



## TEST YOUR KNOWLEDGE

1. Mr. Raman is a co-owner of a house property along with his brother holding equal share in the property.

Particulars	₹
Municipal value of the property	1,60,000
Fair rent	1,50,000
Standard rent under the Rent Control Act	1,70,000
Rent received	15,000 p.m.

The loan for the construction of this property is jointly taken and the interest charged by the bank is ₹ 25,000, out of which ₹ 21,000 has been paid. Interest on the unpaid interest is ₹ 450. To repay this loan, Raman and his brother have taken a fresh loan and interest charged on this loan is ₹ 5,000.

The municipal taxes of ₹ 5,100 have been paid by the tenant.

Compute the income from this property chargeable in the hands of Mr. Raman for the A.Y. 2026-27.

2. Mr. X owns one residential house in Mumbai. The house is having two identical units. First unit of the house is self-occupied by Mr. X and another unit is rented for ₹ 8,000 p.m. The rented unit was vacant for 2 months during the year. The particulars of the house for the previous year 2025-26 are as under:

Standard rent	₹ 1,62,000 p.a.
Municipal valuation	₹ 1,90,000 p.a.
Fair rent	₹ 1,85,000 p. a
Municipal tax (Paid by Mr. X)	5% of municipal valuation
Light and water charges	₹ 500 p.m.
Interest on borrowed capital	₹ 1,500 p.m.
Lease money	₹ 1,200 p.a.
Insurance charges	₹ 3,000 p.a.
Repairs	₹ 12,000 p.a.

Compute income from house property of Mr. X for the A.Y. 2026-27 if he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

3. Mr. Vikas owns a house property whose Municipal Value, Fair Rent and Standard Rent are ₹ 96,000, ₹ 1,26,000 and ₹ 1,08,000 (per annum), respectively. During the F.Y. 2025-26, one-third of the portion of the house was let out for residential purpose at a monthly rent of ₹ 5,000. The remaining two-third portion was self-occupied by him. Municipal tax @11% of municipal value was paid during the year.

The construction of the house began in June, 2018 and was completed on 31-5-2021. Vikas took a loan of ₹ 1,00,000 on 1-7-2018 for the construction of building. He paid interest on loan @ 12% per annum and every month such interest was paid.

Compute income from house property of Mr. Vikas for the A.Y. 2026-27 if he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

4. Mrs. Rohini Ravi, a citizen of the U.S.A., is a resident and ordinarily resident in India during the financial year 2025-26. She owns a house property at Los Angeles, U.S.A., which is used as her residence. The annual value of the house is \$20,000. The value of one USD (\$) may be taken as ₹75.

She took ownership and possession of a flat in Chennai on 1.7.2025, which is used for self-occupation, while she is in India. The flat was used by her for 7 months only during the year ended 31.3.2026. The municipal valuation is ₹ 3,84,000 p.a. and the fair rent is ₹ 4,20,000 p.a. She paid the following to Corporation of Chennai:

Property Tax	₹ 16,200
Sewerage Tax	₹ 1,800

She had taken a loan from Standard Chartered Bank in June, 2023 for purchasing this flat. Interest on loan was as under:

Particulars	₹
Period prior to 1.4.2025	49,200
1.4.2025 to 30.6.2025	50,800
1.7.2025 to 31.3.2026	1,31,300

She had a house property in Bangalore, which was sold in March, 2022. In respect of this house, she received arrears of rent of ₹ 60,000 in March, 2026. This amount has not been charged to tax earlier.

Compute the income chargeable from house property of Mrs. Rohini Ravi for the A.Y. 2026-27 if she has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

Would your answer change if she pays tax under the default tax regime under section 115BAC?

5. Two brothers Arun and Bimal are co-owners of a house property with equal share. The property was constructed during the financial year 2017-2018. The property consists of eight identical units and is situated at Cochin.

During the financial year 2025-26, each co-owner occupied one unit for residence and the balance of six units were let out at a rent of ₹ 12,000 per month per unit. The municipal value of the house property is ₹ 9,00,000 and the municipal taxes are 20% of municipal value, which were paid during the year. The other expenses were as follows:

	₹
(i) Repairs	40,000
(ii) Insurance premium (paid)	15,000
(iii) Interest payable on loan taken for construction of house	3,00,000

One of the let out units remained vacant for four months during the year.

Arun could not occupy his unit for six months as he was transferred to Chennai. He does not own any other house.

The other income of Mr. Arun and Mr. Bimal are ₹ 2,90,000 and ₹ 1,80,000 respectively, for the financial year 2025-26.

