UNIVERSITY OF DELHI

INCOME TAX

LAW AND PRACTICE

DSC 5.1

B.Com (Hons.) | B.Com (Prog.) — Third Year, Semester V

UNIT 2 — PART B

INCOME FROM HOUSE PROPERTY

Basis of Charge • Annual Value and the Five Rents
Self-Occupied · Let Out · Deemed Let Out · Partly Both
Municipal Taxes • Interest on Borrowed Capital
Vacancy · Unrealised Rent · Arrears · Co-ownership
Six Worked Problems • Twelve Unsolved Problems

BUILT ON THE BARE TEXT OF SECTIONS 20 TO 25

Governed by the INCOME-TAX ACT, 2025

(Act No. 30 of 2025, as amended by the Finance Act, 2026)

read with the INCOME-TAX RULES, 2026

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Preface

What Has Changed, and Why It Matters

This booklet has been written from the bare Act. Sections 20 to 25 of the Income-tax Act, 2025 replace sections 22 to 27 of the Income-tax Act, 1961, and Rule 21 of the Income-tax Rules, 2026 replaces Rule 4 of the 1962 Rules. Six sections and one Rule govern the whole of this head. They have been quoted, not paraphrased, wherever the wording decides the answer.

The head that changed least — and the one change that matters most

Of the five heads of income, this is the one the new Act has left most nearly alone. The scheme is what it always was: find the annual value, take off the municipal taxes, take off thirty per cent, take off the interest, and what is left is the income. A student who knows the old law will recognise almost every line.

Almost. There is one change of real substance, and it is in the student's favour.

> **Section 21(6) — "cannot actually occupy it due to any reason"**
>
> Under section 23(2)(b) of the 1961 Act the annual value of a house the owner could not occupy was nil only where he could not occupy it *"owing to his employment, business or profession carried on at any other place"*. The reason had to be an *occupational* one. A house kept empty because the owner was studying abroad, or was in hospital, or was living with a married daughter, did not qualify: it was deemed to be let out and the owner paid tax on a rent he had never received.
>
> Section 21(6) of the 2025 Act says the annual value is nil if the owner occupies the house for his own residence **or cannot actually occupy it due to any reason**. The words "owing to his employment, business or profession carried on at any other place" have gone. Any reason will now do — and the reason no longer has to be stated or proved to be occupational.
>
> The old learning survives as an *example* of the new rule, not as the rule itself. When a question says the owner could not occupy the house because his employment was elsewhere, the answer is still nil — but so is the answer where he could not occupy it for any other reason at all.

The four other things worth noting

- **The two-house relief is now in section 21(7)(a).** Two houses, and only two, may be specified as self-occupied. The choice is the assessee's, it is made afresh every year, and it is worth making with care. Chapter 6 shows how much turns on it — in Problem 2 the difference between the best choice and the worst is ₹61,900 of income.
- **Municipal taxes now expressly include service taxes.** Section 21(3) reads "the taxes (including service taxes) levied by a local authority", and adds "irrespective of when such taxes became payable". Both phrases settle arguments that used to be run under the 1961 Act.
- **Thirty per cent is of the *net* annual value.** Section 22(1)(a) says "30% of the annual value as determined under section 21", and section 21(3) is itself the provision that reduces the annual value by the municipal taxes. So the annual value "as determined under section 21" is the value *after* the taxes have come off. Read carelessly, section 22(1)(a) looks as though it might mean thirty per cent of the gross figure. It does not.
- **The default regime is where the real money is.** Section 202(2)(a)(v) withdraws the interest deduction on a self-occupied house altogether, and section 202(2)(b)(ii) forbids the set-off of a house property loss against any other head. A salaried assessee paying ₹2,00,000 of interest on his own home gets nothing for it under the default regime. This is the single largest reason a house-owner may still be better off under the optional regime — and Problem 6 shows a case where, even so, he is not.

A word on vocabulary

The Act uses "annual value" twice over, and it is worth fixing the difference at the outset. Section 21(1) and (2) produce the **gross annual value** — the higher of the expected rent and the actual rent. Section 21(3) then reduces it by the municipal taxes to give the **net annual value**, which is the "annual value as determined under section 21" to which section 22 attaches. The Act nowhere uses the words "gross" and "net"; the literature does, and so does this booklet.

How to use this booklet

Each section of the Act is set out first, and the illustration that follows it is short and turns on a single point. Chapter 10 carries six problems worked in full, with the statement of the computation and the working notes set out separately. The twelve problems in Chapter 11 carry answers but no working, and each is cross-referred to the worked problem in Chapter 10 that covers the same ground.

About this booklet, and a request

This booklet has been prepared by Artificial Intelligence — Claude Opus 5.0 (Anthropic) — under the guidance and supervision of Advocate Dr. S. B. Rathore in the first week of August 2026, from the bare text of the Income-tax Act, 2025 and the Income-tax Rules, 2026 as downloaded from incometaxindia.gov.in.

Suggestions on presentation, and reports of any discrepancy, are warmly invited.

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The Prescribed Syllabus

Income Tax Law and Practice — DSC-5.1

Where this booklet sits

Unit II of the prescribed syllabus is "Computation of Income under Different Heads-1" and covers two heads: Income from Salaries, and Income from House Property. Part A of this Unit dealt with salaries. This Part B completes the Unit.

Unit	Prescribed content	Where dealt with
Unit 1	Introduction — basic concepts: income, agricultural income, person, assessee, tax year; residential status and scope of total income; incomes exempt from tax	Unit 1 booklet (Introduction)
Unit 2	Computation of Income under Different Heads-1 — income from salaries; income from house property	Unit 2 Part A (Salaries); Unit 2 Part B (House Property) — this booklet
Unit 3	Computation of Income under Different Heads-2 — profits and gains of business or profession; capital gains	Unit 3 Part A (Business or Profession); Unit 3 Part B (Capital Gains)
Unit 4	Income from other sources; income of other persons included in the assessee's total income; set-off and carry forward of losses	Unit 4 Part A (Other Sources); Unit 4 Part B (Clubbing and Set-off)
Unit 5 (A)	Deductions from gross total income; rebates and reliefs	Unit 5 Part A (Deductions, Rebates and Reliefs)
Unit 5 (B)	Computation of total income and tax liability of individuals; filing of returns of income on-line and TDS	Unit 5 Part B (Total Income and Tax Liability)

Learning outcome tested by this Part

"Compute income under the heads 'salaries' and 'income from house property'." — Learning Outcome 2 of the prescribed syllabus.

Suggested readings

- Ahuja, G., & Gupta, R. Simplified Approach to Income Tax. Delhi: Flair Publications Pvt. Ltd.
- Mittal, N. Concept Building Approach to Income Tax Law and Practice. Delhi: Cengage Learning India Pvt. Ltd.
- Singhania, V. K., & Singhania, M. Students' Guide to Income Tax | University Edition. Delhi: Taxmann Publications Pvt. Ltd.
- The bare Income-tax Act, 2025 and the Income-tax Rules, 2026, both free at incometaxindia.gov.in. For this head, six sections and one Rule — twelve printed pages in all.

Latest edition of books is to be followed. Suggested readings will be updated by the Department of Commerce and uploaded on the Department's website.

A note on the reading list

Every title on the prescribed list was written for the Income-tax Act, 1961, and an edition printed before April 2026 necessarily carries the section numbers, the rule numbers and the figures that were in force when it went to press. These are standard works and the reasoning in them holds good.

Until their 2026 editions reach you, take the section numbers, the rule numbers and the figures from this booklet, or from the bare Income-tax Act, 2025 and the Income-tax Rules, 2026.

The teachers' meeting of 4 August 2026

At a joint meeting of the Department of Commerce, Delhi School of Economics and the Department of Commerce, Shri Ram College of Commerce, held on 4 August 2026 under the Department-College Interface, guidelines were settled for this paper "in order to have uniformity and consistency in teaching". Those that bear on this booklet are set out below.

Unit 2: Computation of Income from Salaries and House Property (11 hours)

Nothing in income from house property was excluded. The four exclusions the meeting settled for Unit 2 — hotel accommodation, the allowances of a transport employee and of a tribal, hill or insurgency area, compensation on voluntary retirement and on retrenchment, and the valuation of sweat equity shares — are all Salaries topics and are dealt with in Unit 2 Part A. The whole of this Part is examinable.

Two points were recorded for the whole paper. First, the Income-tax Act, 2025 applies from 1 April 2026, so the academic session 2026-27 is an exceptional year and the provisions for the tax year 2026-27 are what is to be taught; it was suggested that tax year 2026-27 be taught in 2027-28 as well. Second, ITR-1 will be done in the academic session 2026-27.

Contents

How this booklet is arranged

Chapter 1

The Head "Income from House Property": Foundations

1.1 Where the law is

The whole of this head is in Part C of Chapter IV of the Income-tax Act, 2025 — six sections, numbered 20 to 25 — read with a single Rule.

Section	What it does	Corresponding provision of the 1961 Act
20	Basis of charge — what is chargeable under this head, and what is taken out of it	Section 22
21	Determination of annual value — expected rent, actual rent, vacancy, municipal taxes, unrealised rent, stock-in-trade, self-occupied houses, the two-house limit	Section 23
22	Deductions — thirty per cent, interest on borrowed capital, pre-construction interest, and the ceilings	Sections 24 and 25
23	Arrears of rent, and unrealised rent recovered later	Section 25A
24	Property owned by co-owners	Section 26
25	Interpretation — who is the "owner"	Section 27
Rule 21	When rent is treated as unrealised	Rule 4

Three more sections that bear on this head

- Section 109(1)(b) — a loss under this head may be set off against income under any other head only to the extent of ₹2,00,000.
- Section 110 — the unabsorbed loss is carried forward for eight tax years and set off against house property income only.
- Section 202 — the default regime, which withdraws the interest deduction on a self-occupied house and forbids any inter-head set-off of a house property loss.

1.2 Basis of charge [Section 20]

Section 20, in its own words

(1) The annual value of property consisting of any buildings or lands appurtenant thereto, owned by the assessee shall be chargeable to income-tax under the head "Income from house property".

(2) The provisions of sub-section (1) shall not apply to such portions of the property, as the assessee may occupy for his business or profession, the profits of which are chargeable to income-tax.

Four things follow from those two sentences, and every question on this head turns on one of them.

- It is the **annual value** that is charged, not the rent. This is the single most important sentence in the chapter. The Act taxes the *earning capacity* of the building, not the money the owner happens to have collected. That is why a house lying empty may still be taxed; why a house let to a friend at a nominal rent is taxed at what it could have fetched; and why the owner's actual expenditure — whitewashing, ground rent, insurance, collection charges, watchman's wages — is irrelevant, a flat thirty per cent being given instead.
- **The property must consist of buildings, or of lands appurtenant to buildings.** Open land let for a car park, a nursery, a hoarding or grazing is not a building; its income falls under "Profits and gains of business or profession" or "Income from other sources". A building means any structure with a roof — a residence, a shop, a godown, a factory shed, a cinema hall, a lecture theatre, a marriage hall. Land "appurtenant" means land that goes with the building and serves it: the compound, the garden, the approach road, the parking, the drying yard.
- **The assessee must be the owner.** A tenant who sub-lets is not the owner; his income is taxable under "Income from other sources". Ownership is defined widely by section 25, which is the subject of Chapter 2.
- **The building need not be let, and the income need not be received.** Section 20 charges the annual value of *property*, not the annual value of *let property*. A house lying vacant, a house occupied by a relative rent-free, a house the owner has forgotten about — all are within the charge, though the annual value may work out to nil.

1.3 The three conditions, in one line each

	Condition	If it fails
1	The property consists of buildings or lands appurtenant thereto	Other sources, or business
2	The assessee is the owner, or a deemed owner under section 25	Other sources (a sub-letting tenant), or the true owner is taxed
3	The property is not occupied by the owner for a business or profession whose profits are themselves taxable [s. 20(2)]	No charge under this head at all

1.4 Property occupied for one's own business or profession [Section 20(2)]

Where the owner uses the building for a business or profession of his own, the annual value of that portion is not charged under this head at all. He gets something better instead: under the business head he may deduct the municipal taxes actually paid, the current repairs, the insurance, and depreciation on the building — all of them real, and together usually larger than thirty per cent.

> **Read the words "such portions of the property"**
> The exclusion is portion-wise, not building-wise. A doctor who lives on the first floor of his own house and runs his clinic on the ground floor is outside section 20 for the ground floor and inside it for the first floor. The annual value of the first floor is nil, being self-occupied; the ground floor gives him deductions under the business head. Problem 4 in Chapter 10 works a two-floor property of this kind.
>
> And note what the sub-section does **not** say. It does not exempt a building let out to one's own firm, or to a company in which one is a director, or to a partnership of which one is a partner. There the owner is not occupying it; the firm or the company is. The rent is chargeable under this head in the owner's hands.

1.5 Income from house property, or business income?

The question arises whenever the owner does something more than merely let a building. The test is not what the owner calls his activity, nor whether he is a company, but what he is really exploiting — the property as property, or the property as the apparatus of a business.

