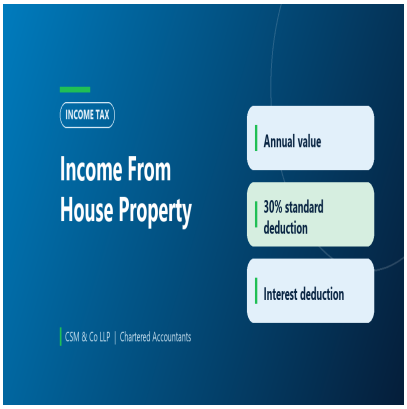



# Income From House Property: How It Is Computed and Taxed (Tax Year 2026-27)

## Description

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**Quick summary**

- Income from house property is the annual value of a building and its appurtenant land owned by you, less municipal taxes paid, a 30% standard deduction and interest on borrowed capital (sections 20 to 22 of the Income-tax Act, 2025).
- The annual value is the higher of the rent the property could reasonably fetch and the actual rent; for up to two self-occupied houses it is nil.
- A loss from house property can be set off against other income only up to ?2,00,000 (old regime); the excess carries forward for 8 tax years against house property income. The new regime allows no set-off against other heads and no carry forward.
- Co-owners with definite shares are taxed separately on their shares, and a person who is a deemed owner under section 25 is taxed as owner.

Rent from a house, flat, shop or office that you own is taxed under the head “Income from house property”. The head also applies to a house you live in, where the tax is nil but the home loan interest matters. From 01/04/2026 the rules are in sections 20 to 25 of the Income-tax Act, 2025 (they were sections 22 to 27 of the 1961 Act).

## What is taxed under this head

- **Section 20(1):** the annual value of property consisting of any building or land appurtenant to it (parking, garden or courtyard), owned by you.
- **Section 20(2):** the head does not apply to the part of the property you occupy for your own business or profession, whose profits are taxed as business income.
- **Rent from a building, as such, is taxed here even if the tenant is a business.** If the letting is itself your business, the income may be business income (see our post on house property income and business income).

## Who is the “owner”

You are taxed as owner if you are the legal owner, or are treated as owner under **section 25**:

- an individual who transfers a property to his or her **spouse** (other than under an agreement to live apart) or to a **minor child** (other than a married daughter) **without adequate consideration**;
- the holder of an **impartible estate**;
- a **member of a co-operative society, company or association** to whom a building is allotted or leased under a house building scheme;
- a person allowed to take or retain possession in **part performance of a contract** (section 53A of the Transfer of Property Act, 1882);
- a person who acquires rights in a building by sale, exchange or a **lease of 12 years or more** (month to month leases and leases up to one year are excluded).

**Co-owners:** where shares are definite and ascertainable, each co-owner is taxed on his or her own share and they are not an association of persons. The relief for self-occupied houses is available to each co-owner separately (section 24).

## How income is computed

| Step | Rule |
|---|---|
| 1. Annual value | The higher of (a) the sum for which the property might reasonably be expected to let from year to year and (b) the actual rent received or receivable (section 21(1)) |
| 2. Adjust for vacancy | If the property was let but vacant for part of the year and the actual rent is lower because of the vacancy, the annual value is the actual rent received or receivable (section 21(2)) |
| 3. Unrealised rent | Rent that cannot be realised is left out, if the conditions in Rule 21 are met (below) |
| 4. Less: local taxes | Taxes levied by a local authority and actually paid by the owner during the tax year, whenever they fell due (section 21(3)). Taxes paid by a tenant are not deducted |
| 5. Less: 30% of annual value | Section 22(1)(a), whether or not you spent anything on repairs |
| 6. Less: interest | Interest on money borrowed to acquire, construct, repair, renew or reconstruct the property (section 22(1)(b)); see our post on home loan interest |
| **Income from house property** | The balance, which can be a loss |

The older provisions listed municipal value, fair rent and standard rent. Section 21 now speaks only of the sum

the property can reasonably be expected to fetch. Municipal valuation and comparable local rents remain sensible evidence of that sum.

### Unrealised rent (Rule 21)

Rent not paid by a tenant is left out when it is proved lost and irrecoverable, and:

1. the tenancy is bona fide;
2. the defaulting tenant has vacated, or steps have been taken to make him vacate;
3. the tenant is not in occupation of any other property of yours; and
4. you have taken all reasonable steps to sue for the rent, or satisfy the Assessing Officer that legal proceedings would be futile.

If you recover that rent later, it is taxed in the year you receive it, with a deduction of 30% (section 23).

### Houses held as stock-in-trade

A builder’s unsold house that is not let at any time in the year has an annual value of nil up to two years from the end of the financial year in which the completion certificate is obtained (section 21(5), as amended by the Finance Act, 2026).