Compute the income under the head 'Income from House Property' and the total income of two brothers for the A.Y. 2026-27 if they pay tax under the default tax regime under section 115BAC.

Also, show the computation of income under this head, if they both exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

6. Mr. Roxx, a citizen of the Country Y, is a resident but not ordinarily resident in India during the financial year 2025-26. He owns two house properties in Country Y, one is used as his residence. Another house property is rented for a monthly rent of \$ 18,000. Fair rent of the house property is \$ 20,000. The value of one CYD (\$) may be taken as ₹ 78.

He took ownership and possession of a flat in Delhi on 1.10.2025, which is used for self-occupation, while he is in India. The flat was used by him for 2 months at the time when he visited India during the previous year 2025-26. The municipal valuation is ₹ 4,58,000 p.a. and the fair rent is ₹ 3,60,000 p.a. He paid property tax of ₹ 13,800 and ₹ 2,800 as Sewerage tax to Municipal Corporation of Delhi.

He had taken a loan of ₹ 18,00,000 @9.5% from HDFC Bank on 1st August, 2023 for purchasing this flat. No amount is repaid by him till 31.03.2026.

He also had a house property in Bangalore which is let out on a monthly rent of ₹ 40,000. The fair rent of which is ₹ 4,58,000 p.a. and Municipal value of ₹ 3,58,000 p.a. and Standard Rent of ₹ 4,20,000 p.a. He had taken a loan of ₹ 25,00,000 @ 10% from one of his friends, residing in Country Y for this house. Municipal tax of ₹ 5,400 is paid by him in respect of this house during the previous year 2025-26.

Compute the income chargeable from house property of Mr. Roxx for the A.Y.2026-27 if he has shifted out of the default tax regime.

7. Mr. Roy owns a house in Kolkata. During the previous year 2025-26, 3/4th portion of the house was self-occupied and 1/4th portion was let out for residential purposes at a rent of ₹ 12,000 p.m. The tenant vacated the property on 28<sup>th</sup> February, 2026. The property was vacant during March, 2026. Rent for the months of January 2026 and February 2026 could not be realised in spite of the owner's efforts. All the conditions prescribed under Rule 4 are satisfied.

Municipal value of the property is ₹ 4,50,000 p.a., fair rent is ₹ 4,70,000 p.a. and standard rent is ₹ 5,00,000. He paid municipal taxes @10% of municipal value during the year. A loan of ₹ 30,00,000 was taken by him during the year 2018 for acquiring the property. Interest on loan paid during the previous year 2025-26 was ₹ 1,51,000. Compute Roy's income from house property for the A.Y. 2026-27 if he has shifted out of the default tax regime.

## ANSWERS

### 1. Computation of income from house property of Mr. Raman for A.Y. 2026-27

Particulars	₹	₹
Gross Annual Value ( <b>See Note 1 below</b> )		1,80,000
Less: Municipal taxes – paid by the tenant, hence not deductible		Nil
Net Annual Value (NAV)		1,80,000
Less: Deductions under section 24		
(i) 30% of NAV	54,000	
(ii) Interest on housing loan ( <b>See Note 2 below</b> )		
- Interest on loan taken from bank	25,000	
- Interest on fresh loan to repay old loan for this property	5,000	84,000
Income from house property		<b>96,000</b>
50% share taxable in the hands of Mr. Raman ( <b>See Note 3 below</b> )		<b>48,000</b>

#### Notes:

#### 1. Computation of Gross Annual Value (GAV)

GAV is the higher of Expected rent and actual rent received. Expected rent is the higher of municipal value and fair rent, but restricted to standard rent.

Particulars	₹	₹	₹	₹
(a) Municipal value	1,60,000			
(b) Fair rent	1,50,000			
(c) Higher of (a) and (b)		1,60,000		
(d) Standard rent		1,70,000		
(e) Expected rent [lower of (c) and (d)]			1,60,000	
(f) Actual rent [₹ 15,000 x 12]			1,80,000	
(g) Gross Annual Value [higher of (e) and (f)]				1,80,000

2. Interest on housing loan is allowable as a deduction under section 24 on accrual basis. Further, interest on fresh loan taken to repay old loan is also allowable as deduction. However, interest on unpaid interest is not allowable as deduction under section 24.
3. Section 26 provides that where a house property is owned by two or more persons whose shares are definite and ascertainable, the share of each such person in the income of house property, as computed in accordance with sections 22 to 25, shall be included in his respective total income. Therefore, 50% of the total income from the house property is taxable in the hands of Mr. Raman since he is an equal owner of the property.