Situation	Head	Why
A house, shop or godown simply let out, whether by an individual or a company	House property	The owner is exploiting the property as property
Letting out of a residential house or part of it by the owner	House property, always	Section 26(4) expressly says such income "shall not be included" in business income and "shall be chargeable only under the head Income from house property"
A hotel, a hospital, a paying-guest house, a school run by the owner	Business	The building is the instrument of a trade; service, not occupation, is what is sold
A warehouse or cold store where the owner supplies refrigeration, handling and security	Business	The letting is incidental to a complex commercial service
Rent from a paying guest where the owner supplies meals and attendance	Business (or other sources)	The dominant object is service
A house held as stock-in-trade by a builder and not let	House property, but the annual value is nil for two years	Section 21(5) — see paragraph 2.4
Open land let for a hoarding, a car park or a mobile tower	Other sources, or business	No building
A tenant sub-letting the premises he has taken on rent	Other sources	He is not the owner
Composite letting of a building with plant, machinery or furniture, inseparably	Other sources [s. 92 / s. 93] or business	See paragraph 1.6

1.6 Composite rent

Composite rent is a single sum charged for the building and for something else — furniture, a lift, air-conditioning, a generator, water, security, or plant and machinery. The Act does not use the phrase; the practice is settled all the same, and it is decided in two steps.

The two-step rule

Step 1 — is the letting separable? Ask whether the tenant could have taken the building without the other thing. Where the building and the amenity are two lettings rolled into one bill — a flat with furniture, a shop with a lift and a water pump — the letting is separable.

Step 2, where it is separable. Split the rent. The part attributable to the building is taxed under "Income from house property" in the ordinary way. The part attributable to the furniture, plant or services is taxed under "Income from other sources" under section 92, and against it section 93 allows the actual repairs, the insurance and the depreciation on those assets. Problem 5 in Chapter 10 does exactly this.

Step 2, where it is inseparable. Where the building could not sensibly have been let by itself — a cinema hall with its projectors, screen and seating; a factory let with its plant — the whole of the composite rent goes under "Income from other sources" (or under business, if the letting is itself the assessee's business). Not a rupee of it is charged under the house property head, and the thirty per cent deduction is not available.

1.7 Seven points that are settled

- **A house situated outside India** is chargeable under this head in the hands of a resident and ordinarily resident. For a resident but not ordinarily resident, or a non-resident, it is chargeable only if the rent is received in India. The computation is the same; municipal taxes levied by a foreign local authority and actually paid are deductible.
- **Disputed ownership.** Where the title is in litigation, the person in receipt of the income and in enjoyment of the property is assessed until the court decides otherwise. The charge does not wait for the decree.
- **Property held by a firm or a company.** A house owned by a firm and used by it for its own business falls under section 20(2); a house owned by a firm and let out is charged under this head in the hands of the firm. The partners are not separately assessed on it.
- **Rent from a servant's quarter or a garage** attached to a let-out building is part of the rent of that building.
- **An unfinished building has no annual value.** The charge begins from the date the construction is complete, or from the date the completion certificate is obtained, whichever is the earlier. Interest for the period before that is dealt with by section 22(1)(c) — paragraph 5.4.
- **A house used partly for one's own business and partly let** is split: section 20(2) takes out the business portion, and the let portion is computed under this head on a proportionate basis.
- **Income of a property held for a charitable or religious purpose,** or of a local authority, a university or an approved scientific research association, is exempt under the provisions of section 11 with the Schedules, and does not enter this head at all.

The ex-ruler's palace — an exemption with no counterpart in the 2025 Act

Section 10(19A) of the 1961 Act exempted the annual value of one palace in the occupation of a former Ruler of an Indian State. The words "palace" and "Ruler" do not appear anywhere in the Income-tax Act, 2025. Section 10(19A) has no counterpart in the 2025 Act, and the exemption should not be written as though it survives.

Chapter 2

Who is the "Owner" [Section 25]

2.1 Ownership, not possession, and not registration either

Section 20 charges the owner. The owner is the person entitled to receive the income from the property in his own right — the person who can let it, keep the rent, and sell it. He need not be in possession; a landlord whose tenant will not leave is still the owner. Nor, in the cases in section 25(d) and (e), need he hold a registered conveyance.

A tenant, a licensee, a lessee for a year, a mortgagee in possession and a manager are not owners. A sub-letting tenant is not an owner: his income is chargeable under "Income from other sources", where he may deduct the rent he himself pays.

2.2 The six deemed owners of section 25

Section 25 opens: "For the purposes of sections 20 to 24, the "owner" in relation to a property or any part thereof shall include—". The list that follows is not a list of exceptions; it is an enlargement. Each limb makes somebody the owner who, in the general law of property, is not.

Clause	Who is deemed to be the owner	The point of the clause
25(a)	An individual who transfers any property, without adequate consideration, to his or her spouse (except under an agreement to live apart), or to a minor child other than a married daughter	The transferor remains the owner and is taxed on the income, however complete the transfer may be in the general law
25(b)	The holder of an impartible estate, in respect of all the properties comprised in the estate	Such an estate belongs to the family, but the holder is deemed the individual owner of every property in it
25(c)	A member of a co-operative society, company or other association to whom a building is allotted or leased under a house building scheme	The society holds the title; the allottee is taxed. This covers the great majority of flats in group housing societies
25(d)	A person allowed to take or retain possession of a building in part performance of a contract of the kind referred to in section 53A of the Transfer of Property Act, 1882	The buyer who has paid, taken possession and is willing to perform is taxed even though the sale deed is not yet registered
25(e)	A person who acquires rights in a building by a lease for twelve years or more, or by becoming a member of, or acquiring shares in, a co-operative society or company, or under any arrangement enabling the enjoyment of the property	Long leases and power-of-attorney arrangements. A lease from month to month, or for a year or less, is expressly excluded

2.3 Property transferred to a spouse or a minor child

This limb of section 25 must be read together with section 99, which is the clubbing section. The two provisions do different work, and it matters which one is in play.

Section 25(a) and section 99(1)(a)(ii)

Section 25(a). The "owner" includes "an individual who transfers without adequate consideration, any property to the spouse (except under an agreement to live apart), or to a minor child (other than a married daughter)".

Section 99(1)(a)(ii). The total income of an individual shall include the income arising to the spouse "from assets transferred directly or indirectly to him or her by such individual otherwise than for adequate consideration … **subject to the provisions of section 25(a)**.

The closing words of section 99 are the key. Where section 25(a) applies, section 99 stands aside: there is nothing to club, because the income was never the spouse's in the first place. The transferor is the owner, and the income is computed in his hands from the beginning, under this head. Where section 25(a) does not apply, section 99 does the work instead, and the mechanism is different.

What was done	Who is the owner	How the income is taxed
The house itself is transferred to the spouse without adequate consideration	The transferor, by section 25(a)	The transferor computes the income under this head. He counts the house among his own for the two-house limit of section 21(7)(a), and he claims the interest deduction
Money is given to the spouse, and the spouse buys a house with it	The spouse — section 25(a) speaks of transferring "property", and money is not the house	The spouse computes the income under this head as owner; that income is then clubbed in the transferor's total income under section 99(1)(a)(ii), still under the head "Income from house property". The spouse's own section 21(6) relief applies first
The house is transferred to the spouse under an agreement to live apart	The spouse	No section 25(a), no clubbing. Section 99 excepts it too
The house is transferred to the spouse for adequate consideration	The spouse	No section 25(a), no clubbing
The house is transferred to a minor child, not being a married daughter	The transferor, by section 25(a)	Computed in the transferor's hands. Section 99(1)(c) is not needed
The house is transferred to a married daughter, or to a son's wife, or to a major son	The transferee	Section 25(a) does not apply. For a son's wife, section 99(1)(b) clubs the income in the transferor's hands; for a married daughter or a major son there is no clubbing at all

The distinction, and what turns on it

A house bought by the husband *in the wife's name* out of his own funds is, on the language of section 25(a), a purchase and not a transfer of "property"; but the money passed to her without consideration, and the courts under the corresponding section 27(i) of the 1961 Act have consistently treated such a purchase as an indirect transfer and taxed the husband. Either route reaches the husband, whether under section 25(a) or under section 99(1)(a)(ii); the income is computed in his hands.

Where the two routes differ is the **two-house relief**. Under section 25(a) the husband is the owner, so the house is his for the purposes of section 21(7)(a) and eats one of his two self-occupied slots. Under the clubbing route the wife is the owner, the annual value is computed in her hands with her own two-house relief, and only the resulting figure is added to his income.

2.4 Property held as stock-in-trade [Section 21(5)]

Section 21(5)

"Where a property is held as stock-in-trade and is not let wholly or partly at any time during the tax year, the annual value of such property or part thereof shall be nil for two years from the end of the financial year in which the certificate for completion of construction is obtained from the competent authority."

A builder's unsold flats are his stock-in-trade. Without this provision they would be deemed to be let out and he would pay tax on a notional rent for stock he is trying to sell. Section 21(5) gives him a window.

- The relief runs for two years from the end of the financial year in which the completion certificate is obtained — not from the date of construction, and not from the date of the first sale.
- It is lost, for the whole year, if the flat is let for even a part of the year. Then the ordinary rules apply.
- After the two years the unsold flats are deemed to be let out and the expected rent is charged. This is the answer to the very common question, "a builder holds twelve unsold flats — what is his position in the third year?"

Chapter 3

Annual Value: the Five Rents [Section 21]

3.1 The scheme of section 21

Section 21 is a single machine with seven sub-sections. Sub-sections (1) and (2) produce the gross annual value; sub-section (3) turns it into the net annual value; sub-section (4) qualifies the actual rent; sub-sections (5), (6) and (7) deal with three special cases in which the annual value is nil.

Sub-section	What it does
21(1)	The annual value is the higher of (a) the sum for which the property might reasonably be expected to let from year to year — the expected rent — and (b) the actual rent received or receivable, if the property is let
21(2)	Where the property is let and was vacant for the whole or part of the year, and the actual rent falls short of the expected rent because of that vacancy, the annual value is the amount actually received or receivable
21(3)	The annual value is reduced by the taxes (including service taxes) levied by a local authority, actually paid during the tax year by the owner, irrespective of when they became payable
21(4)	Rent that cannot be realised is not included in the actual rent, subject to the Rules
21(5)	Stock-in-trade, not let — nil for two years
21(6)	A house occupied by the owner for his own residence, or which he cannot actually occupy due to any reason — nil
21(7)	Sub-section (6) applies to two houses only, as specified by the assessee; and not at all if the house is actually let at any time in the year, or if the owner derives any other benefit from it

3.2 to 3.6 The five rents

A question on this head almost always begins by giving you four or five figures with confusingly similar names. Only two of them ever reach the answer.

3.2 Municipal value

The value fixed by the local authority — the municipal corporation, council or panchayat — for the purpose of charging house tax. It is a valuation of the property's yearly letting capacity made by a public authority, and it is used as one measure of what the property might reasonably be expected to fetch. It is not the same as the house tax itself, which is a percentage of it.

3.3 Fair rent

The rent that a similar property in a similar locality would fetch. It is a market comparison. Where a question gives "rent of a similar house in the neighbourhood", that is the fair rent.

3.4 Standard rent

The maximum rent that the owner is legally entitled to recover under the Rent Control Act of the State, where the property is subject to it. Because the owner cannot lawfully charge more, the property cannot reasonably be expected to let for more. The standard rent is therefore a **ceiling** on the expected rent — never a floor, and never a figure that is simply compared with the others. Where the question is silent about a standard rent, or says the Rent Control Act does not apply, ignore it altogether.

3.5 Expected rent — section 21(1)(a)

The formula, and it never varies

Expected rent = the HIGHER of the municipal value and the fair rent,
but restricted to the standard rent, if any.

In two steps: first take the higher of municipal value and fair rent; then, if a standard rent is given, take the lower of that result and the standard rent.

Illustration 3.1 — the expected rent, four ways

Case	Figures given	Expected rent
(a) No Rent Control Act	MV 2,40,000; FR 2,70,000	2,70,000
(b) Standard rent below both	MV 2,40,000; FR 2,70,000; SR 2,55,000	2,55,000
(c) Standard rent above both	MV 3,00,000; FR 2,80,000; SR 3,20,000	3,00,000
(d) Standard rent between them	MV 3,00,000; FR 3,60,000; SR 2,88,000	2,88,000

In (c) the standard rent is a ceiling that does not bite: the higher of MV and FR is ₹3,00,000, which is already below the ₹3,20,000 the owner is entitled to charge.

3.6 Actual rent received or receivable — section 21(1)(b)

The rent for the year under the letting, whether it has been received or not — the Act says "received or receivable". Three adjustments are made to it before it is compared with the expected rent.

- **Take out any rent that cannot be realised** — section 21(4) with Rule 21. See paragraph 3.8.
- **Take out any amount charged for something other than the building** — furniture, a lift, water, electricity, security. Composite rent is split; see paragraph 1.6.
- **Add back any municipal tax borne by the tenant which the owner was liable to pay**, because that payment is part of what the tenant gives for the use of the building. Conversely, deduct any expenditure the owner has agreed to bear which is properly the tenant's — a water or electricity bill, for example.

Two things that are NOT deducted from the actual rent

- **Advance rent and a security deposit.** A deposit is a loan, not rent; it is not taxed, and notional interest on it is not added to the annual value either. Advance rent for a later year is not the rent "receivable" for this year.
- **Rent that the owner has waived or forgone.** Once rent has become receivable, giving it up is an application of income, not a reduction of it. Only rent that *cannot* be realised, and that satisfies all four conditions of Rule 21, is taken out.

