

i.e.  **$NMV = GMV - 10\% \text{ of } GMV - \text{Sewerage / Water tax as a \% of NMV.}$**

Conditions for deducting Municipal Tax and other service taxes like sewerage tax, water tax etc from Gross Annual Value is discussed below:

- (i) It has been paid in the last year
- (ii) It has been paid by the assessee.
- (iii) It may be related with the previous year or any previous year before that.
- (iv) No deduction is allowed for advance municipal tax paid
- (v) No deduction is allowed for payment of municipal tax by the tenant.



In Non-metro Cities :

$$\text{Gross Municipal Value (GMV)} = \text{Net Municipal Value (NMV)}$$

Note : If only Municipal Value is given then in that case it is to be assumed that Net Municipal Value is given.

Illustration 3:

Mr. X is the owner of a house situated in Chennai. Its Gross municipal value is ₹ 30,000. If municipal tax is 12% then calculate the municipal tax. What will be your answer if the house is situated in non-metropolitan cities.

Particulars	Amount (₹)
Gross Municipal Value (GMV)	30,000
Less : 10% of ₹ 30,000 for repairs	3,000
Net Municipal Value (NMV)	27,000

∴ Municipal tax will be 12% of ₹ 27,000 = ₹ 3,240.

In case of non-metropolitan cities municipal tax will be 12% of ₹ 30,000 = ₹ 3,600.

Illustration 4:

(1) Gross Municipal Value of a house fixed by Kolkata Municipality is ₹ 1,00,000. Rate of Municipal tax is 15%. Water and Sewerage taxes are 3% and 2% respectively. Find out the Net Municipal Value and Municipal tax.

(2) What will be your answer if the house is situated in Vizag?

Solution : (1) In this case the house is situated in a metro city therefore,

$$\text{NMV} = \text{GMV} - 10\% \text{ GMV} - \text{Sewerage/Water tax as a percentage of NMV}$$

$$\text{or, NMV} = ₹ 1,00,000 - 10\% \text{ of } ₹ 1,00,000 - 2\% \text{ of NMV} - 3\% \text{ of NMV}$$

$$\text{or, NMV} + 2\% \text{ of NMV} + 3\% \text{ of NMV} = ₹ 1,00,000 - ₹ 10,000$$

$$\text{or, } 105\% \text{ of NMV} = ₹ 90,000.$$

$$\therefore \text{NMV} = \frac{₹ 90,000}{105\%} = ₹ 85,714.$$

$$\therefore \text{Municipal tax payable} = ₹ 85,714 \times 15\% = ₹ 12,857.$$

$$\text{Water tax payable} = ₹ 85,714 \times 3\% = ₹ 2,571.$$

$$\text{Sewerage tax payable} = ₹ 85,714 \times 2\% = ₹ 1,714.$$

(2) If the house is situated in Vizag i.e. non-metro city then  $\text{GMV} = \text{NMV} = ₹ 1,00,000$

$$\therefore \text{Municipal tax payable} = ₹ 1,00,000 \times 15\% = ₹ 15,000.$$

$$\text{Water tax payable} = ₹ 1,00,000 \times 3\% = ₹ 3,000.$$

$$\text{Sewerage tax payable} = ₹ 1,00,000 \times 2\% = ₹ 2,000.$$

● Determination of Gross Municipal Value from Net Municipal Value

From Net Municipal Value if we want to determine the Gross Municipal Value then it shall be determined in the following way :



Particulars	Amount (₹)
Net Municipal Value (NMV)	xxx
Add : $\frac{1}{9}$ of NMV.	xxx
Add : Sewerage/Water tax as a % of NMV	xxx
<b>Gross Municipal Value</b>	<b>xxx</b>

Gross Municipal Value (GMV) = Net Municipal Value (NMV) +  $\frac{1}{9}$  of NMV + Sewerage/Water tax as % of NMV.

### Illustration 5 :

Mr. Taxman is the owner of a house situated in Delhi. The net municipal value is ₹ 45,000. Delhi municipality imposes 10% of Municipal tax, 8% Sewerage tax, 4% Water tax and 2% education cess. Calculate Gross Municipal Value.

**Solution :** The house is situated in metropolitan city Delhi.

Particulars	Amount(₹)
Net Municipal Value (NMV)	45,000
Add : $\frac{1}{9}$ of NMV i.e. ( $\frac{1}{9} \times ₹ 45,000$ )	5,000
	50,000
Add : Sewerage tax (8% of ₹ 45,000)	3,600
	53,600
Add : Water tax (4% of ₹ 45,000)	1,800
	55,400
Add : Education cess (2% of ₹ 45,000)	900
<b>Gross Municipal Value (GMV)</b>	<b>56,300</b>

**3. Fair Rent/Notional Rent:** Fair rent is the rent which a similar property can fetch in the same or similar locality if the property is let for a year.

**4.4. Standard Rent:** Standard rent is fixed by Rent Control Act. If standard rent is fixed then Fair Rent or Expected Rent cannot exceed Standard Rent.

### ● Determination of Gross Annual Value: Sec.23(1)

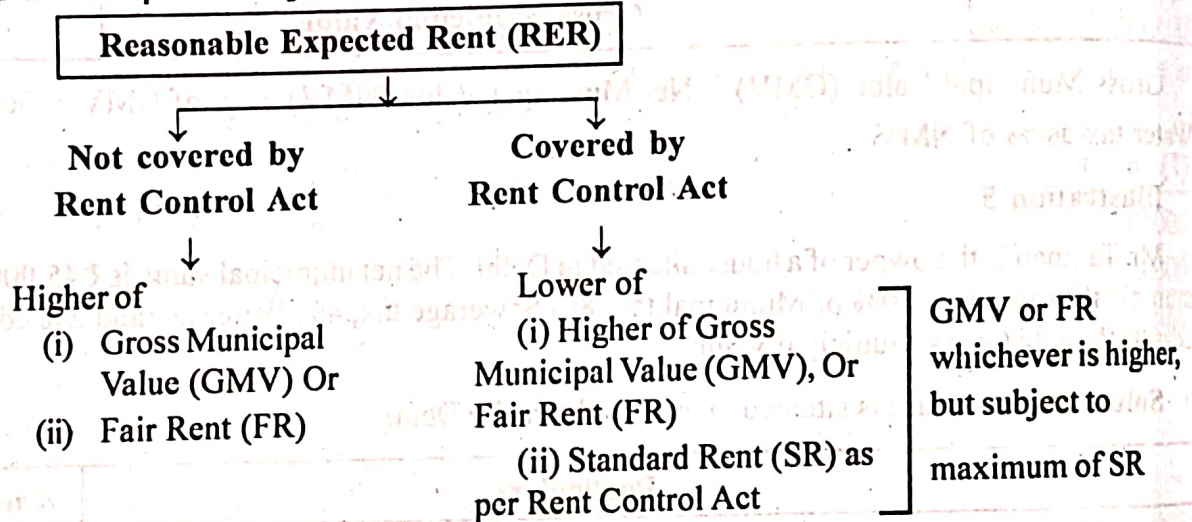
For determining the gross annual value under section 23(1) we need to consider the matters like Reasonable Expected Rent [Sec.23(1)(a)], Actual Rent [Sec.23(1)(b)] and Actual Rent due to Vacancy [Sec.23(1)(c)] and what has been described in the relevant sections.



● **Sec.23(1)(a) : Reasonable Expected Rent :** The sum for which the property might reasonably be expected to let from year to year is the Gross Annual Value (GAV) of the Property.

**Step 1 : Reasonable expected rent :** Reasonable expected rent is to be determined by following Step 1:

**Step 1 : Computation of Reasonable Expected Rent (RER)**



**Illustration 6 :**

Calculate Reasonable Expected Rent (RER) from the following details :

Particulars	House 1 (₹)	House 2 (₹)	House 3 (₹)	House 4 (₹)
1. Gross Municipal Value.	8,000	12,000	15,000	8,000
2. Fair Rent	9,000	16,000	12,000	10,000
3. Standard Rent as per Rent Control Act	12,000	N.A.	15,000	7,000

**Solution :**

**House 1 :**

- (i) Higher of Gross Municipal Value i.e. ₹ 8,000 or Fair Rent i.e. ₹ 9,000. So the higher figure is ₹ 9,000.
- (ii) Standard Rent as per Rent Control Act is ₹ 12,000.
- ∴ Reasonable Expected Rent (RER) is lower of (i) and (ii) i.e. ₹ 9,000.

**House 2 :**

This property is not covered by Rent Control Act. Therefore, Reasonable Expected Rent is higher of Gross Municipal Value or Fair Rent. As the higher figure is Fair Rent therefore Reasonable Expected Rent is ₹ 6,000.