## 2. Computation of Income from house property for A.Y. 2026-27

Particulars	₹	₹
<b>(A) Rented unit (50% of total area – See Note below)</b>		
<b>Step I - Computation of Expected Rent</b>		
Municipal valuation (₹ 1,90,000 x ½)	95,000	
Fair rent (₹ 1,85,000 x ½)	92,500	
Standard rent (₹ 1,62,000 x ½)	81,000	
Expected Rent is higher of municipal valuation and fair rent, but restricted to standard rent	81,000	
<b>Step II - Actual Rent</b>		
Rent received/receivable for the let out period (₹ 8,000 x 10)	80,000	
<b>Step III – Computation of Gross Annual Value</b>		
The actual rent of ₹ 80,000 is lower than ER of ₹ 81,000 owing to vacancy, since, had the property not been vacant the actual rent would have been ₹ 96,000 (₹ 80,000 + ₹ 16,000, being notional rent for two months. Therefore, actual rent is the GAV.	80,000	
<b>Gross Annual Value</b>		<b>80,000</b>
Less: Municipal taxes (5% of ₹ 95,000)		4,750
<b>Net Annual value</b>		<b>75,250</b>

Less : Deductions under section 24 -		
(i) 30% of net annual value	22,575	
(ii) Interest on borrowed capital (₹ 750 x 12)	9,000	31,575
<b>Taxable income from let out portion</b>		<b>43,675</b>
<b>(B) Self occupied unit (50% of total area – See Note below)</b>		
Annual value	Nil	
Less : Deduction under section 24 -		
Interest on borrowed capital (₹ 750 x 12)	9,000	9,000
<b>Loss from self occupied portion</b>		<b>(9,000)</b>
<b>Income from house property</b>		<b>34,675</b>

**Note:** No deduction will be allowed separately for light and water charges, lease money paid, insurance charges and repairs.

3. **Computation of income from house property of Mr. Vikas for the A.Y. 2026-27**

Particulars	₹	₹
<b>Income from house property</b>		
<b>I. Self-occupied portion (Two third)</b>		
Net Annual value		Nil
Less: Deduction under section 24(b)		
Interest on loan ( <b>See Note below</b> ) (₹ 18,600 x 2/3) [Allowable since he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)]		12,400
Loss from self occupied property		<b>(12,400)</b>
<b>II. Let-out portion (One third)</b>		
Gross Annual Value		
(a) Actual rent received (₹ 5,000 x 12)	₹ 60,000	
(b) Expected rent	₹ 36,000	
[higher of municipal valuation (i.e., ₹ 96,000) and fair rent (i.e., ₹ 1,26,000) but restricted to standard rent (i.e., ₹ 1,08,000)] = ₹ 1,08,000 x 1/3		

Higher of (a) or (b)	60,000	
Less: Municipal taxes (₹ 96,000 x 11% x 1/3)	3,520	
<b>Net Annual Value</b>	<b>56,480</b>	
Less: Deductions under section 24		
(a) 30% of NAV	16,944	
(b) Interest on loan ( <b>See Note below</b> ) (₹ 18,600 x 1/3)	6,200	<b>33,336</b>
<b>Income from house property</b>		<b>20,936</b>

**Note: Interest on loan taken for construction of building**

Interest for the year (1.4.2025 to 31.3.2026) = 12% of ₹ 1,00,000 = ₹ 12,000

Pre-construction period interest = 12% of ₹ 1,00,000 for 33 months (from 1.07.2018 to 31.3.2021) = ₹ 33,000

Pre-construction period interest to be allowed in 5 equal annual installments of ₹ 6,600 from the year of completion of construction i.e., from F.Y. 2021-22 till F.Y. 2025-26.

Therefore, total interest deduction under section 24 = ₹ 12,000 + ₹ 6,600 = ₹ 18,600.

4. (i) Since the assessee is a resident and ordinarily resident in India, her global income would form part of her total income i.e., income earned in India as well as outside India will form part of her total income.

She possesses a self-occupied house at Los Angeles as well as at Chennai. She can take the benefit of "Nil" Annual Value in respect of both the house properties.

As regards the Bangalore house, arrears of rent will be chargeable to tax as income from house property in the year of receipt under section 25A. It is not essential that the assessee should continue to be the owner. 30% of the arrears of rent shall be allowed as deduction.