3.7 Gross annual value — section 21(1)

Compare the two figures and take the higher. That is the gross annual value. There is no third candidate: the municipal value, the fair rent and the standard rent have already done their work inside the expected rent, and are not compared again.

Illustration 3.2 — the actual rent wins

Municipal value		1,80,000
Fair rent		2,16,000

Standard rent		2,04,000
Actual rent — ₹20,000 per month for twelve months		2,40,000
Expected rent — higher of ₹1,80,000 and ₹2,16,000, restricted to the standard rent of ₹2,04,000		2,04,000
GROSS ANNUAL VALUE — higher of ₹2,04,000 and ₹2,40,000		**2,40,000**

Note that the standard rent caps the expected rent but does not cap the gross annual value. Where the tenant is in fact paying more than the standard rent, the higher figure is taken: the Act charges what was received, whatever the Rent Control Act says the owner may lawfully demand.

3.8 Unrealised rent — section 21(4) with Rule 21

Rule 21 of the Income-tax Rules, 2026

For the purposes of section 21(4), rent is treated as unrealised where the amount is receivable but has not been paid by the tenant and is proved to be lost and irrecoverable, and **all four** of the following are satisfied —

- the tenancy is bona fide;
- the defaulting tenant has vacated, or steps have been taken to compel him to vacate the property;
- the defaulting tenant is not in occupation of any other property of the assessee; and
- 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 futile.

Unrealised rent is deducted from the actual rent **before** the comparison with the expected rent, not from the gross annual value afterwards. That order matters. Once the unrealised rent has pulled the actual rent below the expected rent, the expected rent takes over — and the owner ends up taxed on a notional figure despite the default. Section 21(4) protects him only up to that floor.

Illustration 3.3 — unrealised rent, and the floor it cannot break

Municipal value ₹3,00,000; fair rent ₹3,30,000; no standard rent		
Rent ₹28,000 per month; the tenant defaulted for three months and all four conditions of Rule 21 are satisfied		
Actual rent receivable — ₹28,000 × 12		3,36,000
Less: unrealised rent — ₹28,000 × 3 [s. 21(4)]		(84,000)
Actual rent for the comparison		2,52,000
Expected rent — higher of ₹3,00,000 and ₹3,30,000		3,30,000
GROSS ANNUAL VALUE — the higher of the two		**3,30,000**

The default has cost the owner ₹84,000 of rent and saved him nothing in tax, because the expected rent was above the actual rent even before the default. Contrast Problem 1 in Chapter 10, where the actual rent survives the deduction and still wins.

3.9 Vacancy — section 21(2)

Section 21(2)

"If the property or any part of it is let and was vacant for the whole or any part of the tax 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 sub-section (1)(a), the annual value of such property shall be deemed to be the amount so received or receivable."

This is the vacancy allowance, and it is the only place in the section where the actual rent can beat the expected rent downwards. Three conditions must all be met.

- The property must be LET — a house that was never let at all in the year is not within the sub-section, however long it stood empty. A house intended to be let, advertised, and for which no tenant could be found, is treated as let and vacant, and does come within it.
- It must have been VACANT for the whole or a part of the year.
- The actual rent must be less than the expected rent OWING TO that vacancy. If the actual rent is still the higher figure notwithstanding the vacancy, the sub-section is not attracted and the ordinary rule of section 21(1) applies.

Illustration 3.4 — the vacancy allowance at work

Municipal value ₹2,40,000; fair rent ₹2,64,000; no standard rent		
Let at ₹24,000 per month; vacant for four months for want of a tenant		
Expected rent — higher of ₹2,40,000 and ₹2,64,000		2,64,000
Actual rent received — ₹24,000 × 8		1,92,000
The actual rent is less than the expected rent because of the vacancy, so section 21(2) applies		
GROSS ANNUAL VALUE		**1,92,000**

Had the house been let at ₹30,000 a month and vacant for one month, the actual rent would be ₹3,30,000 — more than the expected rent — and section 21(2) would not be attracted at all. The gross annual value would then be ₹3,30,000 under section 21(1). Problem 3 in Chapter 10 works both cases side by side.

3.10 The order of operations

These are the six steps of a let-out computation, in the order in which the sections themselves place them.

Step	What you do	Authority
1	Expected rent = higher of municipal value and fair rent, capped at the standard rent	s. 21(1)(a)
2	Actual rent = rent for the year, less unrealised rent, less any part attributable to furniture or services	s. 21(1)(b), 21(4), Rule 21
3	If the property was let and vacant, and the actual rent is lower because of the vacancy — gross annual value is the actual rent. Otherwise the gross annual value is the higher of steps 1 and 2	s. 21(2), 21(1)
4	Less municipal taxes actually paid by the owner during the year = NET ANNUAL VALUE	s. 21(3)
5	Less thirty per cent of the net annual value	s. 22(1)(a)
6	Less interest on borrowed capital, including one-fifth of the pre-construction interest	s. 22(1)(b), (c)

Chapter 4

Municipal Taxes and Net Annual Value [Section 21(3)]

4.1 The three conditions

Section 21(3)

"The annual value of the property shall be reduced by the taxes (including service taxes) levied by a local authority in respect of such property, actually paid during the tax year by the owner, irrespective of when such taxes became payable."

Three conditions, and each of them matters.

	Condition	What it excludes
1	The tax must be levied by a LOCAL AUTHORITY in respect of the property — house tax, water tax, sewerage tax, scavenging tax, fire tax, education cess levied by the municipality, and now expressly any service taxes so levied	Ground rent payable to the landlord; a land revenue demand of the State; income-tax; a betterment charge or development levy that is not a tax on the property
2	It must be ACTUALLY PAID — not merely due, not merely provided for in the accounts	Taxes outstanding at the year end, however properly they may have been charged in the books
3	It must be paid BY THE OWNER, during the tax year	Taxes borne by the tenant, whoever was liable for them

4.2 Who pays, and when

The four situations, and the answer to each

- **Levied and paid by the owner during the year — deduct.** It does not matter which year the tax related to. The closing words of section 21(3), "irrespective of when such taxes became payable", put arrears of municipal tax paid this year squarely within the deduction.
- **Levied on the owner but unpaid at the year end — do not deduct.** It will be deductible in the year it is paid, however old it is by then.
- **Paid by the tenant — do not deduct.** But if the owner was the person liable and the tenant paid it for him, the payment is part of the consideration for the letting and is added to the actual rent at step 2. It never becomes a deduction at step 4.
- **Paid in advance, for a later year — deduct now.** The section fixes on the year of payment, not the year of levy, and it says so twice over.

Municipal taxes and the self-occupied house

Where the annual value is nil under section 21(6), there is nothing for the municipal taxes to be deducted from, and the deduction is simply lost. A self-occupied house yields exactly one deduction — the interest, within the ceilings of section 22(2) and (5). No municipal taxes, and no thirty per cent. Problems 2, 4 and 6 of Chapter 10 each give a municipal tax figure against a self-occupied house which is, for this reason, not deductible.

4.3 Illustration

Illustration 4.1 — sorting out the municipal taxes

Gross annual value		4,00,000
Municipal tax for the year ₹40,000, of which the tenant paid ₹18,000 and the owner ₹22,000		
Arrears of municipal tax of the preceding year, paid by the owner in September 2026		
Municipal tax of the following year paid in advance in March 2027		
Deduct: paid by the owner during the year — ₹22,000 + ₹8,000 + ₹4,000		(34,000)
NET ANNUAL VALUE		**3,66,000**

The ₹18,000 borne by the tenant is not deducted. Had the owner been the person liable for it, that ₹18,000 would have been added to the actual rent at step 2 instead — increasing the gross annual value, not reducing the net.

Chapter 5

Deductions [Section 22]

5.1 Two deductions, and only two

Section 22(1)

"The income under the head "Income from house property" shall be computed after making the following deductions:—

(a) 30% of the annual value as determined under section 21;

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

(c) where the capital referred to in clause (b) is borrowed during any period prior to the tax year in which the property has been acquired or constructed, the amount of any interest payable for the said prior period in five equal instalments for the said tax year and for each of the four immediately succeeding tax years."

Nothing else is deductible. Nothing.

Not repairs, not whitewashing, not painting, not insurance premium, not ground rent, not land revenue, not collection charges, not the watchman's wages, not the lift maintenance, not the society charges, not legal expenses of recovering rent, not depreciation, not the annual letting commission paid to a broker. Every one of them is inside the thirty per cent, whether the owner spent more or spent nothing.

5.2 Thirty per cent of the net annual value [Section 22(1)(a)]

A flat statutory allowance, in place of every expense of maintenance and collection. It is thirty per cent of the annual value as determined under section 21 — that is, of the net annual value, after the municipal taxes have been taken off. It is allowed:

- whether or not any expenditure was in fact incurred, and whether the expenditure was more or less;
- on a let-out property and equally on a deemed let-out property;
- on the arrears of rent and the unrealised rent recovered under section 23 — sub-section (3) says so expressly;
- not at all where the net annual value is nil or negative, which is why a self-occupied house gets nothing under this clause.

5.3 Interest on borrowed capital [Section 22(1)(b)]

The second deduction is the amount of any interest **payable** on capital borrowed for acquiring, constructing, repairing, renewing or reconstructing the property. Six points settle nearly every question on it.

- **Payable, not paid.** Interest accrued but not yet paid is deductible; the head is computed on a mercantile basis for this purpose whatever method the assessee otherwise follows. (Contrast the municipal taxes, which must be actually paid.)
- **The purpose of the loan, not its security, is what matters.** A loan taken against a house but used to start a business earns no deduction here; a personal loan from a relative, used to build the house, does — provided the money went into the property.
- **Repairs, renewal and reconstruction count.** Clause (b) covers five purposes, not two. But note that for a *self-occupied* house the ₹2,00,000 ceiling of section 22(2)(a) is conditioned on acquisition or construction only; a repair loan on such a house is capped at ₹30,000 by section 22(2)(b).

- **There is no monetary ceiling on a let-out or deemed let-out house.** The ceilings in section 22(2) apply only to "property or properties referred to in section 21(6)" — that is, to the self-occupied houses. On a let-out house the whole of the interest is deductible, and it may well produce a loss.
- **Interest on unpaid interest is not deductible;** nor is any brokerage or commission paid to arrange the loan. Interest on a loan taken to pay the interest is not interest on capital borrowed for the property.
- **Interest for the year of acquisition or construction** is deductible in full for that year, from the date of completion; and the interest for the earlier period is dealt with by clause (c).

5.4 Pre-construction interest [Section 22(1)(c)]

The rule, in four lines

Identify the prior period — from the date of borrowing to the 31st March immediately preceding the tax year in which the property is acquired or constructed. (Where the loan is repaid earlier, the period ends on the date of repayment.)

Compute the interest for that period.

Divide it by five. One-fifth is allowed in the tax year in which the property was acquired or constructed, and one-fifth in each of the four following years.

Add it to the current year's interest and deduct the total. Section 22(3) requires the pre-construction interest to be reduced by anything already allowed as a deduction under any other provision of the Act, so that it is not allowed twice over.

Illustration 5.1 — pre-construction interest

A loan of ₹12,00,000 at 9% was taken on 1 July 2022. The house was completed on 10 August 2024 and let out at once.		
Prior period — 1 July 2022 to 31 March 2024, that is 21 months		
Interest for the prior period — ₹12,00,000 × 9% × 21/12		1,89,000
One-fifth, allowable in each of Tax Years 2024-25 to 2028-29		37,800
Interest for Tax Year 2026-27 itself — ₹12,00,000 × 9%		1,08,000
Add: the third of the five instalments		37,800
TOTAL INTEREST DEDUCTIBLE FOR TAX YEAR 2026-27		**1,45,800**

Note that the first instalment falls in the tax year of completion — 2024-25 — and not in the year after it. For Tax Year 2026-27 we are therefore on the third instalment. Questions very often give the date of completion, and it has to be counted from rather than assumed.

5.5 The ceilings for a self-occupied house [Section 22(2), (4) and (5)]

A self-occupied house has an annual value of nil. There is nothing from which to deduct thirty per cent, and nothing from which to deduct the municipal taxes. The interest is the only deduction, and it is capped.

Provision	What it says
22(2)(a)	₹2,00,000, where the property was acquired or constructed with the borrowed capital, that acquisition or construction was completed within five years from the end of the tax year in which the capital was borrowed, and the assessee furnishes a certificate from the lender
22(2)(b)	₹30,000 in any other case — that is, a loan for repairs, renewal or reconstruction; or a construction loan where the five-year test is failed or the certificate is not furnished
22(4)	The certificate must specify the interest payable on the capital borrowed, and, where a fresh loan has been taken to repay the original loan, the interest payable on that new loan
22(5)	The AGGREGATE of the deductions under sub-section (2), for all the properties referred to in section 21(6), shall not exceed ₹2,00,000

Section 22(5) — one ceiling, shared between the two houses

Two houses may be self-occupied. It does not follow that ₹2,00,000 may be claimed on each. Section 22(5) caps the aggregate across all the self-occupied houses at ₹2,00,000 — one ceiling, shared. A man paying ₹2,40,000 on his Delhi house and ₹90,000 on his Shimla house, both self-occupied, deducts ₹2,00,000 and not ₹2,90,000. Problem 2 in Chapter 10 turns on this.

