CHAPTER 6

INCOME FROM PROPERTY

Rent from land and buildings: **what is chargeable**, what falls under **other heads**, **co-owned property**, **withholding on rent**, the **deductions of section 15A** and the spreading of **non-adjustable amounts**. Law: ITO 2001 · tax year 2027.

CHAPTER ROADMAP

1. Chargeability and rent — s.15 · s.2(49)
2. Property of co-owners — s.66
3. Withholding on rent — s.155
4. Deductions allowed — s.15A
5. Non-adjustable amounts — s.16

DEFINITION

Section 15: the **rent received or receivable** for a tax year (other than exempt rent) is chargeable under **Income from property**. **Rent** = any amount received or receivable by the **owner** of land or a building for its use or occupation, including a **forfeited deposit** under a contract for sale of land or a building.

1 WHAT IS CHARGEABLE, AND UNDER WHICH HEAD

section 15

1 RECEIVED OR RECEIVABLE

Taxed in the **year to which the rent relates** — even if received in advance or not yet received.

2 BELOW FAIR MARKET RENT

Treated as receiving the **fair market rent** — but only for the **period the property is let**.

3 BUILDING WITH PLANT AND MACHINERY

Section 15 does not apply: the **whole rent** is **Income from other sources**.

4 AMENITIES, UTILITIES, SERVICES

That part of the rent is **other sources**; the rent for the building itself stays under property.

5 AGRICULTURAL LAND

Rent from land used for agriculture is **exempt agricultural income** — the owner need not cultivate it himself.

6 EMPLOYER'S RENT-FREE HOUSE

Employee: higher of fair rent and 45% of basic / MTS under **Salary**. Employer: **no rental income**, no tax consequence.

EXAMPLE · BELOW FMR

Rent Rs. 50,000 a month, fair market rent Rs. 60,000: chargeable = 60,000 × 12 = **Rs. 720,000**.

EXAMPLE · ADVANCE RENT

Two years' rent Rs. 1,500,000 received on 1 July 2026: chargeable in tax year 2027 = **Rs. 750,000** (rent for that year only).

EXAMPLE · FACTORY

Factory land, building **and machinery** let for Rs. 345,000: whole amount is **other sources**.

2 PROPERTY OWNED BY TWO OR MORE PERSONS

section 66

DEFINITE, ASCERTAINABLE SHARES

Co-owners are **not an AOP**. Each person's share of the income is part of his **own income** and is taxed at **his own rates**. Example: Rs. 1,200,000 rent shared 50:50 → **Rs. 600,000 each**.

SHARES NOT DEFINITE

Section 66 does not apply: the co-owners are assessed as an **association of persons**.

NOT FOR BUSINESS

The same rule applies to every head **except income from business**.

3 WITHHOLDING TAX ON RENT

section 155

WHO WITHHOLDS

Prescribed persons: Federal, Provincial and Local Governments; a **company**; a non-profit organisation; a diplomatic mission; a private educational institute, boutique, beauty parlour, hospital, clinic or maternity home; an **individual or AOP paying Rs. 1.5 million or more** rent a year; anyone notified by the Board.

BASE AND NATURE

On the **gross rent** — including furniture, fixtures, related services, **advance payments and non-adjustable amounts**. Applies **whatever the head** of income. **Adjustable** against normal tax (property income is under NTR).

Gross rent a year (individual / AOP)	Withholding tax
Up to Rs. 300,000	Nil
Rs. 300,001 – 600,000	5% of the excess over 300,000
Rs. 600,001 – 2,000,000	Rs. 15,000 + 10% of the excess over 600,000
Above Rs. 2,000,000	Rs. 155,000 + 25% of the excess over 2,000,000
Company payee	**15% of the gross rent**