**House 3 :**

- (i) Higher of Gross Municipal Value or Fair Rent = ₹ 15,000.
- (ii) Standard Rent = ₹ 15,000.
- Reasonable Expected Rent is lower of (i) and (ii) i.e. ₹ 15,000.



House 4 :

(i) Higher of Gross Municipal Value or Fair Rent = ₹ 10,000.

(ii) Standard Rent = ₹ 7,000.

Reasonable Expected Rent is lower of (i) and (ii) i.e. ₹ 7,000.

**Section 23(1)(b): Actual Rent (AR) - Unrealised Rent > Reasonable Expected Rent (RER):**

Where the property or any part thereof is let and the actual rent received or receivable by the owner in respect thereof is in excess of the sum referred in section 23(1)(a), then the sum received or receivable is the annual value of the property

**Step 2 : Actual Rent (AR) received or receivable**

In this case Actual Rent received or receivable shall be determined after deducting Unrealised Rent from Actual Rent. The money which the owner is unable to realise from the tenant, that is unrealised rent and this unrealised rent is not included in Annual Value.

∴ AR received or receivable = Annual Rent – Unrealised Rent

**Section 23(1)(c) : Actual Rent (AR) due to Vacancy < Reasonable Expected Rent (RER) :**

When any property or any part of the property is given on rent and the relevant property was vacant during the whole or any part of the previous year and owing to such vacancy, the rent which was not realised, if that is deducted from the Actual Rent Received or Receivable by the owner in respect of the property, then

If the resultant sum is less than the sum referred to in Section 23(1)(a) i.e. Reasonable Expected Rent, then the Annual Value of the property shall be the Actual Rent Received or Receivable.

**Step 3 : Comparison of Actual Rent (AR) received or receivable with Reasonable Expected Rent (RER)****Comparison of AR and RER**

In this case Actual Rent (AR) is considered after considering Unrealised Rent

When  $(AR - \text{Unrealised Rent}) > RER$  then  
 $AR = GAV$  (Gross Annual Value)  
 [Section 23(1)(b)]

When  $(AR - \text{Unrealised Rent}) < RER$  then  
 $RER = GAV$   
 [Section 23(1)(b)]

\* In this case Gross Annual Value (GAV) being higher of Actual

Rent (AR) and Reasonable Expected Rent (RER).

In this case Actual Rent (AR) is considered after considering Vacancy

When  $(AR \text{ due to Vacancy}) < RER$  then  
 $AR = GAV$   
 [Section 23(1)(c)]

\* In this case Gross Annual Value being lower of Actual Rent (AR) and Reasonable Expected Rent (RER) but when AR due to vacancy > RER then Gross Annual Value = AR

Gross Annual Value (GAV) is the higher of step 1 and step 2 |



● Determination of Gross Annual Value under different conditions

**Situation 1**

**Illustration 7 :** When there is neither Unrealised Rent nor Vacancy Period

Compute Gross Annual Value in respect of the following properties

	House 1 (₹)	House 2 (₹)	House 3 (₹)
Gross Municipal Value for the whole year	1,50,000	1,70,000	1,90,000
Fair Rent for the whole year	1,35,000	1,45,000	1,75,000
Standard Rent under the Rent Control Act for the whole year	1,65,000	N.A.	1,30,000
Actual Rent received	1,30,000	2,00,000	1,40,000
Vacancy Period	N.A.	N.A.	N.A.

**Solution :**

**Computation of Gross Annual Value**

Step	Calculation of	Rule	House 1 (₹)	House 2 (₹)	House 3 (₹)
1.	Reasonable Expected Rent (RER)	Lower of (a) and (b) (a) Higher of GMV or Fair Rent (b) Standard Rent	1,50,000	1,70,000	1,30,000
2.	Actual Rent (AR)	For the period actually let out during the previous year	1,30,000	2,00,000	1,40,000
3.	Gross Annual Value	Higher of Step 1 and Step 2	1,50,000	2,00,000	1,40,000

**Situation 2**

**Illustration 8 :** When there is Unrealised Rent but No Vacancy Period

Mr. Kar owns a house property in Kolkata. The following information is given : Gross Municipal Value ₹ 3,00,000; Fair Rent ₹ 2,80,000; Standard Rent ₹ 2,40,000. The property was let-out throughout the previous year for a rent of ₹ 20,000 per month. But Mr. Kar failed to recover the rent for the month of January 2024. Find out the Gross Annual Value of the property for the Assessment Year 2024-25.

**Solution :**

**Computation of Gross Annual Value**

**Step 1 :** Computation of Reasonable Expected Rent (RER)

As the property is covered under the Rent Control Act, therefore RER is

Lower of (i) and (ii) —

(i) Higher of Gross Municipal Value (GMV) or Fair Rent (FR) = ₹ 3,00,000.



(ii) Standard Rent (SR) = ₹ 2,40,000.

∴ Reasonable Expected Rent (RER) = ₹ 2,40,000.

Step 2 : Actual Rent received or receivable

Actual Rent (AR) = Actual Rent received or receivable – Unrealised Rent  
 = (₹ 20,000 × 12) – ₹ 20,000  
 = ₹ 2,40,000 – ₹ 20,000  
 = ₹ 2,20,000.

Step 3 : Comparison of Actual Rent (AR) and Reasonable Expected Rent (RER)

Here, (AR – Unrealised Rent) = ₹ 2,20,000 and

Reasonable Expected Rent (RER) = ₹ 2,40,000.

As, (AR – Unrealised Rent) < RER

∴ Gross Annual Value = RER = ₹ 2,40,000.

### Situation 3

Illustration 9 : When there is Vacancy Period but no Unrealised Rent

Find out the Gross Annual Value in case of the following house properties.

	House 1 (₹)	House 2 (₹)	House 3 (₹)
Gross Municipal Value for the year	30,000	40,000	68,000
Fair Rent for the year	40,000	60,000	70,000
Standard Rent under Rent Control Act during the year	28,000	35,000	75,000
Actual Rent for the year	50,000	66,000	64,000
Vacancy Period (in months)	3	2	1

Solution :

### Computation of Gross Annual Value

Step	Calculation of	Rule	House 1 (₹)	House 2 (₹)	House 3 (₹)
1.	Reasonable Expected Rent (RER)	Lower of (a) and (b) – (a) Higher of GMV or Fair Rent (b) Standard Rent	28,000	35,000	70,000
2.	Actual Rent (AR)	For the period actually let out during the year	50,000	66,000	64,000
3.	Gross Annual Value	Higher of Step 1 and Step 2	50,000	66,000	70,000



**Situation 4 :**

*When there is Unrealised Rent (UR) as well as Vacancy Period*

In this case the following steps are to be followed :

**Step (1) :** Calculate Reasonable Expected Rent which is

Lower of —

- Higher of Gross Municipal Value (GMV) or Fair Rent (FR).
- Standard Rent (SR).

**Step (2) :** Calculate Actual Rent Received/Receivable (AR) for the year less Unrealised Rent (UR) of current Year.

**Step (3) :** Compare the values calculated in Step (1) and Step (2) and take the higher figure.

**Step (4) :** In case of vacancy and due to such vacancy if 'Actual Rent (AR) – Unrealised Rent (UR)' is less than Reasonable Expected Rent (RER) then 'Actual Rent (AR) – Unrealised Rent (UR)' as computed in Step (2) will be treated as Gross Annual Value (GMV).

**Points to Remember :**

- When Actual rent (AR) – Unrealised Rent (UR) is less than Reasonable Expected Rent because of vacancy then AR - UR = Gross Annual value.
- When 'AR – UR' become Gross Annual Value (GAV) only then deduction in respect of vacancy can be given.

**Illustration 10 : When there is Unrealised Rent as well as Vacancy Period**

Calculate the Gross Annual Value in respect of the following three house properties.