Illustration 5.2 — a repair loan on a self-occupied house

A house occupied by the owner throughout the year		
Interest on a loan of ₹10,00,000 taken to reconstruct the roof, at 8.5%		85,000
Ceiling under section 22(2)(b) — the loan is not for acquisition or construction		(30,000)
LOSS FROM THE HOUSE PROPERTY		**(30,000)**

Had the same ₹10,00,000 been borrowed to build the house, and had it been built within five years of the end of the year of borrowing, the whole ₹85,000 would have been deductible — being within the ₹2,00,000 ceiling of section 22(2)(a).

5.6 Interest payable outside India [Section 22(6)]

Interest which is payable outside India is not deductible if tax has not been paid or deducted on it under Chapter XIX-B, and there is no agent in India in respect of it within the meaning of section 306. The rule prevents a deduction being taken in India for a payment on which India has collected nothing.

5.7 A fresh loan taken to repay an old loan

Interest on the second loan is deductible, because the second loan stands in the shoes of the first and the capital is still capital borrowed for the property. Section 22(4)(b) recognises this expressly by requiring the lender's certificate to specify the interest on such a new loan. What is not deductible is interest on a loan taken to pay the interest — that is a loan to meet a revenue liability, not to acquire or construct the house.

5.8 Eight points to watch

	The mistake	The rule
1	Taking thirty per cent of the gross annual value	It is thirty per cent of the NET annual value [s. 22(1)(a) with s. 21(3)]
2	Deducting repairs, insurance, ground rent or collection charges as well	They are inside the thirty per cent
3	Deducting municipal taxes borne by the tenant	Only taxes paid by the OWNER [s. 21(3)]
4	Deducting municipal taxes from a self-occupied house	The annual value is nil; there is nothing to deduct them from
5	Claiming ₹2,00,000 on each of the two self-occupied houses	₹2,00,000 in the AGGREGATE [s. 22(5)]
6	Starting the five pre-construction instalments in the year AFTER completion	The first instalment falls in the year of completion itself [s. 22(1)(c)]
7	Deducting unrealised rent from the gross annual value	It comes off the ACTUAL RENT, before the comparison [s. 21(4)]
8	Reducing the expected rent proportionately for the months a house was self-occupied	The expected rent is always for the whole year; only the actual rent is for the let period

Chapter 6

Self-Occupied, Let Out, Deemed Let Out, and the Mixed Cases

6.1 Let-out property — the standard case

Everything in Chapters 3, 4 and 5 was written for this case. The six steps of paragraph 3.10 are followed in order; the whole of the interest is deductible without any ceiling; and the result may be a loss.

6.2 Self-occupied property [Section 21(6)]

> **Section 21(6) and (7)**
>
> *"(6) The annual value of the property consisting of a house or any part thereof shall be taken as nil, if the owner occupies it for his own residence or cannot actually occupy it due to any reason.*
>
> *(7) The provisions of sub-section (6)—*
>
> *(a) shall apply only in respect of two of such houses as specified by the assessee in this behalf;*
>
> *(b) shall not apply, if the house or any part thereof is actually let during any time of the tax year, or if the owner derives any other benefit from it."*

Four consequences follow, and they are the whole of the self-occupied computation.

- **The house must be used for RESIDENCE.** A house occupied by the owner for his own *business* is outside section 21(6) — it is outside the head altogether, under section 20(2).
- **Occupation by the owner's family is occupation by the owner.** A house in which his parents, wife or children live rent-free, he supporting them, is self-occupied. A house given rent-free to a brother, a friend or an employee is not — the owner is deriving a benefit from it, and section 21(7)(b) applies.
- **The annual value is nil, and the consequences of nil are severe.** No municipal taxes are deductible, because there is nothing to deduct them from. No thirty per cent is deductible, for the same reason. The interest is the sole deduction, and it is capped by section 22(2) and (5). The result can only be nil or a loss — never a positive figure.
- **A house let for even one day in the year cannot be self-occupied for that year.** Section 21(7)(b) is absolute. The house is treated as let out for the whole year, and paragraph 6.6 explains how.

6.3 The two-house limit [Section 21(7)(a)]

Section 21(6) applies to two houses only, and the two are "as specified by the assessee in this behalf". Three things follow.

- The choice is the assessee's, not the Assessing Officer's. He may specify whichever two he pleases.
- The choice is made afresh for each tax year. A house treated as self-occupied last year may be the deemed let-out house this year.
- Where more than two houses satisfy section 21(6), all but two are deemed to be let out — paragraph 6.5. Where only one or two do, there is nothing to choose.

> **This is the only genuine planning decision in the whole head**
>
> And it is worth real money. In Problem 2 the same three houses, the same figures, and the same law give an income from house property ranging from a loss of ₹1,12,100 to a loss of ₹1,74,000 depending only on which two houses are specified. Paragraph 6.8 gives the rule for choosing.

6.4 A house the owner cannot occupy — the test that has widened

The change of language, and what turns on it

Section 23(2)(b) of the 1961 Act. The annual value was nil where the owner could not occupy the house "owing to his employment, business or profession carried on at any other place", and he had in consequence to reside at that other place in a building not belonging to him.

Section 21(6) of the 2025 Act. The annual value is nil where the owner "cannot actually occupy it **due to any reason**".

The occupational qualification has gone, and with it the requirement that the owner be living elsewhere in premises not his own. Whatever the reason for the non-occupation — a posting to another city, a period of study abroad, a long illness, a stay with a married daughter, a dispute with a neighbour, a house too far from the school the children attend — the annual value is nil, subject only to the two-house limit and to the house not being let.

The old learning is not wasted. The employment case remains the commonest, and a question that gives it is still answered by taking the annual value at nil. What has changed is that a question giving some other reason is now answered the same way, where under the 1961 Act it would have been answered by deeming the house to be let out.

Two limits that have not gone

- The house must not be let at any time in the year, and the owner must derive no other benefit from it [s. 21(7)(b)]. A house the owner cannot occupy but has let out is a let-out house, and the rent is taxed.
- The two-house limit of section 21(7)(a) applies to the houses within section 21(6) as a whole — the houses actually occupied and the houses that cannot be occupied are counted together, not separately. A man living in his own house at Agra and unable to occupy two flats at Delhi and Mumbai has three candidates and may specify only two.

6.5 Deemed let-out property

Where the assessee owns more than two houses within section 21(6), the third and any further house is deemed to be let out. There is no such phrase in the Act; it is simply what is left when section 21(6) is not available. The computation is the ordinary let-out computation with one difference — there is no actual rent, so the gross annual value is the expected rent.

	Let out	Deemed let out	Self-occupied
Gross annual value	Higher of expected rent and actual rent	The expected rent	Nil
Municipal taxes paid by the owner	Deductible	Deductible	Not deductible
Thirty per cent	Deductible	Deductible	Not deductible
Interest on borrowed capital	In full, no ceiling	In full, no ceiling	₹2,00,000 or ₹30,000, and ₹2,00,000 in the aggregate
The result may be	A profit or a loss	A profit or a loss	Nil or a loss only

6.6 Let for part of the year, self-occupied for the rest

The rule, and the trap inside it

Because section 21(7)(b) denies section 21(6) to a house let at any time in the year, such a house is a let-out house for the whole year. So:

- **the expected rent is taken for the WHOLE year** — it is never reduced for the months of self-occupation; and
- **the actual rent is taken for the LET PERIOD only.** The gross annual value is the higher of the two.

And section 21(2) is not available, because the house was not **vacant** during the months of self-occupation — it was occupied. The vacancy allowance is for a house nobody was in.

Illustration 6.1 — five months self-occupied, seven months let

Municipal value ₹2,00,000; fair rent ₹2,30,000; no standard rent		
Self-occupied 1 April to 31 August 2026; let at ₹22,000 per month from 1 September 2026		
Expected rent, for the whole year — higher of ₹2,00,000 and ₹2,30,000		2,30,000
Actual rent, for the seven let months — ₹22,000 × 7		1,54,000
GROSS ANNUAL VALUE — the higher of the two		**2,30,000**

The commonest error is to take the expected rent for seven months only, at ₹1,34,167, and then to make the actual rent the gross annual value. The Act gives no warrant for apportioning the expected rent. It is what the property might reasonably be expected to let for "from year to year" — a yearly figure, always.

6.7 Partly self-occupied and partly let out

Where the house is divided — one floor lived in, another let; two rooms let out of six — the two portions are computed as two separate properties, and every figure that relates to the house as a whole is apportioned between them.

Figure	How it is apportioned
Municipal value, fair rent, standard rent	In the ratio of the floor area, unless the question gives a separate figure for each portion, in which case use that
Municipal taxes	In the same ratio; but only the share attributable to the let portion is deductible, because the annual value of the self-occupied portion is nil
Actual rent	Not apportioned at all — it belongs wholly to the let portion
Interest on borrowed capital	In the same ratio. The share of the let portion is deductible in full; the share of the self-occupied portion goes into the ₹2,00,000 aggregate of section 22(5) along with any other self-occupied house
Thirty per cent	Computed on the net annual value of the let portion only

Do not confuse the two "partly" cases

- **Partly self-occupied and partly let out BY AREA** — one portion is self-occupied all year and another is let all year. Apportion everything, as above. The self-occupied portion keeps its nil annual value and counts as one of the two houses. This is Problem 4.
- **Partly self-occupied and partly let out BY TIME** — the whole house is self-occupied for some months and let for the rest. Nothing is apportioned; the house is let out for the whole year, and paragraph 6.6 applies. This is Problem 3(c).

A house can of course be both — the ground floor let all year while the first floor is self-occupied for part of the year and let for the rest. Apportion first by area, then apply paragraph 6.6 to the floor that changed hands.

6.8 Which two houses to specify — the rule

The procedure

There is no shortcut that is right in every case, because the interest ceiling and the deemed-let-out computation pull in opposite directions. The following procedure is short and is right in every case.

- Compute each candidate house TWICE — once as a deemed let-out house, and once as a self-occupied house.
- For every possible pair, add the deemed let-out figures of the houses left out to the aggregate self-occupied interest of the pair, capped at ₹2,00,000 by section 22(5).
- Take the pair that gives the lowest total. Where the ₹2,00,000 cap is reached whichever pair is chosen — which is usual, because interest on two houses is usually more than ₹2,00,000 — the comparison reduces to a single question: which house gives the LOWEST figure when deemed to be let out? That house is the one to leave out of the pair.

Only three pairs are possible with three houses, six with four. Set them out. Problem 2 does it in full.

Chapter 7

Arrears of Rent and Unrealised Rent Recovered [Section 23]

The charge · The thirty per cent · Ownership is irrelevant · Two illustrations

Section 23, complete

(1) The amount of arrears of rent received by an assessee from a tenant, or the unrealised rent realised subsequently from a tenant, shall be deemed to be the income from house property in respect of the tax year in which such rent is received or realised.

(2) The amount deemed to be income from house property under sub-section (1) shall be included in the total income of the assessee under the head "Income from house property", whether the assessee is the owner of the property or not in that tax year.

(3) A sum equal to 30% of the arrears of rent or the unrealised rent referred to in sub-section (1) shall be allowed as deduction.

7.1 What the section covers

	What it is	Why it needs a section of its own
Arrears of rent	Rent for an earlier year which the owner becomes entitled to only later — most often on a revision of rent by agreement, by a rent-fixation authority or by a court	It was not "receivable" in the earlier year, so it could not have been taxed then
Unrealised rent recovered	Rent which was deducted in an earlier year under section 21(4) as irrecoverable, and which the tenant later pays	It escaped tax when it was deducted; the section brings it back when it comes in

7.2 The five rules

- **It is taxed in the year of receipt or realisation,** not in the year to which it relates. No reopening of the earlier assessment, and no relief for the bunching.
- **Thirty per cent is allowed against it** under section 23(3) — and only thirty per cent. No municipal taxes, no interest, no other deduction.
- **It is taxable whether or not the assessee still owns the property** — section 23(2) says so in terms. A man who received arrears in respect of a house he sold two years ago is taxed on them under this head.
- **It is chargeable under this head**, not under "Income from other sources", and it therefore enters the computation of the head and may be absorbed by a loss from another property under section 108.
- **A co-owner is taxed on his share of it,** section 24 applying to this receipt as it applies to the rest of the income of the property. Problem 5 works this.

Illustration 7.1 — arrears received after the property was sold

Shri Prakash sold his shop at Meerut in March 2025. In November 2026 the Rent Controller enhanced the rent with retrospective effect and the former tenant paid him ₹1,80,000 for the earlier years.		
Arrears of rent received [s. 23(1)]		1,80,000
Less: deduction under section 23(3) — 30%		(54,000)

INCOME FROM HOUSE PROPERTY FOR TAX YEAR 2026-27		**1,26,000**

That he is no longer the owner is expressly made immaterial by section 23(2). Had the tenant instead paid him ₹1,80,000 of rent that had been allowed as unrealised in Tax Year 2022-23, the computation would be identical.

Do not deduct the unrealised rent twice

Rent allowed as unrealised in an earlier year comes back in full under section 23 when it is recovered. It is not netted against the unrealised rent of the current year, and it is not compared with the expected rent. It is a separate line at the end of the computation of the head, with its own thirty per cent.