Accordingly, the income from house property of Mrs. Rohini Ravi for A.Y.2026-27 will be calculated as under:

Particulars	₹	₹
<b>1. Self-occupied house at Los Angeles</b>		
Annual value		Nil
Less: Deduction under section 24		Nil
Chargeable income from this house property		<b>Nil</b>
<b>2. Self-occupied house property at Chennai</b>		
Annual value		Nil
Less: Deduction under section 24		
Interest on borrowed capital (See Note below)		1,91,940
		(1,91,940)
<b>3. Arrears in respect of Bangalore property (Section 25A)</b>		
Arrears of rent received	60,000	
Less: Deduction @ 30% u/s 25A(2)	18,000	42,000
<b>Loss under the head "Income from house property"</b>		<b>(1,49,940)</b>

**Note: Interest on borrowed capital**

Particulars	₹
Interest for the current year (₹ 50,800 + ₹ 1,31,300)	1,82,100
Add: 1/5th of pre-construction interest (₹ 49,200 x 1/5)	9,840
<b>Interest deduction allowable under section 24</b>	<b>1,91,940</b>

Interest deduction under section 24(b) is allowable since she has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

- (ii) Yes, the answer would change if she pays tax under the default tax regime under section 115BAC. Under the default tax regime, deduction under section 24(b) for interest is not available. Hence, she cannot claim deduction of ₹ 1,91,940 in respect of the Chennai house. Accordingly, income from house property would be ₹ 42,000.

5. (i) If Arun and Bimal pay tax under the default tax regime under section 115BAC

**Computation of total income for the A.Y. 2026-27**

Particulars	Arun (₹)	Bimal(₹)
<b>Income from house property</b>		
<b>I. Self-occupied portion (25%)</b>		
Annual value	Nil	Nil
Less: Deduction under section 24(b)	Nil	Nil
Loss from self occupied property	Nil	Nil
<b>II. Let-out portion (75%) – See Working Note below</b>	1,25,850	1,25,850
Income from house property	1,25,850	1,25,850
<b>Other Income</b>	2,90,000	1,80,000
<b>Total Income</b>	<b>4,15,850</b>	<b>3,05,850</b>

**Working Note**

**Computation of Income from Let-Out Portion of House Property**

Particulars	₹	₹
<b>Let-out portion (75%)</b>		
Gross Annual Value		
(a) Municipal value (75% of ₹ 9 lakh)	6,75,000	
(b) Actual rent [(₹ 12,000 x 6 x 12) – (₹ 12,000 x 1 x 4)]	8,16,000	
= ₹ 8,64,000 - ₹ 48,000		8,16,000
- whichever is higher		8,16,000
Less: Municipal taxes 75% of ₹ 1,80,000 (20% of ₹ 9 lakh)		1,35,000
Net Annual Value (NAV)		6,81,000
Less: Deduction under section 24		
(a) 30% of NAV	2,04,300	
(b) Interest on loan taken for the house [75% of ₹ 3 lakh]	2,25,000	4,29,300
<b>Income from let-out portion of house property</b>		<b>2,51,700</b>
<b>Share of each co-owner (50%)</b>		<b>1,25,850</b>

- (ii) If Arun and Bimal have exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)

**Computation of total income for the A.Y. 2026-27**

Particulars	Arun (₹)	Bimal(₹)
<b>Income from house property</b>		
<b>I. Self-occupied portion (25%)</b>		
Annual value	Nil	Nil
Less: Deduction under section 24(b)		
Interest on loan taken for construction ₹ 37,500 (being 25% of ₹ 1.5 lakh) [Allowable since they have exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)]	37,500	37,500
Loss from self occupied property	(37,500)	(37,500)
<b>II. Let-out portion (75%) – See Working Note above</b>	1,25,850	1,25,850
Income from house property	<b>88,350</b>	<b>88,350</b>
<b>Other Income</b>	2,90,000	1,80,000
<b>Total Income</b>	<b>3,78,350</b>	<b>2,68,350</b>

6. Since Mr. Roxx, is a resident but not ordinarily resident in India, only the income in respect of properties situated in India would be taxable in his hands.

Thus, the rental income which accrues or arises in Country Y from the let-out property and annual value of self-occupied property would not be taxable in his hands. However, income arising from properties in India are taxable in the hands of Mr. Roxx.