	House 1 (₹)	House 2 (₹)	House 3 (₹)
Gross Municipal Value	1,80,000	2,10,000	1,50,000
Fair Rent	1,70,000	1,75,000	2,70,000
Standard Rent	1,50,000	2,70,000	3,30,000
Actual rent for the previous year 2023-24	2,10,000	3,40,000	1,80,000
Unrealised rent for the previous year 2023-24	55,000	70,000	20,000
Unrealised rent for the previous year 2022-23	25,000	28,000	35,000
Vacancy Period for the previous year 2023-24	4	3	2

**Workings :****1. Calculation of Actual Rent (AR):**

Actual Rent (AR) = Actual Rent received or receivable – Unrealised Rent



$$\begin{aligned} \text{For House 1 : AR} &= \left[ \frac{\text{₹}2,10,000}{12} \times 8 \right] - \text{₹}55,000 \\ &= \text{₹}1,40,000 - \text{₹}55,000 \\ &= \text{₹}85,000. \end{aligned}$$

$$\begin{aligned} \text{For House 2 : AR} &= \left[ \frac{\text{₹}3,40,000}{12} \times 9 \right] - \text{₹}70,000 \\ &= \text{₹}2,55,000 - \text{₹}70,000 \\ &= \text{₹}1,85,000. \end{aligned}$$

$$\begin{aligned} \text{For House 3 : AR} &= \left[ \frac{\text{₹}1,80,000}{12} \times 10 \right] - \text{₹}20,000 \\ &= \text{₹}1,50,000 - \text{₹}20,000 \\ &= \text{₹}1,30,000. \end{aligned}$$

Solution :

Computation of Gross Annual Value

Step	Calculation of	Rule	House 1 (₹)	House 2 (₹)	House 3 (₹)
1.	Reasonable Expected Rent (RER)	Lower of (a) and (b) — (a) Higher of GMV or Fair Rent (FR) (b) Standard Rent (SR)	1,50,000	2,10,000	2,70,000
2.	Actual Rent (AR)	As per Workings 1	85,000	1,85,000	1,30,000
3.	Gross Annual Value	Lower of Step 1 and Step 2 due to vacancy*	85,000	1,85,000	1,30,000

\* In case of vacancy and due to such vacancy if 'Actual Rent (AR) Unrealised Rent (UR)' is less than Reasonable Expected Rent (RER) then 'Actual Rent (AR) – Unrealised Rent (UR)' will be treated as Gross Annual Value (GAV).

### ● Deductions from Annual Value [Section 24]

For determining the income from house property, the following deductions are to be made.

These deductions are:

- 1. Standard Deduction:** For meeting the expenses of the house property, the assessee shall be allowed a standard deduction of a sum equal to 30% of the Net Annual Value.
- 2. Interest on Borrowed Capital:** Interest on borrowed capital is allowed as deduction on accrual basis if this borrowed capital is used for acquisition, construction, repair, renewal or reconstruction of the property. From the assessment year 2020-21 Section 80EEA (Interest on loan taken for certain house property) has been inserted. If interest on borrowed capital is claimed as deduction under section 80EEA then it cannot be claimed as deduction under section 24(b) in the



same assessment year or other assessment years.

For convenience of calculation interest on borrowed capital is divided into two parts:

- (i) **Interest for pre-construction period:** Pre-construction period means the date when the construction of the property was started or the date when capital was borrowed whichever is later and ending on 31<sup>st</sup> March immediately prior to the date of completion of construction.

**Example:** T took one loan for construction of the house on 1.4.2001. But the construction of the house started on 1.4.2003 and construction completed on 27.09.2015. In this case the pre-construction period will be 1.4.2003 to 31.03.2015.

- **Interest on Borrowed Capital:** Accumulated interest of the pre-construction period is deductible in five equal instalments, starting from the year in which the construction of the house was completed.
- (ii) **Interest for Post-construction period:** Post-construction period means, the year in which construction of the house was completed or the period until which the borrowed capital was returned. In this case the interest on the borrowed capital can be completely demanded in the specified years.

**Points to Remember: Important matters relating to Interest on Borrowed Capital**

- As interest on borrowed capital is allowed on *accrual basis*, therefore the interest actually paid or payable in the current year is also deductible on yearly basis.
- Interest paid on unpaid interest is not deductible.
- The date on which loan was taken for the construction of the property and the date on which the construction of the property started whichever is later between the two, from that date and ending on 31<sup>st</sup> March immediately prior to the date of completion of construction is called pre-construction period. The accumulated interest of the pre-construction period was deductible in five equal instalments starting from the year in which the construction was completed and the remaining in the next four years.
- The Brokerage and Commission payable on borrowed capital is not deductible.
- Interest on new borrowed capital, if used to repay the old borrowed capital then the interest on new borrowed capital is allowed as deduction.

● **Illustration 11 :**

Mr. X has taken a loan of ₹ 10,00,000 from State Bank of India on 1.4.2013 @10% p.a. for the purpose of construction of his house. The construction of the house was completed on 25.07.2019. Calculate the interest on loan allowed as deduction in different assessment years.

**Solution:**

The construction of the house was completed on 25.07.2019. Therefore pre-construction period is from 1.4.2013 to 31.03.2019 i.e. 6 years. Interest on loan for pre-construction period is —



$\text{₹ } 10,00,000 \times 10\% \times 6 \text{ years} = \text{₹ } 6,00,000.$

₹ 6,00,000 will be allowed as deduction in 5 equal instalments i.e. ( $\text{₹ } 6,00,000/5 = \text{₹ } 1,20,000$ ) starting from 2019-20. Hence, interest allowed as deduction in different assessment years is shown below :

*Computation of Pre-construction and Post-construction period interest on loan*

Assessment Year	Previous Year	Pre-construction period interest	Post-construction period interest	Total interest deductible
2020-21	2019-20	1,20,000	1,00,000	2,20,000
2021-22	2020-21	1,20,000	1,00,000	2,20,000
2022-23	2021-22	1,20,000	1,00,000	2,20,000
2023-24	2022-23	1,20,000	1,00,000	2,20,000
2024-25	2023-24	1,20,000	1,00,000	2,20,000

**Illustration 12:**

Mr. Tamal has taken a house building loan from Panjab National Bank on 1.7.2013 for ₹ 5,00,000 @ 12% p.a. Construction of the house was started, on 1.8.2014 and completed on 1st March, 2021. How much interest on loan is deductible in the assessment year 2024-25.

- (a) Date of repayment of loan is 28th February, 2022.  
 (b) Date of repayment of loan is 31st January, 2020.

**Solution :**

(a) Here the construction was completed on 01.03.2021 and the date of repayment of loan is 28.02.2022. Now in between these two dates i.e. 01.03.2021 (Completion of construction) and 28.02.2022 (Date of repayment of loan), 01.03.2021 is prior to 28.02.2022. Therefore interest is to be calculated upto 01.03.2021. i.e. upto 31st March prior to 01.03.2021 which is 31.03.2020.

The pre-construction period is 1.8.2014 to 31.03.2020 and the 5 years post-construction period for deduction of pre-construction period interest is 2020-21 to 2024-25. Interest for the pre-construction period is calculated below :

1.8.2014 to 31.03.2015 = ₹ 5,00,000 × 12/100 × 8/12 = ₹ 40,000

1.4.2015 to 31.03.2016 = ₹ 5,00,000 × 12% = ₹ 60,000

1.4.2016 to 31.03.2017 = ₹ 5,00,000 × 12% = ₹ 60,000

1.4.2017 to 31.03.2018 = ₹ 5,00,000 × 12% = ₹ 60,000

1.4.2018 to 31.03.2019 = ₹ 5,00,000 × 12% = ₹ 60,000

1.4.2019 to 31.03.2020 = ₹ 5,00,000 × 12% = ₹ 60,000

**Total interest of the pre-construction period = ₹ 3,40,000**



**Computation of Interest Deductible in the Assessment Year 2024-25**

Assessment year	Previous year	Interest deductible		Total interest deductible (₹)
		Pre-construction period (₹)	Post-construction period (₹)	
2024-25	2023-24	$3,40,000 \times 1/5$ = ₹ 68,000	Nil	= ₹ 68,000

∴ From previous year 2020-21 onwards upto previous year 2024-25, Mr. Tamal will get deduction only for the pre-construction period i.e. ₹ 68,000 only.

(b) In this case the pre-construction period is 1.8.2014 to 31.03.2020 i.e. upto 31st March prior to 01.03.2021 (completion of construction) and the post-construction period is 2020-21 onwards.

Interest for the pre-construction period is calculated below :

$$1.8.2014 \text{ to } 31.03.2015 = ₹ 5,00,000 \times 12/100 \times 8/12 = ₹ 40,000$$

$$1.4.2015 \text{ to } 31.03.2016 = ₹ 5,00,000 \times 12\% = ₹ 60,000$$

$$1.4.2016 \text{ to } 31.03.2017 = ₹ 5,00,000 \times 12\% = ₹ 60,000$$

$$1.4.2017 \text{ to } 31.03.2018 = ₹ 5,00,000 \times 12\% = ₹ 60,000$$

$$1.4.2018 \text{ to } 31.03.2019 = ₹ 5,00,000 \times 12\% = ₹ 60,000$$

$$1.4.2019 \text{ to } 31.03.2020 = ₹ 5,00,000 \times 12\% = ₹ 60,000$$

$$\text{Total interest of the pre-construction period} = \underline{\underline{₹ 3,40,000}}$$

**Computation of Interest Deductible in the Assessment Year 2024-25**

Assessment year	Previous year	Interest deductible		Total interest deductible (₹)
		Pre-construction period (₹)	Post-construction period	
2024-25	2023-24	$3,40,000 \times 1/5$ = ₹ 68,000	Nil	= ₹ 68,000

Pre-construction period interest is deductible from previous year 2020-21 upto previous year 2024-25 i.e. 5 years.