Chapter 8

Co-ownership [Section 24]

Definite and ascertainable shares · Not an association of persons · Each co-owner's own relief

Section 24

(1) For property co-owned with definite and ascertainable share, the co-owners shall not be assessed as an association of persons and their income computed separately under this Part as per their respective share shall be included in their total income.

(2) The relief available under section 21(6) shall be provided as if each co-owner is individually entitled to the said relief.

8.1 The condition, and what turns on it

Section 24 applies only where the share of each co-owner is definite and ascertainable. Where it is not — where a house is held jointly with no stated shares and none can be worked out — the co-owners are assessed as an association of persons, at the rates applicable to such an association, and the advantages of the section are lost. In practice the share is nearly always ascertainable from the sale deed or from the contributions made, and a question that is silent should be answered on the footing that the shares are equal.

8.2 How the computation is made

Compute for the property as a whole; divide at the end

- Compute the income of the property in the ordinary way — expected rent, actual rent, gross annual value, municipal taxes, thirty per cent, interest. Do not divide any of these figures first.
- Divide the resulting income, or loss, in the agreed shares.
- Add to each co-owner's share his own portion of any receipt under section 23.

Dividing at the end, rather than at the beginning, matters where the interest is large: an interest deduction that would be capped in one co-owner's hands is not capped when the property is let out, and the arithmetic is in any event simpler.

8.3 The relief in section 24(2)

Where the co-owned house is self-occupied by the co-owners, section 24(2) gives each of them the section 21(6) relief individually. So:

- the annual value of the house is nil for each of them;
- each of them may claim interest up to ₹2,00,000 — the ceiling of section 22(2)(a) attaches to the assessee, not to the house, and section 24(2) puts each co-owner in the position of a sole owner for this purpose. Two brothers owning a house equally and paying ₹4,80,000 of interest between them deduct ₹2,00,000 each, not ₹1,00,000 each;
- the house counts as one of the two houses of EACH of them for the purposes of section 21(7)(a). A co-owned self-occupied house uses up a slot in every co-owner's hands.

8.4 Two further points

Co-ownership and the deeming provisions

- **A husband and wife who buy a house jointly, the whole of the price coming from the husband,** are not really co-owners for tax purposes at all. Section 25(a) or section 99 makes the whole of the income the husband's. Section 24 applies only where each co-owner has contributed his own share of the consideration.
- **Co-ownership is not partnership.** Where the co-owners exploit the property as a business — running it as a hotel, or developing and selling it — the income is business income of a firm or association, and section 24 has nothing to say about it.

Chapter 9

Loss from House Property, and the Default Regime

9.1 Set-off in the same year

A loss arises under this head in two ways: from a self-occupied house, where the interest is the only deduction and the annual value is nil; and from a let-out house, where the interest and the thirty per cent together exceed the net annual value. Two sections then apply, in order.

Section	What it provides
108	A loss from one house is first set off against the income of another house of the same assessee — set-off under the same head, which is unlimited
109(1)(b)	What is left may be set off against income under ANY OTHER head, including salary, business and capital gains, but only to the extent of ₹2,00,000
110	Whatever still remains is carried forward for eight tax years and set off against income from house property only

Illustration 9.1 — a loss larger than the ceiling

Loss from house property for Tax Year 2026-27, after set-off between the properties		(3,20,000)
Income from salaries		14,00,000
Set off against salary, restricted by section 109(1)(b)		(2,00,000)
GROSS TOTAL INCOME		**12,00,000**
Loss carried forward to Tax Year 2027-28 under section 110		**1,20,000**

The ₹1,20,000 carried forward may be set off in the following eight years, but only against income from house property — never again against salary. A student who has a large interest burden and no other house property income should understand that the excess is, in practice, often lost.

9.2 Carry forward [Section 110]

- The carry forward is for eight tax years immediately succeeding the year in which the loss was first computed.
- In those years it is set off against income from house property only.
- Unlike a business loss, it does not depend on the return having been filed within the due date under section 263(1) — but it is prudent to file the return in time in any event.
- Under the default regime the question does not arise in the same way; see paragraph 9.3.

9.3 What section 202 takes away

The default regime and the house-owner

- **Section 202(2)(a)(v).** In computing total income under the default regime, no deduction is allowed under "section 22(1)(b), in respect of properties referred to in section 21(6)". That is the interest on a SELF-OCCUPIED house. It is gone — not reduced to ₹30,000, not restricted, simply not allowed. The annual value stays nil, the interest earns nothing, and the income from the house is nil.
- **Section 202(2)(b)(ii).** Total income is computed without the set-off of "any loss under the head Income from house property with any other head of income". A loss from a LET-OUT house — where the interest is still fully deductible — cannot be set against salary or business income at all. Not ₹2,00,000; nothing.

Interest on a let-out house is NOT withdrawn. Section 202(2)(a)(v) is confined to properties referred to in section 21(6). A let-out or deemed let-out house keeps its full interest deduction under both regimes. It is only the self-occupied house, and the inter-head set-off, that the default regime strikes at.

9.4 The two regimes side by side

	Optional regime	Default regime [section 202]
Annual value of a self-occupied house	Nil	Nil
Interest on a self-occupied house	₹2,00,000 or ₹30,000; ₹2,00,000 in the aggregate [s. 22(2), (5)]	Nothing [s. 202(2)(a)(v)]
Interest on a let-out or deemed let-out house	In full, no ceiling	In full, no ceiling
Thirty per cent, and municipal taxes	As usual	As usual
Set-off of a house property loss against another house	In full [s. 108]	In full [s. 108]
Set-off against another head	Up to ₹2,00,000 [s. 109(1)(b)]	Not at all [s. 202(2)(b)(ii)]
Carry forward	Eight years, against house property income [s. 110]	Eight years, but section 202(3) deems the loss attributable to a withdrawn deduction to have been given full effect to
Section 23 receipts — arrears and unrealised rent	Taxable, less 30%	Taxable, less 30%

The practical consequence, in one sentence

A house-owner with a large home loan and no let-out property is the archetypal case in which the optional regime may still be the better one — and a house-owner whose properties are all let out loses nothing at all by the default regime. Problem 6 in Chapter 10 works exactly this case, and the answer there is not the obvious one.

Chapter 10

The Computation, and Six Practical Problems

10.1 The format of the computation
10.2 to 10.7 Six problems, fully worked · 10.8 The six problems at a glance

10.1 The format of the computation

The order of these lines is fixed by sections 21 and 22 themselves. An answer written in this order is easy to follow and easy to check, and no step can be left out by accident.

The computation of income from house property

Particulars	₹	₹
Gross annual value [s. 21(1) or 21(2)]		**xxx**
Less: municipal taxes levied by a local authority and actually paid by the owner during the tax year [s. 21(3)]		(xxx)
NET ANNUAL VALUE		xxx
Less: deductions under section 22 —		
(a) thirty per cent of the net annual value [s. 22(1)(a)]	xxx	
(b) interest on capital borrowed [s. 22(1)(b)]	xxx	
(c) one-fifth of the pre-construction interest [s. 22(1)(c)]	xxx	(xxx)
INCOME (or LOSS) FROM THIS PROPERTY		xxx
Add or less: income or loss from every other property, computed the same way [s. 108]		xxx
Add: arrears of rent and unrealised rent recovered, less 30% [s. 23]		xxx
INCOME FROM HOUSE PROPERTY		**xxx**

Show the working for every derived figure

Never write a figure in the computation that has been arrived at by calculation elsewhere without a note. The expected rent, the unrealised rent, the pre-construction interest and the apportionment of a part-let house each deserve a numbered note below the statement. In every solution that follows, the notes are set out in full.

10.2 Problem 1 — a let-out house, with unrealised rent and pre-construction interest

The question

Shri Mohan Lal owns a house at Jaipur which was let throughout the Tax Year 2026-27 at ₹40,000 per month. From the following particulars compute his income from house property for the Tax Year 2026-27.

- Municipal value ₹3,60,000; fair rent ₹4,20,000; standard rent under the Rajasthan Rent Control Act ₹3,90,000.
- Municipal taxes for the year ₹36,000, of which ₹24,000 was paid by Shri Mohan Lal in January 2027 and ₹12,000 by the tenant.
- Municipal taxes of ₹8,000 relating to the Tax Year 2025-26 were also paid by Shri Mohan Lal in May 2026.
- The tenant did not pay the rent for January and February 2027. He has since vacated the premises, he occupies no other property of the owner, the tenancy was bona fide and recovery proceedings have been instituted.
- Shri Mohan Lal borrowed ₹15,00,000 at 10% per annum on 1 October 2021 to construct the house. Construction was completed on 31 March 2024. Nothing has been repaid, and the lender's certificate has been furnished.
- During the year he spent ₹46,000 on repairs and whitewashing, ₹9,000 on fire insurance and ₹6,000 as collection charges, and paid ₹5,000 as ground rent.

Solution — computation of income from house property

Particulars	₹	₹
Gross annual value [Note 1]		**4,00,000**
Less: municipal taxes actually paid by the owner [Note 2]		(32,000)
NET ANNUAL VALUE		3,68,000
Less: deductions under section 22 —		
thirty per cent of ₹3,68,000 [s. 22(1)(a)]	1,10,400	
interest for the year — ₹15,00,000 × 10% [s. 22(1)(b)]	1,50,000	
one-fifth of the pre-construction interest [Note 3]	45,000	(3,05,400)
INCOME FROM HOUSE PROPERTY		**62,600**

Working notes

Note 1 — gross annual value. Expected rent is the higher of the municipal value ₹3,60,000 and the fair rent ₹4,20,000, that is ₹4,20,000, restricted to the standard rent of ₹3,90,000. Actual rent receivable is ₹40,000 × 12 = ₹4,80,000, less the unrealised rent of two months, ₹80,000, which is excluded by section 21(4) because all four conditions of Rule 21 are satisfied — ₹4,00,000. The gross annual value is the higher of ₹3,90,000 and ₹4,00,000, that is ₹4,00,000. The property was let throughout and was not vacant, so section 21(2) is not in point.

Note 2 — municipal taxes. Section 21(3) allows the taxes levied by a local authority and actually paid by the owner during the tax year, irrespective of when they became payable. Deductible: ₹24,000 of the current year plus ₹8,000 of the earlier year = ₹32,000. The ₹12,000 paid by the tenant is not deductible.

Note 3 — pre-construction interest. The capital was borrowed on 1 October 2021 and the house was constructed in the Tax Year 2023-24. The prior period runs from 1 October 2021 to 31 March 2023 — eighteen months. Interest for it is ₹15,00,000 × 10% × 18/12 = ₹2,25,000, allowable in five equal instalments of ₹45,000 in the Tax Years 2023-24 to 2027-28. The Tax Year 2026-27 takes the fourth instalment.

Note 4 — the expenses. Repairs ₹46,000, insurance ₹9,000, collection charges ₹6,000 and ground rent ₹5,000 — ₹66,000 in all — are not deductible. They are covered by the thirty per cent of section 22(1)(a), which is allowed whether or not anything is spent.

What this problem tests

Four things at once: the standard rent as a ceiling and not a competitor; the deduction of unrealised rent from the actual rent BEFORE the comparison; the arrear municipal tax, which is deductible, against the tenant's tax, which is not; and the counting of the pre-construction instalments. Deducting the unrealised rent from the gross annual value instead of from the actual rent gives ₹3,20,000, which is wrong.

10.3 Problem 2 — three houses, and which two to specify

The question

Shri Anil Verma owns three houses, none of which was let at any time during the Tax Year 2026-27. He lives in the Delhi house; the Shimla house is used by his family for holidays; the Kanpur house stood empty all year because he could not find the time to go there. His income from salaries for the year is ₹18,00,000. All three loans were taken for construction, all three houses were completed within five years from the end of the year of borrowing, and the lenders' certificates have been furnished.

	House A — Delhi	House B — Shimla	House C — Kanpur
Municipal value	4,00,000	2,00,000	3,00,000
Fair rent	4,60,000	2,50,000	3,30,000
Standard rent	4,20,000	not applicable	3,15,000
Municipal taxes for the year	40,000	20,000	30,000
Municipal taxes actually paid during the year	40,000	20,000	18,000
Interest on borrowed capital for the year	2,40,000	90,000	1,20,000

Advise Shri Anil Verma which two houses he should specify under section 21(7)(a), and compute his income from house property accordingly.

Step 1 — each house as a deemed let-out house

The first thing to do is to compute each house once, as though it were the one left out of the pair. There is no actual rent, so the gross annual value is the expected rent.

Particulars	House A	House B	House C
Expected rent — the higher of the municipal value and the fair rent, capped at the standard rent	4,20,000	2,50,000	3,15,000
GROSS ANNUAL VALUE	**4,20,000**	**2,50,000**	**3,15,000**
Less: municipal taxes actually paid during the year	(40,000)	(20,000)	(18,000)
NET ANNUAL VALUE	**3,80,000**	**2,30,000**	**2,97,000**
Less: thirty per cent of the net annual value	(1,14,000)	(69,000)	(89,100)
Less: interest on borrowed capital	(2,40,000)	(90,000)	(1,20,000)
INCOME IF DEEMED TO BE LET OUT	**26,000**	**71,000**	**87,900**

Note that only ₹18,000 of the ₹30,000 of municipal tax levied on House C was actually paid during the year, and only that ₹18,000 is deductible under section 21(3).

