

Deemed Let-Out Property: Third House, Vacant House and Tax Rules (Tax Year 2026-27)

Description

Last updated: 05 September 2026 · Written and reviewed by CA Meet Dhrangadhariya, CSM & Co LLP

Quick summary

- Only two houses of an owner can have a nil annual value as self-occupied; every other house is taxed on the rent it could reasonably fetch, even if it is vacant (section 21(6) and (7) of the Income-tax Act, 2025).
- The phrase “deemed let-out” is commentary; the Act does not use it. It describes a third or further house that is not actually let.
- Municipal taxes paid, the 30% deduction and the whole interest are allowed against that notional rent, so the result is often a small income or a loss.
- The owner chooses which two houses are treated as self-occupied.

If you own more than two houses, tax may be due on a house that earns you nothing. Commentators call it a “deemed let-out” property. This post explains the rule in the Income-tax Act, 2025 and shows how the tax is worked out.

What the Act says

Section 21(6): the annual value of a house or part of it is **nil** if the owner occupies it for his own residence or cannot actually occupy it due to any reason.

Section 21(7): this applies only to **two houses** that you specify, and does not apply if the house is actually let at any time in the year or you derive any other benefit from it.

The Act does not use the words “deemed let-out”. They describe the result: **a house beyond your two specified houses is taxed on its annual value**, which under section 21(1) is the higher of the rent it could reasonably be expected to fetch and the actual rent. If it is not let, the notional rent is the annual value.

What is not a deemed let-out property

- A house you live in, up to two houses in total.
- A second house that is vacant because you work or live elsewhere. It qualifies as one of your two, and the reason does not matter.
- A house held as **stock-in-trade** by a builder or dealer and not let at any time in the year: its annual value is nil up to two years from the end of the financial year in which the completion certificate is obtained (section 21(5)).
- A house that you occupy for your own **business or profession** (section 20(2)): it is outside this head, and the profits are business income.

How the income is worked out

1. **Annual value** is the rent the house could reasonably be expected to fetch (nothing is actually received).
2. Less **local taxes** actually paid by you during the year.
3. Less **30%** of the annual value.
4. Less the **whole interest** on any loan for the house. The ?2,00,000 limit for self-occupied houses does not apply here.

Example. Mr A owns three houses. He lives in one and the other two are vacant. He specifies the house he lives in and one vacant house as his two self-occupied houses. The third house could fetch ?40,000 a month. He paid ?10,000 of municipal tax and has ?3,00,000 of interest on its loan.

Step	Amount (?)
Annual value (40,000 × 12)	4,80,000
Less: municipal tax paid	10,000
Net annual value	4,70,000
Less: 30% of annual value	1,41,000
Less: interest on the loan	3,00,000
Income from house property	**29,000**

Many articles show this result as a loss of ?29,000. It is income of ?29,000: 4,70,000 - 1,41,000 - 3,00,000 = ?29,000.

If the interest were ?4,00,000, the result would be a **loss of ?71,000**. In the old regime that could be set off against other income, up to ?2,00,000, and any balance carried forward for eight tax years. In the new regime it cannot be set off against other heads or carried forward (sections 109, 110 and 202).

Choosing your two houses

The choice is yours and you make it in the return. A house you specify has a **nil** annual value, so no tax on notional rent, but its interest is capped (?2,00,000 in total across such houses, and only in the old regime). A house that is not specified is taxed on its **notional rent**, with a 30% deduction and the whole interest.

As a rule, specify as self-occupied the houses whose notional rent (after the 30% deduction) is largest compared with their interest, because that removes the most income from tax. Leave as taxed houses the ones with large interest, where the interest reduces the tax, subject to the loss rules above. Check the result for each combination before you file.

Old and new regime

- **Old regime:** interest on a self-occupied house is capped (?2,00,000 in total); on a deemed let-out house it is not, and loss set-off is up to ?2,00,000.
- **New regime:** interest on a self-occupied house is not allowed at all; the deemed let-out house keeps the full interest deduction but any loss cannot be set off or carried forward.

Common mistakes

- Not reporting the notional rent of a vacant third house. It is income even though nothing is received.
- Treating a house that is let for part of the year as self-occupied. Letting at any time in the year takes it out of section 21(6).
- Taking the municipal valuation or the rent of a different house as the expected rent. Use what the house could reasonably fetch, and keep evidence such as local rents or a broker’s note.
- Forgetting the interest certificate for the house.

Where to report it

In the house property schedule of the return, mark the house as self-occupied or as let out or deemed let out, and give the annual value, taxes paid and interest. If you own more than one house, the simplest return form cannot be used; check which form you need.

Frequently asked questions

What is a deemed let-out property?

A house, beyond the two that you specify as self-occupied, that is not actually let. The annual value of such a house is the rent it could reasonably be expected to fetch, so tax is charged on that notional rent even though you receive nothing.

How many houses can I treat as self-occupied?

Two, as specified by you (section 21(7)(a)). The annual value of those houses is nil if you occupy them for your own residence or cannot actually occupy them for any reason.

Do I pay tax on a vacant third house?

Yes, on the annual value, which is the rent it could reasonably be expected to fetch, less the taxes paid,

30% of the annual value and interest on the loan.

Can I choose which houses are the two self-occupied ones?

Yes. You specify them in the return. Work out the tax for each combination and pick the one that gives the lower tax.

Is any vacant house exempt from this?

A house held as stock-in-trade by a builder or dealer and not let at any time in the year has a nil annual value up to two years from the end of the financial year in which the completion certificate is obtained (section 21(5)).

Is interest on a deemed let-out house fully deductible?

Yes. There is no ?2,00,000 cap because the cap in section 22(2) applies only to houses covered by section 21(6). A resulting loss is subject to the set-off rules.

Official sources

- Income Tax Department: Income-tax Act, 2025 (sections 21, 22, 109, 110, 202)

Related reading

- Income From House Property: How It Is Computed and Taxed (Tax Year 2026-27)
- Gratuity: Rules, Formula and Income Tax Exemption (Tax Year 2026-27)
- What are the 5 Heads of Income Tax?

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Author
meetsoni