**Illustration 13 :**

Calculate interest on loan deductible for the assessment years 2018-19, 2019-20, 2020-21, 2021-22, 2022-23 and 2023-24 from the following information :

A house building loan was taken on 1.1.2014 for ₹ 10,00,000 @ 13% p.a. Construction of the house commenced on 1.8.2014 and the construction completed on 31.03.2019. Re-payment of loan was made as under:



On 1.4.2015	₹ 2,00,000
On 1.4.2018	₹ 2,00,000
On 1.4.2020	₹ 2,00,000
On 1.7.2021	₹ 2,00,000

**Solution**

The construction of the house commenced on 1.8.2014 and completed on 31.03.2019.

Therefore pre-construction period is 1.8.2014 to 31.03.2018 and the post-construction period starts from 1.4.2018 i.e. 2018-19 onwards.

**Calculation of pre-construction period interest**

Previous year	Amount loan (₹)	Month	Interest (₹)
2014-15	10,00,000	8	$10,00,000 \times 13\% \times 8/12 = 86,667$
2015-16	8,00,000	12	$8,00,000 \times 13\% = 1,04,000$
2016-17	8,00,000	12	$8,00,000 \times 13\% = 1,04,000$
2017-18	8,00,000	12	$8,00,000 \times 13\% = 1,04,000$
<b>Total interest for the pre-construction period</b>			<b>₹ 3,98,667</b>

Interest for the pre-construction period i.e. ₹ 3,98,667 is deductible from previous year 2018-19 upto previous year 2022-23 i.e. 5 years. Every year the amount deductible is  $₹ 3,98,667 \times 1/5 = ₹ 79,733$ .

**Computation of interest on loan deductible for the Assessment Years 2018-19 to 2023-24**

Assessment Year	Previous Year	Pre-construction period interest (₹)	Post-construction period interest (₹)	Total interest deductible (₹)
2018-19	2017-18			
2019-20	2018-19	79,773	$₹(10,00,000 - 2,00,000 - 2,00,000) \times 13\% = ₹ 78,000$	1,57,733
2020-21	2019-20	79,733	78,000	1,57,733
2021-22	2020-21	79,733	$₹(6,00,000 - 2,00,000)$ i.e. $₹ 4,00,000 \times 13\% = ₹ 52,000$	1,31,733
2022-23	2021-22	79,733	$₹ 4,00,000 \times 13\%$ for 3 months + $₹ 2,00,000 \times 13\%$ for 9 months = $₹ 13,000 + ₹ 19,500 = ₹ 32,000$	1,12,233
2023-24	2022-23	79,733	$₹ 2,00,000 \times 13\% = ₹ 26,000$	1,05,733

In the Assessment Year 2024-25 no interest on loan is deductible.



● Interest on borrowed capital of self-occupied property [Section 24(b)]

For self-occupied house no, *Standard Deduction* is allowed from *Net Annual Value* as Net Annual Value of self-occupied house property is Nil. But from Net Annual Value deduction for interest on borrowed capital is allowed under section 24(b). But for this some conditions are required to be satisfied. The conditions and the maximum interest on borrowed capital allowed as deduction is given below. From the Assessment Year 2020-21 this deduction is allowed for two self-occupied residential house properties.

Conditions	Maximum interest allowed as deduction
<p>1. Where the loan is taken on 1.4.99 or after that. In this case the following conditions are to be satisfied:</p> <p>(a) The loan is used for <i>construction</i> and <i>purchase</i> of the property.</p> <p>(b) The previous year in which the loan was taken, from the end of that previous year, within next five years the <i>construction and acquisition of the property was completed</i>.</p> <p>(c) If the borrower can obtain one certificate from the lender in which it will be specified that interest is payable by the assessee for taking this loan for the construction and acquisition of the property.</p>	₹ 2,00,000
<p>2. If the above conditions are not satisfied i.e.</p> <p>(a) The loan is taken on 1.4.99 or before that</p> <p>(b) The loan was taken for any purpose related to the house property and not only for construction and acquisition of the property.</p> <p>(c) The previous year in which the loan was taken, from the end of that previous year, within next five years the <i>construction and acquisition of the property was not completed</i>.</p> <p>(d) If the borrower cannot obtain one certificate from the lender in this regard.</p>	₹30,000

**Note:** If the assessee has opted for two houses to be treated as self-occupied, then in that case the deduction of amount of interest given above shall in aggregate remain ₹30,000 or ₹2,00,000 as the case may be, whether the assessee has opted for one residential house or two residential houses to be self occupied.

**Note:** 115BAC(New Tax Regime) – From the Assessment Year 2021-22, if an individual or HUF opts to be taxed under section 115BAC(New Tax Regime) then he/it will not be entitled to deduction of the above interest of ₹30,000 or ₹2,00,000 as the case may be.

**Example:**

Mr. X is having one house property in the New Town in Kolkata. He stays with his family in this house. The municipal valuation is ₹ 30,000 and the rent of similar property in the neighbourhood is ₹ 58,000. The municipal taxes paid for the property ₹ 7,000 including ₹ 1,200 paid for the previous year.



The house was constructed in 1997 with a loan of ₹ 22,00,000 taken from State Bank of India. During the previous year 2023-24, Mr. X has refunded ₹ 3,00,000 which includes ₹ 2,20,000 as current year's interest.

- (1) Compute the income from house property for the assessment year 2024-25 if Mr. X:
  - (i) does not opt to be taxed under section 115BAC i.e. new tax regime.
  - (ii) opts to be taxed under section 115BAC i.e. new /alternative tax regime.
- (2) If the loan was taken on or after 1.4.2010 and the property was completed in December, 2011 then what would be the deduction on account of interest on loan.

**Solution:**

Particulars	Does not opt to be taxed u/s 115BAC (₹)	Opts to be taxed u/s 115BAC (₹)
(1) Annual value of the house property used for self-occupation of the owner	Nil	Nil
Less: Deduction u/s 24(1)		
Interest on money borrowed ₹2,20,000 but restricted to maximum ₹30,000	(-)30,000	Nil
Loss from house property	(-)30,000	Nil
(2) In this case the deduction will be ₹ 2,20,000 subject to a maximum of ₹ 2,00,000. Therefore the loss for his house property shall be ₹ 2,00,000 or Nil, as the case may be	(-)2,00,000	Nil

### 6.16.2 Determination of Taxable Income from Self-occupied House Property or Properties:

The features which regulate the tax incidence of self-occupied house property/properties are:

#### 6.16.2.1 If the property is used by the owner for the purpose of carrying on his business or profession:

If any property is used by the owner for the purpose of carrying on his business or profession then nothing is taxable under the head "Income from House Property". Any income or expense related to the property is taxable under the head "Profits and gains of business or profession".

#### 6.16.2.2 If such property is used for the residence of the owner and his family members:

In this case the method of determining taxable income is given below:

#### 6.16.2.2 (A) If one property is used for the residence of the owner and his family members

In this case four situations may arise:



**I. Annual Value of self-occupied house property which is used by the owner for his own residence throughout the year [Section 23(2)(a)] :**

In this case if the owner uses the full or part of the house property for his own residence throughout the year then there is no income from such house property. So, the Annual Value of such house property is treated as Nil. But in this case the following conditions need to be satisfied:

- (i) The house property was not let any time during the previous year, and
- (ii) The owner has not gained any benefit from this property

But this type of benefit cannot be enjoyed, if the owner or assessee rents the house to the employer and the employer as a part of perquisite again resubmits the house to the owner or assessee. In this case it is assumed that the property is not used by the owner for his own residence [Dr. Sunder Raj vs. CIT(1980)]. Here nothing is taxable. Only maximum ₹30,000/₹2,00,000 interest on borrowed capital is allowed as deduction.

**Illustration 15:**

Mr. Sen is the owner of a house in Mumbai. He uses the house throughout the previous year for his own residence. The Gross Municipal Value of the house is ₹ 1,00,000 and Municipal Tax paid by Mr. Sen is ₹ 10,000 during the previous year. Compute Net Annual Value of the house property for the Assessment Year 2024-25. He pays interest on borrowed capital of ₹ 2,50,000 as current year's interest.

**Solution :**

**Computation of Net Annual Value of the house property for the Assessment Year 2024-25**

Particulars	Amount (₹)
Gross Annual Value	Nil
Less: Municipal Tax	Nil
Net Annual Value	Nil
Less: Interest on borrowed capital [Sec. 24(b)]	(-) 2,00,000
<b>Income from house property</b>	<b>(-) 2,00,000</b>

**II. House Property which could not actually be self-occupied due to employment elsewhere**

If the owner or assessee cannot occupy or use the house property due to employment elsewhere or business or profession carried on at any other place, then in that case Annual Value of the house property shall be Nil. In this case the owner or assessee needs to satisfy the following conditions:

- (i) The owner cannot reside in his house property due to his employment elsewhere or business or profession carried on at any other place.
- (ii) For his employment or business or profession, he resides in that house property located at any other place other than of his home town of which he is not the owner.