Step 2 — the three possible pairs

In each case the two specified houses have a nil annual value and their interest is capped in the aggregate at ₹2,00,000 by section 22(5). The third house is deemed to be let out.

Houses specified as self-occupied	Working	Income

A and B	₹87,900 (C) – ₹2,00,000	(1,12,100)
A and C	₹71,000 (B) – ₹2,00,000	(1,29,000)
B and C	**₹26,000 (A) – ₹2,00,000**	**(1,74,000)**

In every pairing the interest on the two self-occupied houses exceeds ₹2,00,000 — ₹3,30,000, ₹3,60,000 and ₹2,10,000 respectively — so the aggregate ceiling of section 22(5) bites in all three, and the choice turns entirely on which house gives the smallest figure when deemed to be let out. That is House A.

Answer — computation of income from house property

Particulars	**₹**	**₹**
House B, Shimla — self-occupied, annual value nil [s. 21(6)]		Nil
House C, Kanpur — could not be occupied, annual value nil [Note 1]		Nil
House A, Delhi — deemed to be let out [Step 1]		26,000
Less: interest on Houses B and C — ₹90,000 + ₹1,20,000 = ₹2,10,000, restricted to [s. 22(5)]		(2,00,000)
LOSS FROM HOUSE PROPERTY		**(1,74,000)**
Set off against income from salaries, within the ₹2,00,000 of section 109(1)(b)		**(1,74,000)**
GROSS TOTAL INCOME — ₹18,00,000 – ₹1,74,000		**16,26,000**

Working notes

Note 1 — the Kanpur house. Under section 23(2)(b) of the 1961 Act this house would have been deemed to be let out, because the owner's inability to occupy it had nothing to do with his employment, business or profession. Section 21(6) of the 2025 Act says "cannot actually occupy it due to any reason", and no reason at all need be shown. The house is therefore eligible to be specified under section 21(7)(a), and it is one of the two.

Note 2 — municipal taxes of Houses B and C. The ₹20,000 and ₹18,000 paid on those houses are not deductible: their annual value is nil, and there is nothing to deduct them from. Only the ₹40,000 on House A, which is deemed to be let out, has been allowed.

Note 3 — the ₹2,00,000 of section 109(1)(b). The loss of ₹1,74,000 is within the ceiling and is set off in full against salary. Had it been ₹2,30,000, only ₹2,00,000 could have been set off and ₹30,000 would have been carried forward under section 110.

> **The same facts under the default regime**
>
> Under section 202 the interest of ₹2,10,000 on Houses B and C is not deductible at all [s. 202(2)(a)(v)], so the income from house property is the ₹26,000 of House A — a positive figure. Gross total income becomes ₹18,00,000 + ₹26,000 = ₹18,26,000. The difference the regime makes on these facts is ₹2,00,000 of income.

10.4 Problem 3 — vacancy, in three situations

The question

Smt. Kamla Devi owns a house at Lucknow. Its municipal value is ₹2,40,000, its fair rent ₹2,70,000 and its standard rent ₹2,58,000. She paid municipal taxes of ₹25,800 during the year and interest of ₹1,80,000 on a loan taken to purchase the house. Compute her income from house property for the Tax Year 2026-27 in each of the following three situations, which are alternatives.

- (a) The house was let at ₹25,000 per month from 1 April 2026 to 31 December 2026 and remained vacant thereafter, no tenant having been found.
- (b) The house was let at ₹25,000 per month throughout the year except for the month of March 2027, when it was vacant between two tenancies.
- (c) The house was occupied by Smt. Kamla Devi for her own residence from 1 April 2026 to 31 July 2026 and was let at ₹25,000 per month from 1 August 2026 to 31 March 2027.

The expected rent is the same in all three situations: the higher of the municipal value ₹2,40,000 and the fair rent ₹2,70,000 is ₹2,70,000, restricted to the standard rent of ₹2,58,000 — **₹2,58,000**.

(a) Let for nine months, vacant for three

Expected rent for the year		2,58,000
Actual rent received — ₹25,000 × 9		2,25,000
The house was let and was vacant, and the actual rent is less than the expected rent owing to that vacancy, so section 21(2) applies		
GROSS ANNUAL VALUE		**2,25,000**
Less: municipal taxes paid		(25,800)
NET ANNUAL VALUE		1,99,200
Less: thirty per cent of ₹1,99,200	(59,760)	
Less: interest on borrowed capital	(1,80,000)	(2,39,760)
LOSS FROM HOUSE PROPERTY		**(40,560)**

(b) Let for eleven months, vacant for one

Expected rent for the year		2,58,000
Actual rent received — ₹25,000 × 11		2,75,000
The actual rent, though reduced by the vacancy, is still MORE than the expected rent. Section 21(2) is not attracted; section 21(1) applies and the higher figure is taken		
GROSS ANNUAL VALUE		**2,75,000**
Less: municipal taxes paid		(25,800)
NET ANNUAL VALUE		2,49,200
Less: thirty per cent of ₹2,49,200	(74,760)	
Less: interest on borrowed capital	(1,80,000)	(2,54,760)
LOSS FROM HOUSE PROPERTY		**(5,560)**

(c) Self-occupied for four months, let for eight

Expected rent — for the WHOLE year, not for eight months [Note]		2,58,000

Actual rent received — ₹25,000 × 8		2,00,000
The house was let during the year, so section 21(6) is excluded by section 21(7)(b); and it was never vacant, so section 21(2) is not available either		
GROSS ANNUAL VALUE — the higher of the two, under section 21(1)		**2,58,000**
Less: municipal taxes paid		(25,800)
NET ANNUAL VALUE		2,32,200
Less: thirty per cent of ₹2,32,200	(69,660)	
Less: interest on borrowed capital	(1,80,000)	(2,49,660)
LOSS FROM HOUSE PROPERTY		**(17,460)**

Note. The expected rent is never apportioned for the months of self-occupation. Section 21(1)(a) speaks of the sum for which the property might reasonably be expected to let "from year to year" — an annual figure. It is only the actual rent that is taken for the period of the letting. Taking ₹2,58,000 × 8/12 = ₹1,72,000 as the expected rent, finding the actual rent higher, and making ₹2,00,000 the gross annual value, misreads the sub-section.

The three situations compared

(a) and (c) look alike — in each the house earned rent for only part of the year — and they are decided quite differently, because in (a) the house was VACANT and in (c) it was OCCUPIED BY THE OWNER. Section 21(2) rescues the owner in the first case and not in the second. The difference on these figures is ₹23,100 of income.

(b) shows the third possibility: a vacancy that does not help, because the rent for the eleven let months still exceeds the expected rent for the twelve. The vacancy allowance only ever operates as a floor.

10.5 Problem 4 — partly self-occupied, partly let out, and a house at another station

The question

Dr. Suresh Chandra owns a double-storey house at Agra, the two floors being of equal area. He occupied the ground floor for his own residence throughout the Tax Year 2026-27 and let the first floor at ₹20,000 per month throughout the year. For the house as a whole the municipal value is ₹3,20,000, the fair rent ₹3,60,000 and the standard rent ₹3,40,000; the municipal taxes of ₹32,000 were paid by him during the year.

He also owns a flat at Delhi which he purchased in 2019 and has never been able to occupy, his employment being at Agra. It remained vacant and unlet throughout the year. Its municipal value is ₹2,80,000 and its fair rent ₹3,00,000; municipal taxes of ₹28,000 were paid by him during the year.

- Interest on the loan taken to construct the Agra house — ₹2,80,000 for the year. The house was completed on 20 May 2021 and the five instalments of pre-construction interest were exhausted in the Tax Year 2025-26.
- Interest on the loan taken to purchase the Delhi flat — ₹1,60,000 for the year.
- Both loans were taken for acquisition or construction, both properties were completed within five years from the end of the year of borrowing, and both lenders' certificates have been furnished.

Compute his income from house property for the Tax Year 2026-27.

Step 1 — identify the properties

There are three units to compute, not two. The Agra house is divided by area into a self-occupied ground floor and a let-out first floor, and the two are computed as separate properties. The Delhi flat is a third.

Unit	Character	Authority
Agra, ground floor (50%)	Self-occupied — annual value nil	s. 21(6)
Agra, first floor (50%)	Let out — computed in the ordinary way	s. 21(1)
Delhi flat	Cannot actually be occupied — annual value nil	s. 21(6); and see the note below

Two properties fall within section 21(6) — the Agra ground floor and the Delhi flat — and section 21(7)(a) allows exactly two. Both are specified; there is nothing to choose.

Step 2 — the let-out first floor

Expected rent of the whole house — higher of ₹3,20,000 and ₹3,60,000, capped at the standard rent ₹3,40,000		3,40,000
One-half, being the first floor		1,70,000
Actual rent — ₹20,000 × 12		2,40,000
GROSS ANNUAL VALUE — the higher of the two		**2,40,000**
Less: municipal taxes — one-half of ₹32,000		(16,000)
NET ANNUAL VALUE		2,24,000
Less: thirty per cent of ₹2,24,000	(67,200)	
Less: interest — one-half of ₹2,80,000	(1,40,000)	(2,07,200)
INCOME FROM THE FIRST FLOOR		**16,800**

Step 3 — the two self-occupied properties

Agra ground floor — annual value		Nil
Delhi flat — annual value		Nil
Interest attributable to the Agra ground floor — one-half of ₹2,80,000	1,40,000	
Interest on the Delhi flat	1,60,000	3,00,000
Restricted, in the aggregate, to [s. 22(5)]		**(2,00,000)**
LOSS FROM THE SELF-OCCUPIED PROPERTIES		(2,00,000)

Answer — income from house property

Income from the Agra first floor, let out		16,800
Loss from the Agra ground floor and the Delhi flat, self-occupied		(2,00,000)
LOSS FROM HOUSE PROPERTY		**(1,83,200)**

The loss is within the ₹2,00,000 of section 109(1)(b) and is set off in full against Dr. Chandra's professional income.

Working notes

Note 1 — the Delhi flat. Section 21(6) covers a house the owner "cannot actually occupy … due to any reason". Employment at another station is such a reason, and under the 2025 Act it no longer has to be. The flat was not let at any time and no other benefit was derived from it, so section 21(7)(b) does not exclude it.

Note 2 — the municipal taxes. Of the ₹32,000 paid on the Agra house only one-half, ₹16,000, is deductible, the other half relating to a property whose annual value is nil. The whole of the ₹28,000 paid on the Delhi flat is lost for the same reason. Between them ₹44,000 of tax actually paid earns nothing.

Note 3 — the interest. Section 22(5) caps the aggregate deduction for all the properties within section 21(6) at ₹2,00,000. ₹1,40,000 and ₹1,60,000 together are ₹3,00,000; ₹1,00,000 of interest actually payable is simply disallowed. The other ₹1,40,000, being attributable to the let-out first floor, is deductible in full and is not touched by the ceiling.

10.6 Problem 5 — co-ownership, composite rent, arrears and unrealised rent

The question

Shri Rajesh and Shri Mukesh are the co-owners of a house at Nagpur in equal and definite shares. The house was let throughout the Tax Year 2026-27 at ₹30,000 per month, of which ₹4,000 per month is attributable to the furniture, the lift and the water pump provided with the house. The letting of the building and of those amenities is separable.

- Municipal value ₹3,00,000; fair rent ₹3,36,000; standard rent ₹3,24,000.
- Municipal taxes of ₹30,000 were paid during the year, half by each co-owner.
- Interest for the year on the loan jointly taken to construct the house — ₹2,40,000.
- During the year they recovered ₹90,000 of rent which had been allowed as unrealised in the Tax Year 2023-24, and received ₹60,000 as arrears of rent for the Tax Year 2024-25 following a revision of the rent by the court.
- Repairs to the furniture cost ₹6,000 and depreciation on it is ₹9,000.

Compute the income of each co-owner from the house, and from any other head to which any part of the receipt is chargeable.

Step 1 — split the composite rent

The letting is separable, so the rent is divided. ₹26,000 per month is the rent of the building and is dealt with under this head; ₹4,000 per month is the hire of the furniture and the charge for the lift and pump, and is chargeable under "Income from other sources" under section 92, against which section 93 allows the repairs and the depreciation.

Step 2 — the property as a whole

Expected rent — higher of ₹3,00,000 and ₹3,36,000, capped at the standard rent ₹3,24,000		3,24,000
Actual rent of the BUILDING — ₹26,000 × 12		3,12,000
GROSS ANNUAL VALUE — the higher of the two		**3,24,000**
Less: municipal taxes paid by the owners		(30,000)
NET ANNUAL VALUE		2,94,000
Less: thirty per cent of ₹2,94,000	(88,200)	
Less: interest on borrowed capital	(2,40,000)	(3,28,200)
LOSS FROM THE PROPERTY		(34,200)
Add: unrealised rent recovered and arrears of rent — ₹90,000 + ₹60,000 = ₹1,50,000, less thirty per cent [s. 23]		1,05,000
INCOME FROM HOUSE PROPERTY — the property as a whole		**70,800**

Step 3 — divide between the co-owners

Answer

Particulars	Rajesh	Mukesh
Income from house property — one-half of ₹70,800 [s. 24(1)]	**35,400**	**35,400**
Income from other sources — hire of furniture and charges for the lift and pump, ₹48,000	24,000	24,000
Less: repairs ₹6,000 and depreciation ₹9,000 [s. 93]	(7,500)	(7,500)
INCOME FROM OTHER SOURCES	**16,500**	**16,500**

TOTAL	**51,900**	**51,900**

Working notes

Note 1 — why the shares are not divided earlier. Section 24(1) requires the income to be "computed separately under this Part as per their respective share". The convenient and accepted practice is to compute the property once and divide the result; dividing every figure at the outset produces the same answer with twice the arithmetic and twice the opportunity for error.