Accordingly, the income from house property of Mr. Roxx for A.Y.2026-27 will be calculated as under:

Particulars		₹	₹
1.	<b>Self-occupied house at Delhi</b>		
	Annual value		Nil
	Less: Deduction under section 24	Nil	
	Interest on borrowed capital ( <b>See Note below</b> )		2,00,000
	Chargeable income from this house property		<b>(2,00,000)</b>
2.	<b>Let out house property at Bangalore</b>		
	Expected rent, being higher of ₹ 3,58,000 municipal value and fair rent of ₹ 4,58,000 but restricted to Standard rent of ₹ 4,20,000	4,20,000	
	Actual rent [₹ 40,000 x 12]	4,80,000	
	Gross Annual Value, being higher of expected rent and actual rent		4,80,000
	Less: Municipal taxes		5,400
	Net Annual Value		4,74,600
	Less: Deduction under section 24		
	- 30% of net annual value [30% x ₹ 4,74,600]	1,42,380	
	- Interest on borrowed capital (actual allowable as deduction without any ceiling limit)	2,50,000	3,92,380
			82,220
		<b>(1,17,780)</b>	
<b>Loss under the head "Income from house property" (₹ 2,00,000 - ₹ 82,220)</b>			

**Note: Interest on borrowed capital**

Particulars		₹
Interest for the current year [18,00,000 x 9.5%]		1,71,000
Add: 1/5th of pre-construction interest (₹ 2,85,000 x 1/5)		57,000
1.8.2023 to 31.03.2024 – (₹ 18,00,000 x 9.5% x 8/12)	1,14,000	
1.4.2024 to 31.03.2025 – (₹ 18,00,000 x 9.5%)	<u>1,71,000</u>	
		2,28,000
<b>Interest deduction allowable under section 24, restricted to</b>		<b>2,00,000</b>

7. There are two units of the house. Unit I with 3/4th area is used by Mr. Roy for self-occupation throughout the year and no benefit is derived from that unit, hence, it will be treated as self-occupied and its annual value will be nil. Unit 2 with 1/4th area is let-out during the previous year and its annual value has to be determined as per section 23(1).

**Computation of Income from house property of Mr. Roy  
for the A.Y. 2026-27**

Particulars	₹	
<b>Unit I (3/4<sup>th</sup> area – self-occupied)</b>		
Annual Value		Nil
Less: Deduction under section 24(b) 3/4th of ₹ 1,51,000		1,13,250
<b>Income from Unit I (self-occupied)</b>		<b>(1,13,250)</b>
<b>Unit II (1/4<sup>th</sup> area – let out)</b>		
<b>Computation of GAV</b>		
<b>Step 1 – Computation of Expected Rent (ER)</b>		
ER = Higher of municipal value (MV) and fair rent (FR), but restricted to standard rent (SR). However, in this case, standard rent of ₹ 1,25,000 (1/4th of ₹ 5,00,000) is more than the higher of MV of ₹ 1,12,500 (1/4th of ₹ 4,50,000) and FR of ₹ 1,17,500 (1/4th of ₹ 4,70,000). Hence the higher of MV and FR is the ER. In this case, it is the fair rent.	1,17,500	
<b>Step 2 – Computation of actual rent received/receivable</b>		
₹ 12,000 × 9 = 1,08,000 [The property was let-out for 11 months. However, rent for 2 months i.e., January and February, 2026 could not be realized. Actual rent should not include any amount of rent which is not capable of being realized. Therefore, actual rent has been computed for 9 months]	1,08,000	

<b>Step 3 – Computation of GAV</b>		
The actual rent of ₹ 1,08,000 is lower than expected rent of ₹ 1,17,500 owing to vacancy, since had the property not been vacant in March 2026, the actual rent would have been ₹ 1,20,000 (i.e. ₹ 1,08,000 + ₹ 12,000), which is higher than the ER of ₹ 1,17,500. Therefore, actual rent is the GAV.	1,08,000	
<b>Gross Annual Value (GAV)</b>		<b>1,08,000</b>
Less: Municipal taxes paid by the owner during the previous year relating to let-out portion 1/4th of (10% of ₹ 4,50,000) = ₹ 45,000/4 = ₹ 11,250		11,250
<b>Net Annual Value (NAV)</b>		<b>96,750</b>
Less: Deductions under section 24		
(a) 30% of NAV = 30% of ₹ 96,750	29,025	
(b) Interest paid on borrowed capital (relating to let out portion) [1/4th of ₹ 1,51,000]	37,750	66,775
<b>Income from Unit II (let-out)</b>		<b>29,975</b>
<b>Loss under the head “Income from house property” (-₹ 1,13,250 + ₹ 29,975)</b>		<b>-83,275</b>

**Note** – Alternatively, as per income-tax returns, unrealized rent can be deducted from GAV. In such a case, GAV would be ₹ 1,32,000, being higher of expected rent of ₹ 1,17,500 and actual rent of ₹ 1,32,000. Thereafter, unrealized rent of ₹ 24,000 and municipal taxes of ₹ 11,250 would be deducted from GAV of ₹ 1,32,000 to arrive at the NAV of ₹ 96,750.