- (iii) The owner has not given on rent his house property or any part of his house property throughout the previous year or any part of the previous year.
- (iv) The owner has not gained any benefit from the house property.

So if the above conditions are satisfied then in that case income from house property is determined as per Section 23(2)(a). In this case nothing is taxable, only maximum interest on borrowed capital allowed is ₹30,000/₹2,00,000.

**Points to Remember:** If the house property remains vacant due to reasons mentioned other than in (i) above, then no benefit can be availed under section 23(2)(b).

#### Illustration 16 :

Mrs. Sarkar is the owner of a house property situated in South Kolkata which She uses for her own residential purpose. After her divorce she was residing with her parents house in the same locality, leaving her own house vacant. Compute the annual value of the house property.

#### Solution :

If the owner cannot reside in his house property due to his employment elsewhere or business or profession carried on at any other place, then according to section 23(2)(b) the Annual Value of the house property shall be Nil.

In this case the house property was not vacant due to above mentioned reason, so Mrs. Sarkar shall not get any benefit as per section 23(2)(b) and the Annual Value of the property shall be taken as Nil.

#### III. When a part of the property is self-occupied by the owner and part is let-out:

When any property has two or more independent residential units [Suppose the ground floor is self-occupied and the first floor is let out or vice-versa], where one unit is used for the purpose of own residence by the owner and the other unit or units are let out, then the whole property cannot be treated as single unit if Municipal value and fair rent is not given separately, shall be apportioned between the let out portion and self occupied portion on built up area basis. Besides Municipal tax and interest on borrowed capital shall also be apportioned on the basis of build up/ floor area space. In this case the independent unit which is self-occupied by the owner and used for the purpose of his own residence, the income from that unit is not taxable. In this case maximum deduction for interest on borrowed capital allowed is ₹30,000/₹2,00,000 [not allowed under new tax regime i.e. under section 115BAC]. The income from let-out unit shall be computed as per let out provisions.

#### Illustration 17 :

Mr. Nag is the owner of a house in Kolkata. The municipal value of the house is ₹ 1,00,000. During the previous year municipal tax paid by him is ₹ 20,000. The house consists of 2 identical residential units for residential purposes. One unit is let out during the previous year at ₹ 8,000 p.m. with effect from December 1, 2023. Compute the annual value of the house. Assume that Mr. Nag does not opt to be taxed under section 115BAC i.e. new tax regime.



**Solution :**

**Computation of Annual Value of the house property for the Assessment Year 2024-25**

	Amount (₹)	Amount (₹)
<b>Flat 1 : (Self-occupied during the previous year for residential purpose)</b>		
Gross Annual Value	Nil	
Less: Municipal tax	Nil	
<b>Net Annual Value</b>		Nil
<b>Flat 2 : (Let out for part of the year)</b>		
Gross Annual value being highest of the following three :		
(i) Gross Municipal Value (₹ 1,00,000 × 1/2)	50,000	
(ii) Fair Rent (₹ 8,000 × 12)	96,000	
(iii) Rent actually received (₹ 8,000 × 4)	32,000	96,000
Less : Municipal tax (₹ 20,000 × 1/2)		10,000
<b>Net Annual Value</b>		86,000
<b>Total Net Annual Value</b>		86,000

**Illustration 18:**

Mr. Tamal is the owner of a residential house property. It has two equal sized residential units- Unit 1 and Unit 2. Unit 1 is self-occupied for residential purpose but Unit 2 was let-out. Rent being ₹ 12,000 p.m. Municipal value of the property is ₹ 2,60,000. Standard Rent is ₹ 2,50,000 and Fair Rent is ₹ 2,80,000. Municipal tax paid by Mr. Tamal @ 12%. Interest on capital borrowed (borrowed during 1995) for the construction of the property ₹ 1,26,000.

Find out income from house property of Mr. Tamal for the Assessment year 2024-25 assuming that he does not opt to be taxed under section 115BAC i.e. new tax regime.

**Solution:**

**Computation of Income from House property of Mr. Tamal for the Assessment Year 2024-25**

	Amount (₹)	Amount (₹)
<b>Unit 1: Self - occupied</b>		
Gross Annual Value		Nil
Less : Municipal Tax		Nil
<b>Net Annual Value</b>		Nil
Less : Interest on borrowed Capital [ 1/2 of ₹ 1,26,000 or ₹ 30,000 whichever is less]		30,000
<b>Income of Unit 1</b>		(-) 30,000



**Unit 2 : Let out**

(i) Reasonable Expected Rent (RER) being lower of (a) and (b)		
(a) Higher of Gross Municipal value (50%) or Fair Rent (50%)	1,40,000	
(b) Standard rent (50%)	1,25,000	1,25,000
(ii) Actual rent received (₹ 12,000 × ₹ 12)		1,44,000
(iii) Gross Annual Value being higher of (i) and (ii)		1,44,000
Less : Municipal tax (50% of 12% of ₹ 2,60,000)		15,600
<b>Net Annual Value</b>		<b>1,28,400</b>
Less : Deduction u/s 24		
Standard deduction (50% of ₹ 1,28,400)	64,200	
Interest on borrowed capital (50% of ₹ 1,26,000)	63,000	1,27,200
<b>Income of Unit 2</b>		<b>1,200</b>
<b>Income from house property :</b>		
Unit 1		(-) 30,000
Unit 2		1,200
<b>Income from House Property</b>		<b>(-) 28,800</b>

**IV. Where a house property is self-occupied a part of the year and let-out for the other part of the year :** Where a house property is self-occupied during a part of the year and let-out for the other part of the year, then its Annual Value will be determined as per the provisions of Section 23(1) relating to let-out property. In this case the period during which the property was occupied by the owner is not relevant and annual value of such house property shall be determined as if it is let out for part of the year. So in this case *expected rent* shall be taken for the full year as per Section 23(1)(a) but the *actual rent received or receivable* shall be taken only for the period when the property was let out and the *gross annual value will higher of Expected Rent or Rent Received/Receivable*.

**Illustration 19 :**

A property which is situated in Mumbai is owned by Mr. Z. The Municipal Value of the property is ₹ 2,00,000 and the Fair Rental value is ₹ 2,40,000. It was self occupied by Mr. Z from 1.4.2023 to 31.8.2023 and from 1st September, 2023 it was let out for ₹ 18,000 p.m.

Compute the annual value of the house property for the assessment year 2024-25, if the municipal taxes paid during the year were ₹ 40,000. Standard rent of the property, is ₹ 2,16,000.



Solution:

*Computation of Net Annual Value for the Assessment year 2024-25*

	Amount (₹)	Amount (₹)
(i) Reasonable Expected Rent (RER) being lower of (a) and (b)		
(a) Higher of Gross Municipal Value or Fair Rent	2,40,000	
(b) Standard Rent	2,16,000	
(ii) Actual Rent Received/Receivable (₹ 18,000 × 7)		1,26,000
(iii) Gross Annual Value being higher of (i) and (ii)		2,16,000
Less: Municipal Tax paid		40,000
<b>Net Annual Value</b>		<b>1,76,000</b>

**6.16.2.2(B) If two or more properties are used for residential purposes/self-occupation of the owner [Section 23(4)][Amended from the Assessment Year 2020-21]:**

If the owner or assessee is having more than two residential houses for his self-occupation i.e. which is used by him for his residential purposes, then he may exercise an option to treat any two of these houses to be self-occupied. The other house(s) will be treated as 'deemed to be let out' and the Annual Value of such house(s) will be determined as per Section 23(1)(a), i.e. the sum for which the property might reasonably be expected to let from year to year. At the time of determination of Annual Value of these types of house properties the following things need to be considered:

- (i) The owner or the assessee can change his option year to year but he must exercise his option in such a way so that his taxable income is minimum.
- (ii) The owner or the assessee will select that house property as his residential house property which has highest Annual value.
- (iii) The Annual Value of two house properties according to the assessee's choice shall be considered as Nil.
- (iv) If the self-occupied house property has more than one residential units and all such units are used by the assessee for his residential purposes then only all the Annual Value of the entire house property shall be taken as Nil.

● **Notional rent on second self-occupied house property is exempt from tax [Section 23 and Section 24]**

From Assessment Year 2020-21

- (1) **One self-occupied house property:** If any person uses one house property for his self-occupation i.e. used for his residential purposes, then the Annual Value of such house property shall be taken as Nil. Interest on borrowed capital to the extent of ₹2,00,000 is available, if the loan is taken after 1.4.99 and used for purchase, construction, repair, renewal or reconstruction of the property. But under the new tax regime i.e. under section 115BAC this deduction is not available.