Note 2 — the section 23 receipts. Both the recovered unrealised rent and the arrears are deemed to be the income of the year of receipt, are chargeable under this head, and carry a deduction of thirty per cent and nothing else. Being income of the property, they are divided in the same shares. Note that they have turned a loss of ₹34,200 into an income of ₹70,800.

Note 3 — the composite rent. Had the letting been inseparable — a cinema hall with its projection equipment, say — the whole ₹3,60,000 would have gone under "Income from other sources" and nothing at all would have been charged under this head. The thirty per cent would have been lost, and the actual expenses allowed instead.

10.7 Problem 6 — a house bought in the wife's name, and both regimes

The question

Shri Deepak Malhotra, aged 45, is employed at Mumbai. For the Tax Year 2026-27 his basic salary is ₹1,00,000 per month, his dearness allowance ₹20,000 per month (which forms part of salary for all purposes) and his house rent allowance ₹30,000 per month. He lives in his own house at Mumbai and pays no rent. He paid professional tax of ₹2,500 during the year.

- The Mumbai house is occupied by him for his own residence. Interest on the housing loan for the year is ₹2,60,000. The loan was taken in 2019, the house was completed in 2021, and the lender's certificate has been furnished.
- In 2023 he transferred a house at Pune to his wife, Smt. Neha, without any consideration. She has let it at ₹28,000 per month throughout the year. Its municipal value is ₹2,60,000 and its fair rent ₹3,00,000; no standard rent has been fixed. Municipal taxes of ₹26,000 were paid during the year, and interest on the loan taken to purchase that house is ₹1,10,000 for the year.
- He paid ₹1,50,000 into his public provident fund account and ₹25,000 as medical insurance premium for his family.

Compute his total income and tax payable for the Tax Year 2026-27 under the optional regime and under the default regime of section 202, and advise him which to choose.

Step 1 — who is taxed on the Pune house?

The house itself — not money — was transferred to the spouse without adequate consideration and not under an agreement to live apart. Section 25(a) therefore makes Shri Deepak the "owner" of it for the purposes of sections 20 to 24. The income is computed in his hands directly under this head; section 99(1)(a)(ii), which is expressly "subject to the provisions of section 25(a)", does not need to be invoked at all.

Had he instead given her the money to buy the house

Section 25(a) speaks of transferring "property". Money is not the house, and on the strict language the wife would be the owner. The income would then be computed in HER hands, with her own section 21(6) relief, and only the resulting figure clubbed in his total income under section 99(1)(a)(ii) — still under the head "Income from house property". On the facts of this problem the figure would be the same, because the Pune house is let out; but where the house is self-occupied the two routes give different answers.

Step 2 — the salary

Particulars	Optional	Default
Basic salary — ₹1,00,000 × 12	12,00,000	12,00,000
Dearness allowance — ₹20,000 × 12	2,40,000	2,40,000
House rent allowance — ₹30,000 × 12, fully taxable, no rent being paid	3,60,000	3,60,000
GROSS SALARY	18,00,000	18,00,000
Less: standard deduction [s. 19(1), Table, Sl. No. 2]	(75,000)	(75,000)
Less: tax on employment [s. 19(1), Table, Sl. No. 1]	(2,500)	Not allowed
INCOME FROM SALARIES	**17,22,500**	**17,25,000**

Step 3 — the two houses

Particulars	Optional	Default
MUMBAI — self-occupied, annual value nil [s. 21(6)]	Nil	Nil

Interest ₹2,60,000, restricted to ₹2,00,000 by section 22(2)(a); withdrawn altogether by section 202(2)(a)(v)	(2,00,000)	Nil
PUNE — expected rent, higher of ₹2,60,000 and ₹3,00,000	3,00,000	3,00,000
Actual rent — ₹28,000 × 12	3,36,000	3,36,000
Gross annual value — the higher of the two	**3,36,000**	**3,36,000**
Less: municipal taxes paid	(26,000)	(26,000)
Net annual value	3,10,000	3,10,000
Less: thirty per cent	(93,000)	(93,000)
Less: interest — let out, so no ceiling and no withdrawal	(1,10,000)	(1,10,000)
Income from the Pune house	**1,07,000**	**1,07,000**
INCOME FROM HOUSE PROPERTY	**(93,000)**	**1,07,000**

Step 4 — total income and tax

Particulars	Optional	Default
Income from salaries	17,22,500	17,25,000
Income from house property	(93,000)	1,07,000
GROSS TOTAL INCOME	16,29,500	18,32,000
Less: deduction under section 123 — public provident fund	(1,50,000)	Not allowed
Less: deduction under section 126 — medical insurance	(25,000)	Not allowed
TOTAL INCOME	**14,54,500**	**18,32,000**
Income-tax on total income [Note]	2,48,850	1,66,400
Less: rebate under section 156	Nil	Nil
Add: health and education cess at 4%	9,954	6,656
TAX PAYABLE, rounded off under section 516	**2,58,800**	**1,73,060**

Optional regime, on ₹14,54,500 — nil up to ₹2,50,000; ₹2,50,000 at 5% = ₹12,500; ₹5,00,000 at 20% = ₹1,00,000; ₹4,54,500 at 30% = ₹1,36,350. Total ₹2,48,850. Default regime, on ₹18,32,000 — nil up to ₹4,00,000; ₹4,00,000 at 5% = ₹20,000; ₹4,00,000 at 10% = ₹40,000; ₹4,00,000 at 15% = ₹60,000; ₹2,32,000 at 20% = ₹46,400. Total ₹1,66,400.

Advice — the default regime, by ₹85,740

The default regime costs him ₹2,00,000 of interest on the Mumbai house, ₹1,75,000 of deductions under sections 123 and 126, and the ₹2,500 of professional tax — ₹3,77,500 of deductions in all. It gives him back a slab structure under which the first ₹4,00,000 is free and the 30% rate does not begin until ₹24,00,000. On these figures the slabs win comfortably: tax of ₹1,73,060 against ₹2,58,800, a saving of **₹85,740**.

The result is not intuitive, and it is worth understanding why. Under the optional regime ₹3,77,500 of deductions is worth 30% of itself, or ₹1,13,250 of tax, because he is in the top bracket. The re-drawn slabs are worth more than that. The interest on the SELF-OCCUPIED house is the only part of the deduction that the default regime removes for a reason peculiar to this head — and it is the part most house-owners think decisive.

Where the answer would change: if the Mumbai interest were larger, if he had a second self-occupied house with its own interest, or if his income were lower so that the 30% bracket were not in issue. There is no rule of thumb; compute both columns, as here, and compare.

10.8 The six problems at a glance

	What it is about	The point it tests	Answer
1	A let-out house at Jaipur	Standard rent as a ceiling; unrealised rent deducted from the ACTUAL rent; arrear municipal tax; counting the pre-construction instalments	Income ₹62,600
2	Three houses, two of which may be specified	The aggregate interest ceiling of section 22(5); the widened test in section 21(6); how to choose the pair	Loss ₹1,74,000 on the best choice, ₹1,12,100 on the worst
3	Vacancy, in three situations	When section 21(2) applies and when it does not; that the expected rent is never apportioned	Losses of ₹40,560, ₹5,560 and ₹17,460
4	Two floors, one lived in and one let; and a flat at another station	Apportionment by area; municipal taxes lost on a nil-value property; section 22(5) across a floor and a flat	Loss ₹1,83,200
5	Co-ownership, with composite rent and section 23 receipts	Splitting composite rent; computing the property once and dividing at the end; the thirty per cent on arrears	₹35,400 each under this head, ₹16,500 each under other sources
6	A house transferred to the wife; both regimes	Section 25(a) against section 99; the withdrawal of the self-occupied interest by section 202; a full tax computation	Tax ₹2,58,800 optional, ₹1,73,060 default

Chapter 11

Revision, Ready Reckoner and Question Bank

11.1 Old section to new section

This table converts the numbering of the 1961 Act to that of the 2025 Act. Where the substance has changed as well as the number, the change is stated.

Income-tax Act, 1961	Income-tax Act, 2025	Substance
Section 22 — basis of charge	Section 20(1)	Unchanged
Proviso to section 22 — portion occupied for one's own business	Section 20(2)	Unchanged
Section 23(1)(a) — expected rent	Section 21(1)(a)	Unchanged
Section 23(1)(b) — actual rent	Section 21(1)(b)	Unchanged
Section 23(1)(c) — vacancy allowance	Section 21(2)	Unchanged
Explanation to section 23(1) — municipal taxes	Section 21(3)	Service taxes now expressly included; "irrespective of when such taxes became payable" now express
Proviso to section 23(1) with Rule 4 — unrealised rent	Section 21(4) with Rule 21	Unchanged
Section 23(5) — stock-in-trade	Section 21(5)	Unchanged — two years from the end of the financial year of the completion certificate
Section 23(2) — self-occupied house	Section 21(6)	WIDENED. "Cannot actually occupy it due to any reason" replaces "owing to his employment, business or profession carried on at any other place"
Section 23(4) — the two-house limit	Section 21(7)(a)	Unchanged
Section 24(a) — thirty per cent	Section 22(1)(a)	Unchanged
Section 24(b) — interest on borrowed capital	Section 22(1)(b)	Unchanged
Explanation to section 24 — pre-construction interest	Section 22(1)(c)	Unchanged — five equal instalments
Provisos to section 24(b) — ₹2,00,000 and ₹30,000	Section 22(2)(a) and (b)	Unchanged
Third and fourth provisos to section 24(b) — the lender's certificate	Section 22(4)	Unchanged
The aggregate ceiling on two self-occupied houses	Section 22(5)	Unchanged, and now in a sub-section of its own
Section 25 — interest payable outside India	Section 22(6)	Unchanged
Section 25A — arrears and unrealised rent	Section 23	Unchanged
Section 26 — co-owners	Section 24	Unchanged
Section 27 — deemed owner	Section 25	Unchanged

Income-tax Act, 1961	Income-tax Act, 2025	Substance
Section 71(3A) — the ₹2,00,000 set-off ceiling	Section 109(1)(b)	Unchanged
Section 71B — carry forward for eight years	Section 110	Unchanged
Section 115BAC — the default regime	Section 202	The withdrawal of the self-occupied interest and the bar on inter-head set-off are both carried forward
Rule 4 of the 1962 Rules	Rule 21 of the 2026 Rules	The four conditions are unchanged

11.2 The whole head on one page

The computation, with every authority

Step	Authority
Expected rent = higher of municipal value and fair rent, capped at the standard rent	s. 21(1)(a)
Actual rent = rent for the year, less unrealised rent, less any part for furniture or services	s. 21(1)(b), 21(4)
GROSS ANNUAL VALUE = the higher of the two — or the actual rent, where the property was let and vacant and the rent fell short because of it	**s. 21(1), 21(2)**
Less municipal taxes levied by a local authority and actually paid by the owner in the year	s. 21(3)
NET ANNUAL VALUE	
Less thirty per cent of the net annual value	s. 22(1)(a)
Less interest on borrowed capital	s. 22(1)(b)
Less one-fifth of the pre-construction interest	s. 22(1)(c)
Add arrears of rent and unrealised rent recovered, less thirty per cent	s. 23
INCOME FROM HOUSE PROPERTY	

The figures to remember	Where they are
Thirty per cent of the net annual value	s. 22(1)(a)
₹2,00,000 — interest on a self-occupied house acquired or constructed with borrowed capital	s. 22(2)(a)
₹30,000 — interest on a self-occupied house in any other case	s. 22(2)(b)
₹2,00,000 — the aggregate ceiling across all self-occupied houses	s. 22(5)
Five years from the end of the tax year of borrowing — the completion test	s. 22(2)(a)(i)
Five equal instalments — pre-construction interest	s. 22(1)(c)
Two houses — the self-occupied limit	s. 21(7)(a)
Two years — stock-in-trade	s. 21(5)
Thirty per cent on arrears and unrealised rent recovered	s. 23(3)
₹2,00,000 — set-off against another head	s. 109(1)(b)
Eight tax years — carry forward	s. 110(2)

11.3 Forty objective questions, with answers

The answer to each is in the right-hand column.