## Self-occupied houses

The annual value of a house you occupy as your residence, or cannot occupy for any reason, is **nil**, but only for **two houses** that you specify (section 21(6) and (7)). It does not apply if the house is let at any time in the year or you get any other benefit from it. Any other house is taxed on its annual value even if it is vacant. Our post on deemed let-out property covers this.

With a nil annual value there is no 30% deduction. The only deduction is home loan interest, within the limits in section 22(2), and that creates a loss.

## Examples

**1. Let-out house.** Rent ?35,000 a month, so ?4,20,000 a year. The reasonable rent is ?3,90,000, municipal tax paid ?12,000, loan interest ?1,00,000.

- Annual value: higher of 3,90,000 and 4,20,000 = ?4,20,000
- Less taxes paid: ?12,000 = ?4,08,000
- Less 30%: ?1,22,400
- Less interest: ?1,00,000
- **Income from house property = ?1,85,600**

**2. Vacancy.** A flat could fetch ?40,000 a month (?4,80,000 a year) but was vacant for two months, so rent received is ?4,00,000. Because the actual rent is lower owing to vacancy, the annual value is **?4,00,000**.

**3. Loss from a let-out house.** Annual value less taxes ?4,08,000, 30% deduction ?1,22,400, interest ?5,50,000. The result is a loss of **?2,64,400**.

- Old regime: ?2,00,000 is set off against other income, such as salary; the balance of ?64,400 carries forward for up to eight tax years against house property income only.
- New regime: the loss cannot be set off against any other head and it is not carried forward.

## Arrears of rent

Arrears of rent received from a tenant, or unrealised rent realised later, are income from house property in the year of receipt, whether or not you still own the property, with a deduction of 30% (section 23).

## House property loss: set-off and carry forward

| Point | Old regime | New regime |
|---|---|---|
| Set-off against other house property income in the same year | Yes | Yes |
| Set-off against other heads | Up to ?2,00,000 (section 109(1)(b)) | Not allowed (section 202(2)(b)(ii)) |
| Carry forward of the balance | Eight tax years, against house property income only (section 110) | Not allowed (section 202(3)) |

## Old and new section numbers

| Topic | 1961 Act | 2025 Act |
|---|---|---|
| What is taxed | Section 22 | Section 20 |
| Annual value | Section 23 | Section 21 |
| Self-occupied houses | Section 23(2) and (4) | Section 21(6) and (7) |
| 30% deduction and interest | Section 24 | Section 22 |
| Arrears of rent | Section 25A | Section 23 |
| Co-owners | Section 26 | Section 24 |
| Deemed owner | Section 27 | Section 25 |
| Set-off of loss | Section 71 | Section 109 |
| Carry forward of loss | Section 71B | Section 110 |

The 1961 Act applies up to tax year 2025-26 (income of FY 2025-26); the 2025 Act applies from 01/04/2026.

## Where to report it

Income from house property is reported in the house property schedule of the return. Give the address, whether the house is self-occupied, let out or otherwise, the co-owners and their shares, the rent, the taxes paid and the interest. Return forms with more than one house property, or with a loss to carry forward, need the fuller forms and not the simplest one. Check which form fits before you file.

## Frequently asked questions

### Which income is taxed under the head income from house property?

The annual value of any building or land appurtenant to it that you own (section 20). Property you occupy for your own business or profession is excluded, because its profits are taxed as business income.

### How is annual value decided?

It is the higher of the sum for which the property could reasonably be expected to let from year to year and the actual rent received or receivable (section 21(1)). If it was let but stood vacant and the actual rent is lower because of the vacancy, the annual value is the rent actually received or receivable (section 21(2)).

### What deductions are allowed?

Municipal and similar local taxes actually paid by the owner in the year, then 30% of the annual value and interest on borrowed capital (section 22). Nothing else, such as repairs or insurance, is allowed separately.

### Can I have two self-occupied houses?

Yes. The annual value of up to two houses that you specify and occupy, or cannot occupy for any reason, is nil (section 21(6) and (7)). Any other house is taxed on its annual value even if it is vacant.

### How much house property loss can I set off?

Under the old regime, up to ?2,00,000 against income under other heads (section 109(1)(b)); any balance carries forward for eight tax years against house property income only (section 110). Under the new regime the loss cannot be set off against other heads and is not carried forward.

### Who is taxed when a property is co-owned?

Each co-owner with a definite and ascertainable share, on that share. They are not taxed as an

association of persons (section 24).

## Official sources

- Income Tax Department: Income-tax Act, 2025 (sections 20 to 25, 109, 110, 202)
- Income Tax Department: Income-tax Rules, 2026 (Rule 21, unrealised rent)

## Related reading

- Gratuity: Rules, Formula and Income Tax Exemption (Tax Year 2026-27)
- What is Income Tax? Meaning, Rules, Tax Slabs, Types and Tax Guide for Tax Year 2026-27
- How to Calculate Income From Salary: Step by Step With Example (Tax Year 2026-27)

## Disclaimer

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