- (2) **Two self-occupied house properties:** If any person has occupied two house properties for his own residence, then in that case the Annual Value of both properties shall be taken as Nil. If loan is taken separately for the two houses after 1.4.99 for the purpose of purchase, construction, repair, renewal or reconstruction of the property etc. then the aggregate interest allowed as deduction taking two house properties together cannot exceed ₹2,00,000.
- (3) **More than two self-occupied house properties:** If any person uses more than two house properties for his self-occupation i.e. used for his residential purposes then two house properties according to his choice shall be taken as used for residential purposes and other house(s) shall be taken as 'deemed to be let out'. If loan is taken separately for the two houses after 1.4.99 for the purpose of purchase, construction, repair, renewal or reconstruction e.c. of the property etc. then the aggregate interest allowed as deduction taking two house properties together cannot exceed ₹2,00,000. The other houses are deemed to be let out and taxable income shall be determined in the same way as it is determined in the case of let-out properties (See Illustrations 17,23, and 30). But under the new tax regime i.e. under section 115BAC this deduction for interest on borrowed capital is not available.

● **No notional income up to 2 years for house property held as stock-in-trade [Section 23(5)] [Amendment from A.Y. 2021-22]**

According to Section 23(5)-

- (1) Any house property [consisting of any building or land appurtenant thereto] held as stock-in-trade by the owner. and
- (2) The property or any part of the property is not let during the whole or any part of the previous year.

If the above two conditions are satisfied then Annual Value of such property or part of the property shall be taken as Nil for the period up to two years from the end of the financial year in which the certificate of completion of construction of the property is obtained from the competent authority.

**Illustration 20:**

**Net Annual Value of three self-occupied house properties as per amendment from the A.Y. 2021-22**

Mr. Kamal is the owner of three house properties. One is situated in Mumbai, one in Kolkata and the other is situated in Bihar. He uses all the three houses for his residential purposes. The particulars regarding the three houses are given below:

	Mumbai House (₹)	Kolkata House (₹)	Bihar House (₹)
Gross Municipal Value	85,000	70,000	75,000
Fair Rent	80,000	60,000	62,000



Actual Rent received	70,000	62,000	65,000
Standard Rent	75,000	65,000	68,000
Municipal tax paid	10,000	12,000	8,000
Interest on borrowed capital to purchase house properties in Mumbai and Bihar (date of borrowing is after April 1, 1999). But in case of Kolkata house property date of borrowing is before 1.4.1999	2,40,000	3,00,000	4,10,000

Compute income from house properties of Mr. Kamal for the Assessment Year 2024-25, assume Mr. Kamal does not opt to be taxed u/s 115BAC i.e. New Tax Regime.

**Solution:**

**Computation of Annual Value of house properties of Mr. Kamal for the Assessment Year 2024-25 (Does not opt to be taxed u/s 115BAC)**

Particulars	Amount (₹)	Amount (₹)
<b>1 and 2. Mumbai House and Bihar House (Self occupied)</b>		
Gross Annual value of Mumbai House and Bihar House		Nil
Less : Municipal tax (not deductible in the case of self-occupied properties).		Nil
Net Annual Value		Nil
Less : Deduction under section 24 :		Nil
Standard deduction		Nil
Interest on borrowed capital (₹ 2,40,000 + ₹ 4,10,000 subject to maximum of ₹ 2,00,000)		2,00,000
<i>Income from Mumbai House and Bihar House</i>		(-) 2,00,000
<b>3. Kolkata House (deemed to be let-out)</b>		
(i) Reasonable Expected Rent (RER) being lower (a) and (b)		
(a) Higher of Gross Municipal value or Fair Rent	70,000	
(b) Standard Rent	65,000	65,000
(ii) Actual rent received		62,000
(iii) Gross Annual Value being higher of (i) and (ii)		65,000
Less : Municipal tax paid		12,000
<b>Net Annual Value of Kolkata house</b>		53,000
Less : Deductions under section 24 :		
Interest on borrowed capital as the loan was taken before 1.4.1999		30,000
<b>Income from Kolkata House</b>		23,000



<i>Computation of Income from house properties of Mr. Kamal</i>		
Income from House Properties :		
Mumbai House and Bihar House		
Kolkata House		(-) 2,00,000
		23,000
<b>Income from House Properties</b>		<b>(-) 1,77,000</b>

**6.17 When interest on borrowed capital is not deductible from "Income from House Property"/Interest payable outside India on which no tax has been deducted at source [Section 25]**

When interest on borrowed capital is paid outside India then such interest shall not be allowed as deduction u/s 24(b), unless 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 agent of the recipient for such purposes.

**6.18 Recovery of unrealised rent of any past years [ Section 25A(1)]**

If the assessee receives any unrealized rent or arrears of rent from the tenant or if any unrealized rent of any previous years is realized subsequently from a tenant then that is known as unrealized rent.

● **Standard deduction @30% from such unrealized rent[Section 25A(2)]:** The previous year in which the unrealized rent or arrears of rent shall be realized in that previous year such rent shall be taxable under the head "Income from house property" after deducting 30% standard deduction. In this case whether the assessee is the owner of the property or not in that financial year is not important.

**Points to Remember:**

- During the previous year the assessee may not be the owner of the property, even in that situation the income is taxable under the head "Income from house property". That is who is the owner of the property is not important.
- Any expenditure incurred in connection with the recovery of unrealized rent is not considered for deduction purpose.

**Illustration 21:**

Mr. T has realised a sum of ₹ 15,000 from a tenant out of the unrealised rent of the previous years in the financial year 2023-24. For the purpose of recovery. Mr. T has incurred ₹ 1,500 as legal expenses. However, Mr. T has sold the house on 15.12.2020. Determine the tax treatment in this case.

**Solution :**

It is immaterial whether Mr. T is the-owner of the house property or not. The unrealised rent of



₹ 15,000 is taxable under the had 'Income from House Property'. The calculation of taxable amount is shown below.

	Amount (₹)
Amount of unrealised rent	15,000
Less: Standard Deduction u/s 24(a) [30% of ₹ 15,000]	4,500
Taxable amount	10,500

#### Illustration 22:

Mr. Karun Sharma is the owner of a house property which he let out since 1.5.2016. The tenant was paying a rent of ₹ 10,000 per month. But as per court decision rent was increased to ₹ 15,000 p.m. with retrospective effect from the year 1.4.2022 which was duly paid by the tenant on 18.08.2023. Legal expenditure incurred by Mr. Karun Sharma in this connection is ₹1,000. Discuss the tax treatment u/s 25A.

#### Solution :

Arrear rent for the period 1.4.2022 to 31.03.2023 i.e. for 12 months is received on 18.08.2023  
Arrear rent received = ₹ 5,000 × 12 = ₹ 60,000.

	Amount (₹)
Arrear rent received	60,000
Less : Standard Deduction u/s 24(a) [30% of ₹ 60,000]	18,000
Taxable Income from House Property u/s 25A	42,000

**Note :** Legal expenditure in connection with the arrear rent is not deductible.

#### Illustration 23 : Two Self-occupied House Properties and the other Deemed to be Let out as per Amendment from A.Y. 2020-21.

Mr. Lalu, a resident individual (age 26 years) owns three houses for his residential purposes which are as follows:

	House I (₹)	House II (₹)	House III (₹)
Municipal Value (MV)	1,60,000	1,20,000	1,80,000
Standard rent under Rent Control Act (SR)	1,72,000	1,30,000	1,55,000
Fair Rent (FR)	64,000	1,70,000	70,000
Fire Insurance	1,200	720	1,020
Municipal taxes paid	10%	10%	10%
Interest on capital borrowed for construction of House I (₹ 18,30,000 is borrowed @10% p.a.)			



on March 18, 2019, construction completed on March 2, 2020 and loan is not yet paid. ₹ 19,00,000 was borrowed @ 10% for House III during 2019 for construction of the house)	1,83,000	Nil	1,90,000
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Determine the income from house property of Mr. Lalu. Income of Mr. Lalu from business is ₹ 7,00,000. Determine the taxable income and tax liability for the assessment year 2024-25 on the assumption that he contributes ₹ 1,20,000 towards public provident fund. Mr. Lalu could not occupy House II for two months starting from December 1, 2023

Assuming Mr. Lalu does not opt to be taxed under New Tax Regime i.e. u/s 115BAC.