	Question	Answer
1	Income from house property is charged under which sections of the Income-tax Act, 2025?	Sections 20 to 25, in Part C of Chapter IV.
2	What exactly is charged under section 20 — the rent, or something else?	The annual value of the property. The rent is only one measure of it.
3	Rent from a vacant plot let for a car park is charged under which head?	Not house property — there is no building. Other sources, or business.
4	A tenant sub-lets the flat he has taken on rent. Under which head is his income charged?	Income from other sources. He is not the owner.
5	Is a house situated outside India charged under this head?	Yes, for a resident and ordinarily resident. For others, only if the rent is received in India.
6	Under section 20(2), what happens to the portion of a building the owner uses for his own business?	It is taken outside this head altogether. He gets his actual municipal taxes, repairs, insurance and depreciation under the business head instead.
7	Give the formula for the expected rent.	The higher of municipal value and fair rent, restricted to the standard rent where one is fixed.
8	Is the standard rent ever compared directly with the actual rent?	No. It caps the expected rent only. The gross annual value may well exceed it.
9	What is the gross annual value?	The higher of the expected rent and the actual rent received or receivable [s. 21(1)] — subject to the vacancy allowance of s. 21(2).
10	The four conditions of Rule 21 — name them.	Bona fide tenancy; the tenant has vacated or steps taken to make him; he occupies no other property of the assessee; legal proceedings instituted or shown to be futile.
11	Is unrealised rent deducted from the actual rent or from the gross annual value?	From the actual rent, before the comparison with the expected rent [s. 21(4)].
12	State the three conditions for the vacancy allowance under section 21(2).	The property is let; it was vacant for the whole or part of the year; and the actual rent is less than the expected rent owing to that vacancy.
13	A house was self-occupied for five months and let for seven. Is the expected rent taken for seven months?	No — always for the whole year. Only the actual rent is for the let period.
14	Which municipal taxes are deductible?	Taxes, including service taxes, levied by a local authority in respect of the property and actually paid by the owner during the tax year [s. 21(3)].
15	Municipal tax of an earlier year paid this year — deductible?	Yes. Section 21(3) says "irrespective of when such taxes became payable".
16	Municipal tax paid by the tenant — deductible?	No. But if the owner was liable and the tenant paid, it is added to the actual rent instead.
17	Are municipal taxes deductible from a self-occupied house?	No. The annual value is nil and there is nothing to deduct them from.
18	Thirty per cent of what?	Of the net annual value — the annual value as determined under section 21, which is after the municipal taxes.
19	Are actual repairs deductible in addition to the thirty per cent?	No. Nor insurance, ground rent, collection charges, legal expenses or depreciation.
20	Is interest deductible on a paid basis or an accrual basis?	Accrual. Section 22(1)(b) says "interest payable".

	Question	Answer
21	For what five purposes may capital be borrowed under section 22(1)(b)?	Acquiring, constructing, repairing, renewing or reconstructing the property.
22	What is the pre-construction period?	From the date of borrowing to the 31st March immediately preceding the tax year in which the property is acquired or constructed.
23	In which year is the first instalment of pre-construction interest allowed?	In the tax year of acquisition or construction itself — not the year after it.
24	The interest ceiling for a self-occupied house acquired or constructed with borrowed capital.	₹2,00,000, if completed within five years from the end of the tax year of borrowing and the lender's certificate is furnished [s. 22(2)(a)].
25	The ceiling where the loan was for repairs or the five-year test fails.	₹30,000 [s. 22(2)(b)].
26	Two self-occupied houses, interest of ₹1,80,000 on each. How much is deductible?	₹2,00,000 in all, not ₹3,60,000 — section 22(5) caps the aggregate.
27	When is the annual value of a self-occupied house nil?	Where the owner occupies it for his own residence, or cannot actually occupy it due to any reason [s. 21(6)].
28	What changed in that test under the 2025 Act?	The 1961 Act required the inability to arise from employment, business or profession at another place. Section 21(6) now says “due to any reason”.
29	How many houses may be treated as self-occupied?	Two, as specified by the assessee [s. 21(7)(a)].
30	Can a house that was let for one month be treated as self-occupied for the year?	No. Section 21(7)(b) is absolute.
31	Third and later houses within section 21(6) — how are they treated?	Deemed let out. The gross annual value is the expected rent, and the interest is deductible without any ceiling.
32	A builder's unsold flats — what is the annual value?	Nil for two years from the end of the financial year in which the completion certificate is obtained, provided they are not let [s. 21(5)].
33	Arrears of rent received after the house has been sold — taxable?	Yes, in the year of receipt, less thirty per cent. Section 23(2) makes ownership in that year irrelevant.
34	Deduction against arrears and unrealised rent recovered.	Thirty per cent, and nothing else [s. 23(3)].
35	When does section 24 apply to co-owners?	Where the share of each is definite and ascertainable. They are then not assessed as an association of persons.
36	Two co-owners of a self-occupied house pay ₹4,80,000 of interest between them. What may each deduct?	₹2,00,000 each. Section 24(2) gives each co-owner the section 21(6) relief individually.
37	Name the six deemed owners of section 25.	The transferor to a spouse or minor child; the holder of an impartible estate; a member of a society or company allotted a building; a person in possession under section 53A of the Transfer of Property Act; and a person acquiring rights by a lease of twelve years or more or by an enabling arrangement.
38	Husband transfers a house to his wife for no consideration. Who is taxed?	The husband — section 25(a) makes him the owner. Section 99 is expressly subject to it.
39	A house property loss may be set off against another head to what extent?	₹2,00,000 [s. 109(1)(b)]. The balance is carried forward for eight years under section 110, against house property income only.
40	What does section 202 do to the interest on a self-occupied house?	Withdraws it entirely [s. 202(2)(a)(v)] — and forbids any inter-head set-off of a house property loss [s. 202(2)(b)(ii)].

11.4 Theory questions

Eighteen questions of the descriptive kind. Every one of them can be answered from this booklet.

1. Explain the basis of charge of income from house property under section 20. What are the essential conditions for an income to be charged under this head?
2. "It is the annual value that is charged, not the rent." Explain, with illustrations of cases in which the two differ.
3. How is the annual value of a let-out house determined under section 21? Explain the roles of municipal value, fair rent, standard rent and actual rent.
4. Write a note on the vacancy allowance under section 21(2). When is it available and when is it not?
5. What is unrealised rent? State the conditions of Rule 21 and explain how unrealised rent enters the computation. How is it treated when recovered later?
6. Which municipal taxes are deductible under section 21(3), and subject to what conditions? Why are they not deductible from a self-occupied house?
7. Explain the deductions allowed under section 22. Why is no deduction allowed for actual repairs, insurance or collection charges?
8. Explain the treatment of interest on borrowed capital, including pre-construction interest, and the ceilings applicable to a self-occupied house.
9. When is the annual value of a house taken as nil under section 21(6)? Compare the position with section 23(2) of the Income-tax Act, 1961 and state what has changed.
10. How many houses may be treated as self-occupied, and how should an assessee owning four houses decide which two to specify? Illustrate.
11. Distinguish between a house partly self-occupied and partly let out by area, and one partly self-occupied and partly let out by time.
12. Explain the position of a house held as stock-in-trade by a builder.
13. What is composite rent? Explain the treatment where the letting is separable and where it is not.
14. Who is a "deemed owner" under section 25? Discuss each clause with an example.
15. Explain the treatment of a house transferred by an individual to his spouse without consideration, and distinguish it from a case where money is given to the spouse who then buys the house.
16. How is the income of co-owners computed under section 24? What relief does section 24(2) give?
17. Explain the set-off and carry forward of a loss under the head "Income from house property".
18. What does the default regime of section 202 take away from a house-owner, and what does it leave? In what circumstances might a house-owner still prefer the optional regime?

11.5 Twelve unsolved problems, with answers

Answers, but no working. Where your figure differs, the corresponding worked problem in Chapter 10 will usually show you why — the reference is given against each.

Problem 1. A house at Kota was let throughout the year at ₹17,000 per month. Municipal value ₹1,80,000; fair rent ₹2,10,000; standard rent ₹1,95,000. Municipal taxes of ₹18,000 were paid by the owner. Interest on borrowed capital ₹60,000. Compute the income from house property.

> **Answer.** Expected rent ₹1,95,000; gross annual value ₹2,04,000; net annual value ₹1,86,000. Income ₹70,200.
> *Compare Problem 1 of Chapter 10.*

Problem 2. The same facts as in Problem 1, except that the municipal taxes of ₹18,000 were paid by the tenant, the owner being the person liable for them.

> **Answer.** The ₹18,000 is added to the actual rent, giving a gross annual value of ₹2,22,000, and is not deductible. Net annual value ₹2,22,000. Income ₹95,400.
> *Compare Problem 1 of Chapter 10.*

Problem 3. A house at Patna is occupied by the owner throughout the year. Municipal taxes of ₹22,000 were paid. Interest for the year on the loan taken to construct it is ₹2,45,000; the house was completed within five years of the end of the year of borrowing and the certificate has been furnished.

> **Answer.** Annual value nil; municipal taxes not deductible; interest restricted to ₹2,00,000. Loss ₹2,00,000.
> *Compare Problems 2 and 6 of Chapter 10.*

Problem 4. A self-occupied house at Indore. The owner borrowed ₹6,00,000 at 9% to reconstruct it. He paid municipal taxes of ₹15,000.

> **Answer.** The loan is not for acquisition or construction, so the ceiling is ₹30,000 under section 22(2)(b). Loss ₹30,000.
> *Compare Illustration 5.2 of Chapter 10.*

Problem 5. An assessee owns two houses, both occupied by him for his own residence throughout the year. Interest on the construction loans is ₹1,30,000 on the first and ₹95,000 on the second; all the conditions of section 22(2)(a) are satisfied for both.

> **Answer.** Aggregate ₹2,25,000, restricted to ₹2,00,000 by section 22(5). Loss ₹2,00,000.
> *Compare Problem 2 of Chapter 10.*

Problem 6. A house at Bhopal was let at ₹22,000 per month but remained vacant for five months for want of a tenant. Municipal value ₹2,00,000; fair rent ₹2,40,000; no standard rent. Municipal taxes ₹20,000 paid. Interest ₹1,00,000.

> **Answer.** Expected rent ₹2,40,000; actual rent ₹1,54,000; section 21(2) applies, so the gross annual value is ₹1,54,000. Net annual value ₹1,34,000. Loss ₹6,200.
> *Compare Problem 3(a) of Chapter 10.*

Problem 7. A house at Surat was let at ₹35,000 per month throughout the year. The tenant defaulted for three months and the conditions of Rule 21 are satisfied. Municipal value ₹3,20,000; fair rent ₹3,60,000; standard rent ₹3,50,000. Municipal taxes ₹32,000 paid. Interest ₹2,10,000.

> **Answer.** Expected rent ₹3,50,000; actual rent after unrealised rent ₹3,15,000; gross annual value ₹3,50,000. Net annual value ₹3,18,000. Income ₹12,600.
>
> *Compare Illustration 3.3 and Problem 1 of Chapter 10.*

Problem 8. ₹18,00,000 was borrowed at 8% on 1 January 2023 to construct a house. Construction was completed on 15 September 2025 and the house was let out at once. Compute the interest deductible for the Tax Year 2026-27.

> **Answer.** Prior period 1 January 2023 to 31 March 2025 — 27 months; interest ₹3,24,000; instalment ₹64,800, the first falling in Tax Year 2025-26. Deductible in 2026-27: ₹1,44,000 + ₹64,800 = ₹2,08,800.
>
> *Compare Illustration 5.1 of Chapter 10.*

Problem 9. An assessee owns three houses, all within section 21(6). He specifies two, so that the third is deemed to be let out. For the third: municipal value ₹2,50,000; fair rent ₹2,80,000; standard rent ₹2,65,000; municipal taxes ₹25,000 paid; interest ₹1,40,000. Compute its income.

> **Answer.** Expected rent, and gross annual value, ₹2,65,000. Net annual value ₹2,40,000. Income ₹28,000.
>
> *Compare Problem 2 of Chapter 10.*

Problem 10. Shri Ramesh sold his house at Ajmer in 2024. In February 2027 the former tenant paid him ₹2,40,000 as arrears of rent for the years 2022-23 and 2023-24, following a decree of the civil court.

> **Answer.** Taxable under section 23 in the Tax Year 2026-27, ownership being irrelevant: ₹2,40,000 less thirty per cent = ₹1,68,000.
>
> *Compare Illustration 7.1 of Chapter 10.*

Problem 11. Three brothers own a house at Varanasi in equal and definite shares and all three live in it. They paid ₹5,40,000 of interest during the year on the loan jointly taken to construct it; all the conditions of section 22(2)(a) are satisfied.

> **Answer.** Annual value nil for each. Section 24(2) gives each of them the relief individually, so each may deduct up to ₹2,00,000. Each brother's share of the interest is ₹1,80,000, which is within the ceiling. Loss ₹1,80,000 each.
>
> *Compare Problem 5 of Chapter 10.*

Problem 12. A shop with the plant and machinery installed in it was let as one unit at ₹50,000 per month, of which ₹12,000 is referable to the plant. The shop could not sensibly have been let without the plant. Municipal value ₹3,60,000; municipal taxes ₹36,000 paid; interest ₹1,20,000.

> **Answer.** The letting being inseparable, the whole ₹6,00,000 is chargeable under “Income from other sources” under section 92, with the actual expenses and depreciation allowed under section 93. Income from house property: NIL.
>
> *Compare Problem 5 of Chapter 10.*

11.6 Where to go next

Unit 2 is now complete. Part A dealt with Income from Salaries and this Part B with Income from House Property; between them they answer Learning Outcome 2 of the prescribed syllabus. Unit 3 takes up Profits and gains of business or profession and Capital gains.

Corrections, suggestions and questions are welcome, and are acted on. The material is free, and is meant to stay free.

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