### Solution:

Mr. Lalu owns three houses for his own residential purpose. Therefore two houses according to the choice of Mr. Lalu will be treated as self-occupied properties and the other house will be treated as "deemed to be let out" property. Assuming that Mr. Lalu has opted House I and House III as self-occupied properties and House II as "deemed to be let out" property. Taxable income is determined as shown under:

### Computation of Net Income and Tax Liability of Mr. Lalu for the A.Y. 2024-25 (Opt Old Tax Regime)

	Amount(₹)	Amount(₹)
<b>House II (Deemed to be let out property) :</b>		
(i) Reasonable Expected Rent (RER) of the property being lower of (a) and (b)		
(a) Higher of Municipal value or Fair Rent	1,70,000	
(b) Standard Rent	<u>1,30,000</u>	
(ii) Actual rent received/receivable	Nil	
(iii) Gross Annual Value being higher of (i) and (ii)		1,30,000
Less : Municipal taxes (10% of ₹ 1,20,000)		<u>12,000</u>
<b>Net Annual Value</b>		<u>1,18,000</u>
Less : Deduction under section 24		35,400
Standard deduction (30% of ₹ 1,18,000)		<u>82,600</u>
<b>Income from House II</b>		
<b>House I and House III (Self-occupied properties treated as such) :</b>		Nil
Gross Annual Value of House I and House III		Nil
Less: Municipal tax (not deductible in case of self-occupied properties)		<u>Nil</u>
<b>Net Annual Value</b>		Nil



<i>Less:</i> Deduction under section 24:		
Standard deduction		Nil
Interest on borrowed capital (₹ 1,83,000 + ₹ 1,90,000, subject to maximum of ₹ 2,00,000)		2,00,000
<b>Income from House I and House III</b>		<b>(-) 2,00,000</b>
<b>Determination of Net Income</b>		
Income from House Properties :		
House I and House III		(-) 2,00,000
House II		82,600
Business Income		7,00,000
	<b>Gross Total Income</b>	<b>5,82,600</b>
<i>Less:</i> Deduction u/s 80C (contribution to PPF)		1,20,000
	<b>Net Income</b>	<b>4,62,600</b>
Tax on ₹ 4,62,600		
Up to ₹ 2,50,000	Nil	
₹ (5,00,000 – 4,62,600) @ 5%	1,870	1,870
<i>Less :</i> Rebate u/s 87A upto net income of ₹ 5,00,000 (100% of income tax or ₹ 12,500 whichever is less)		1,870
	<b>Balance</b>	<b>Nil</b>
<i>Add :</i> Health and Education Cess @4%		Nil
	<b>Tax Liability (Rounded off)</b>	<b>Nil</b>

**Comprehensive Illustration covering the entire Chapter of 'Income from House Property'**

**Illustration 24:**

Mr. Kartik has 2 house properties situated in Kolkata. The particulars of the properties are as follows:

	<b>Property X</b> Let-out for business (₹)	<b>Property Y</b> Let-out for residential Purposes(₹)
Municipal value	1,50,000	1,80,000
Actual rent	15,000 p.m.	18,000 p.m.
Fair rent	2,10,000	2,25,000
Standard rent	1,62,000	2,52,000
Date of completion of construction	11.3.2014	1.3.1996
Municipal tax paid	30,000	60,000
Repairs	15,000	—
Insurance premium paid	6,000	6,000
Interest on money borrowed for construction	90,000	33,000
Collection Charges	14,000	14,000



A sum of ₹ 9,00,000 @ 10% p.a. was borrowed 01.01.2015 for construction of House X. The entire loan is still outstanding though interest is being paid every year. Compute income from house property of Mr. Kartik assuming he does not opt to be taxed under new tax regime i.e. u/s 115BAC.

**Solution**

**Computation of Income from House Property of  
Mr. Kartik for the Assessment Year 2024-25 (Opt Old Tax Regime)**

	Amount(₹)	Amount(₹)
<b>Income from Property X :</b>		
(1) Reasonable Expected Rent (RER) being lower of (a) and (b)		
(a) Higher of Gross Municipal Value (GMV) or Fair Rent (FR)	2,10,000	
(b) Standard Rent (SR)	<u>1,62,000</u>	1,62,000
(2) Actual rent received/receivable (₹ 15,000 × 12)		<u>1,80,000</u>
(3) Gross Annual Value being higher of (1) and (2)		1,80,000
<b>Less : Municipal tax paid</b>		<u>30,000</u>
<b>Net Annual Value</b>		<u>1,50,000</u>
<b>Less : Deductions u/s 24:</b>		
(i) Statutory deduction @30% of ₹ 1,50,000		45,000
(ii) Interest on money borrowed (current year's interest ₹ 90,000, pre-construction period interest is Nil as five years is already over)		<u>90,000</u>
<b>Income from Property X</b>		<u>15,000</u>
<b>Income from Property Y</b>		
(1) Reasonable Expected Rent (RER) being lower of (a) and (b)		
(a) Higher of Gross Municipal Value or Fair Rent	2,25,000	
(b) Standard Rent	<u>2,52,000</u>	2,25,000
(2) Actual rent received/receivable (₹ 18,000 × 12)		<u>2,16,000</u>
(3) Gross Annual Value being higher of (1) and (2)		2,25,000
<b>Less : Municipal tax paid</b>		<u>60,000</u>
<b>Net Annual Value</b>		<u>1,65,000</u>
<b>Less : Deductions u/s 24 :</b>		
(i) Statutory deduction @30% of ₹ 1,65,000		49,500
(ii) Interest on money borrowed		<u>33,000</u>
<b>Income from Property Y</b>		<u>82,500</u>



**Solved Problems of  
University Examinations**

**Illustration 25 :**

Mrs. Sonia Sen owns the following houses in Kolkata. Compute her income from house property for the assessment year 2024-25, assuming that she does not opt to be taxed under new tax regime i.e. u/s 115BAC.

Purpose	House A (Let out for residence) (₹)	House B (Self occupied) (₹)
Gross municipal value	2,40,000	3,60,000
Fair rent p.a.	2,00,000	3,20,000
Standard rent p.a.	2,20,000	N.A.
Repairs	5,000	6,750
Municipal tax	10% (75% paid)	10% (50% of paid)
Rent received	2,16,000	—
Vacancy period	3 months	—

**Other information :**

- (i) Arrear rent of ₹ 45,000 has been received for House A during the previous year (not included in the rent received).
- (ii) A housing loan of ₹ 20,00,000 was taken from State Bank of India @12% p.a. interest for construction of House B on 01.07.2017.

The construction was completed within 2 years (on 30.06.2019) after taking loan. The entire loan is remaining outstanding.

[C.U. B.Com.(Hons.), 2018]

**Solution:**

**Computation of Income from House Property of  
Mrs. Sonia Sen for the Assessment Year 2024-25 (Opt Old tax Regime)**

	Amount(₹)	Amount(₹)
<b>House A (Let out for residence):</b>		
(1) Reasonable Expected Rent (RER) being lower of (a) and (b)		
(a) Higher of Gross Municipal Value (GMV) or Fair Rent (FR)	2,40,000	
(b) Standard Rent (SR)	2,20,000	2,20,000
(2) Actual Rent (AR) received due to vacancy		2,16,000
(3) Gross Annual Value being lower of		



(1) and (2) because AR < RER	2,16,000	
Less: Municipal tax actually paid by the owner (₹ 2,40,000 × 90/100 × 10/100 × 75%)	16,200	
<b>Net Annual Value</b>	<b>1,99,800</b>	
Less: Deduction under section 24: Standard deduction (30% of ₹ 1,99,800)	59,940	
	1,39,860	
Add: Arrear rent u/s 25A (₹ 45,000 – ₹ 45,000 × 30%)	31,500	
<b>Income from House A</b>		<b>1,71,360</b>
<b>House B (Self occupied):</b> Annual Value [Sec. 23(2)(a)]	Nil	
Less: Deductions u/s 24:		
(i) Standard deduction	Nil	
(ii) Interest on loan (Note 1)	3,24,000	
Maximum Interest deductible [Sec. 24(b)]	2,00,000	(-) 2,00,000
<b>Loss from House Property (₹ 1,71,360 - ₹ 2,00,000)</b>		<b>(-) 28,640</b>

**Note 1: Calculation of interest on loan for House B (Self occupied)**

Interest on loan for the pre-construction period i.e. 01.07.2017 to 30.06.2019 i.e. from 01.07.2017 to 31.03.2019.

$$₹ 20,00,000 \times 12\% \times 21/12 = ₹ 4,20,000.$$

$$1/5 \text{ th of } ₹ 4,20,000 = ₹ 84,000 \text{ (Deductible upto 2023-24)}$$

Interest on loan for the current financial year 2022-23

$$₹ 20,00,000 \times 12\% = ₹ 2,40,000$$

$$\therefore \text{Total interest on loan} = ₹ 84,000 + ₹ 2,40,000 = ₹ 3,24,000.$$

**Illustration 26:**

Sri Mitra is the owner of two houses. He furnishes the following particulars in respect of these houses for the previous year 2023-24.

	House No. I Let out for residential purpose (₹)	House No. II Let out for business purpose (₹)
Municipal value	66,000	1,11,000
Fair rent	63,000	1,12,500
Annual Rent received	81,000	1,08,000
Municipal Tax paid	6,600	14,000
Interest on loan taken for construction of house	4,000	20,000

Compute income from house property of Sri Mitra for the Assessment Year 2024-25, assuming Sri Mitra does not opt New Tax Regime u/s 115BAC. [C.U. B.Com.(Gen.), 2018]



**Solution:**

**Computation of income from House Property of Sri Mitra for the Assessment Year 2024-25 with respect to previous year 2023-24 (Does not opt to be taxed u/s 115BAC)**

	Amount (₹)	Amount (₹)
<b>House No. I (Let out for residential purpose):</b>		
(1) Reasonable Expected. Rent (RER) [Higher of Municipal Value (MV) or Fair Rent (FR)]	66,000	
(2) Actual Rent Received	81,000	
(3) Gross Annual Value being higher of (1) and (2)		81,000
Less : Municipal tax paid		6,600
<b>Net Annual Value</b>		<u>74,400</u>
Less : Deductions u/s 24 :		
(i) Standard deduction u/s 24(a) 30% of NAV i.e. 30% of ₹ 74,400	22,320	
(ii) Interest on loan u/s 24(b)	4,000	26,320
<b>Income from House No. 1</b>		<u>48,080</u>
<b>House No. II (Let out for business purpose):</b>		
(1) Reasonable Expected Rent (RER) [Higher of Municipal (MV) or Fair Rent (FR)]	1,12,500	
(2) Actual Rent Received	1,08,000	
(3) Gross Annual value being higher of (1) and (2)		1,12,500
Less: Municipal tax paid		14,000
		<u>98,500</u>
Less : Deduction u/s 24:		
(i) Standard deduction u/s 24(a): 30% of ₹98,500	29,550	49,550
(ii) Interest on loan u/s 24(b):	20,000	<u>48,950</u>
<b>Income from House No.2</b>		
<b>Income from House Property (₹ 48,080 + ₹ 48,950)</b>		<u>97,030</u>

**Illustration 27:**

Mr. Abul Hasan owns three houses at Ranchi. He furnishes the following particulars for the previous year 2023-24.

**House No.1:** The house was constructed in 2019 and let out to a friend at a monthly rent of ₹ 10,000 upto 31.1.2024 and thereafter it was let out at its fair rent of ₹ 15,000 per month. He has paid ₹ 15,000 as municipal taxes @10% of Municipal Value. He has also paid fire insurance premium of ₹ 2,000.

**House No. 2 :** Ground floor is let out @ ₹ 20,000 p.m. First floor identical to ground floor, is occupied by him for his residence. Municipal taxes paid @20% amounted to ₹ 80,000.



**House No. 3 :** The house was constructed in 2010 and is used for his business. The annual value of this house is ₹ 1,00,000 and he spent ₹ 5,000 as municipal taxes and ₹ 2,000 for repairs.

**Other information :**

A loan of ₹ 40,00,000 has been taken on 01.06.2020 for construction of House No. 2. Construction of the house was completed on 01.06.2021. He repaid the entire loan on 31.12.2023. Interest on loan is payable @12% p.a.

Compute his income from house property for the A.Y. 2024-25, assuming Mr. Abul Hasan does not opt to be taxed under New Tax Regime i.e. u/s 115BAC. [C.U.B.Com.(Hons.), 2017]

**Solution :**

**Computation of taxable income from house property of  
Mr. Abul Hassan for the Assessment Year 2024-25 (Opt Old Tax Regime)**

	Amount (₹)	Amount(₹)
<b>House No. 1 (Let out):</b>		
(1) Reasonable Expected Rent (RER) of the property being higher of Municipal value or Fair Rent (FR)		
(a) Municipal value (₹ 15,000 × 100/10)	1,50,000	
(b) Fair rent (₹ 15,000 × 12)	<u>1,80,000</u>	
(2) Actual Rent (AR) received /receivable (₹ 10,000 × 10 + ₹ 15,000 × 2)	<u>1,30,000</u>	
(3) Gross Annual Value being higher (1) and (2)	1,80,000	
<b>Less : Municipal tax paid</b>	15,000	
<b>Net Annual Value</b>	<u>1,65,000</u>	
<b>Less : Deductions u/s 24 :</b>	49,500	
(i) Standard deduction [u/s 24(a)] (30% of ₹ 1,65,000)	<u>49,500</u>	
<b>Income from House No. 1</b>		<u>1,15,500</u>
<b>House No. 2 (Let out portion) :</b>		
(1) Reasonable Expected Rent (RER) is Municipal value ₹ 80,000 × 100/20 × 1/2	2,00,000	
(2) Actual Rent (AR) received/receivable (₹ 20,000 × 12)	<u>2,40,000</u>	
(3) Gross Annual Value being higher of (1) and (2)	2,40,000	
<b>Less : Municipal tax paid for let out portion</b> (₹ 80,000 × 1/2)	<u>40,000</u>	
<b>Net Annual Value</b>	<u>2,00,000</u>	
<b>Less : Deduction u/s 24 :</b>		
(i) Standard deduction [Sec. 24(a)] (30% of ₹ 2,00,000)	60,000	
(ii) Interest on loan [Sec. 24(b)] (Note 1)	2,20,000	
	<u>2,80,000</u>	(-) 80,000



**House No. 2 (Self occupied portion):**

Net Annual Value [Sec. 23(2)(a)]		Nil	
Less: Deduction u/s 24:			
(i) Standard deduction	Nil		
(ii) Interest on loan (Note 2)	<u>2,20,000</u>		
Maximum Interest deductible		<u>2,00,000</u>	<u>(-) 2,00,000</u>
<b>Taxable Income from House Property</b>			<u>(-) 1,64,500</u>

**Note 1 : Calculation of interest on loan for House No. 2:**

Interest on loan for the pre-construction period i.e. 01.06.2020 to 31.03.2021

$$= ₹ 40,00,000 \times 12\% \times 10/12 = ₹ 4,00,000$$

$$1/5 \text{ th of } ₹ 4,00,000 = ₹ 80,000.$$

Interest on loan for the current financial year 2023-24

$$= ₹ 40,00,000 \times 12\% \times 9/12 = ₹ 3,60,000$$

Total interest on loan = ₹ (80,000 + 3,60,000) = ₹ 4,40,000.

Interest on loan for the let out portion =  $1/2 \times ₹ 4,40,000 = ₹ 2,20,000.$

Interest on loan for self-occupied portion =  $₹ 4,40,000 \times 1/2 = ₹ 2,20,000.$

**Note 2 :** House No. 3 is used for business purposes. Therefore, income from House No. 3 will be not be calculated under the head 'Income from House Property'.

**Illustration 28 :**

Mr. Sen is the owner of three houses, information regarding these houses are given below :

How used	House No. 1 Self occupied (₹)	House No. 2 Let out (₹)	House No. 3 For own Business (₹)
Municipal Value	2,40,000	1,60,000	1,20,000
Fair Rent	2,24,000	1,92,000	1,28,000
Rent Received	—	1,92,000	—
Municipal Tax paid (10% of MV)	48,000	24,000	—
Interest on loan	3,600	3,200	2,400
Insurance premium			

Compute the income from house property of Mr. Sen for the assessment year 2024-25 assuming Mr. Sen does not opt to be taxed under New Tax Regime i.e. u/s 115BAC.

[C.U. B.Com.(Gen), 2017]



Solution:

**Computation of Income from House Property of  
Mr. Sen for the Assessment Year 2024-25 (Opt Old Tax Regime)**

	Amount (₹)	Amount (₹)
<b>House No. 1 (Self-occupied):</b>		Nil
Annual Value [Sec. 24(2)(a)]		Nil
Less : Deduction under Sec. 24:		
(i) Standard deduction [Sec. 24(a)]	Nil	
(ii) Interest on loan [Sec. 24(b)]	<u>48,000</u>	
<b>Loss from House No.1</b>		<b>(-48,000)</b>
<b>House No. 2 (Let Out):</b>		
(1) Reasonable Expected Rent (RER) of the property being higher of Municipal Value or Fair Rent	1,92,000	
(2) Rent received/receivable	<u>1,92,000</u>	
(3) Gross Annual Value being higher of (1) and (2)	1,92,000	
Less : Municipal tax (assuming the house is not situated in Metro City) (10% of ₹ 1,60,000)	<u>16,000</u>	
Net Annual Value	1,76,000	
Less : Deductions u/s 24 :		
(i) Standard deduction [Sec. 24(a)]	52,800	
[30% of ₹ 1,76,000]	<u>24,000</u>	
(ii) Interest on loan	<u>76,800</u>	
<b>Income from House No. 2</b>		<b>99,200</b>
<b>House No. 3 (Used for own business) :</b>		Nil
<b>Total Income from House Property ₹(99,200 - 48,000)</b>		<b>51,200</b>