4 DEDUCTIONS ALLOWED · SECTION 15A

against property income only

Deduction	Rule
Repairs	**One-fifth of the rent** chargeable, computed **before** any s.15A deduction. Actual repair cost is irrelevant.
Insurance	Premium paid or payable to insure the building against damage or destruction.
Local taxes	Local rate, tax, charge or cess paid or payable (**not** income tax under the Ordinance).
Ground rent	Paid or payable in respect of the property.
Profit on borrowing	On money borrowed (incl. mortgage) to **acquire, construct, renovate, extend or reconstruct** the property; and on a mortgage or capital charge on it.
Rent-sharing schemes	HBFC / scheduled bank scheme: **share in rent and share towards appreciation** — **not** the return of capital.
Administration and collection	Expenditure wholly and exclusively for deriving the rent, up to **4% of the rent** (before s.15A deductions).
Legal services	To **defend the title** to the property or a court suit connected with it.
Irrecoverable rent	Allowed if the tenancy was bona fide, the tenant has vacated (or steps taken) and is not in another property of the owner, legal steps were taken or are useless, and the rent was **taxed earlier**. A later recovery is taxable in the year of recovery.
Unpaid liabilities	Unpaid for **three years** after the year of deduction → taxable in the next year; deductible again when later paid.

RULES **No double deduction:** an expense allowed under s.15A cannot be claimed under another head. **Section 21** disallowances (e.g. cash payments, fines, personal expenses) apply to property income exactly as they do to business income.

5 NON-ADJUSTABLE AMOUNTS RECEIVED FROM A TENANT

section 16

SPREAD OVER TEN YEARS

One-tenth in the year of receipt and in each of the next **nine** years. An **adjustable** advance needs no special treatment.

REFUND TO TENANT

On termination within ten years: **nothing** in the year of refund or later; portions already taxed are **not reversed**.

NEW TENANT

New amount **less portions already taxed**, spread over ten years from the year it is received.

6 WORKED COMPUTATION

fresh numbers · tax year 2027

Tenant A paid a non-adjustable Rs. 400,000 in tax year 2024 and left on 31 Jan 2027 (rent Rs. 100,000 a month; amount refunded). The shop stayed vacant in February. New tenant B pays Rs. 125,000 a month from 1 March 2027 and a non-adjustable Rs. 500,000. Insurance payable Rs. 90,000; property tax paid Rs. 50,000; collection costs Rs. 80,000.

Item	Rs.	Working
Rent: A 100,000 × 7 months (Jul – Jan)	700,000	
Rent: B 125,000 × 4 months (Mar – Jun)	500,000	
B's non-adjustable amount: (500,000 − 3 × 40,000 already taxed) ÷ 10	38,000	380,000 ÷ 10
Rent chargeable	**1,238,000**	
Repairs allowance: 1/5 of 1,238,000	(247,600)	s.15A(a)
Insurance premium payable	(90,000)	s.15A(b)
Property tax paid	(50,000)	s.15A(c)
Collection costs: lower of 80,000 and 4% × 1,238,000 = 49,520	(49,520)	s.15A(h)
Income from property	**800,880**	

7 EXAM FOCUS · MCQ TRAPS

what examiners test

1 Below fair rent
Taxed at **fair market rent** — only for the months the property is let.

2 Plant and machinery
Building let **with plant**: whole rent under **other sources**.

3 Amenities and services
That part is **other sources**; building rent stays property.

4 Agricultural land
Rent is **exempt**; the owner need not cultivate.

5 Repairs
Fixed **1/5 of rent**, before other deductions; actual cost ignored.

6 Admin costs
Lower of actual and **4% of rent**; title defence is separate and uncapped.

7 Section 16
1/10 a year; refund stops later portions; new amount less amount already taxed.

8 Withholding
Adjustable; base includes non-adjustable amounts; individuals / AOPs only from **Rs. 1.5m**.

CLASSIFY IT · WHICH HEAD?

1	Rent of a shop received by its owner	PROPERTY
2	Factory building let together with machinery	OTHER SOURCES
3	Charge for amenities and services with the rent	OTHER SOURCES
4	Rent of agricultural land	EXEMPT
5	Forfeited deposit under a sale contract	PROPERTY
6	Non-adjustable amount from a tenant	PROPERTY
7	Employee's free housing by employer	SALARY
8	Employer's own rent-free house to a manager	NO INCOME

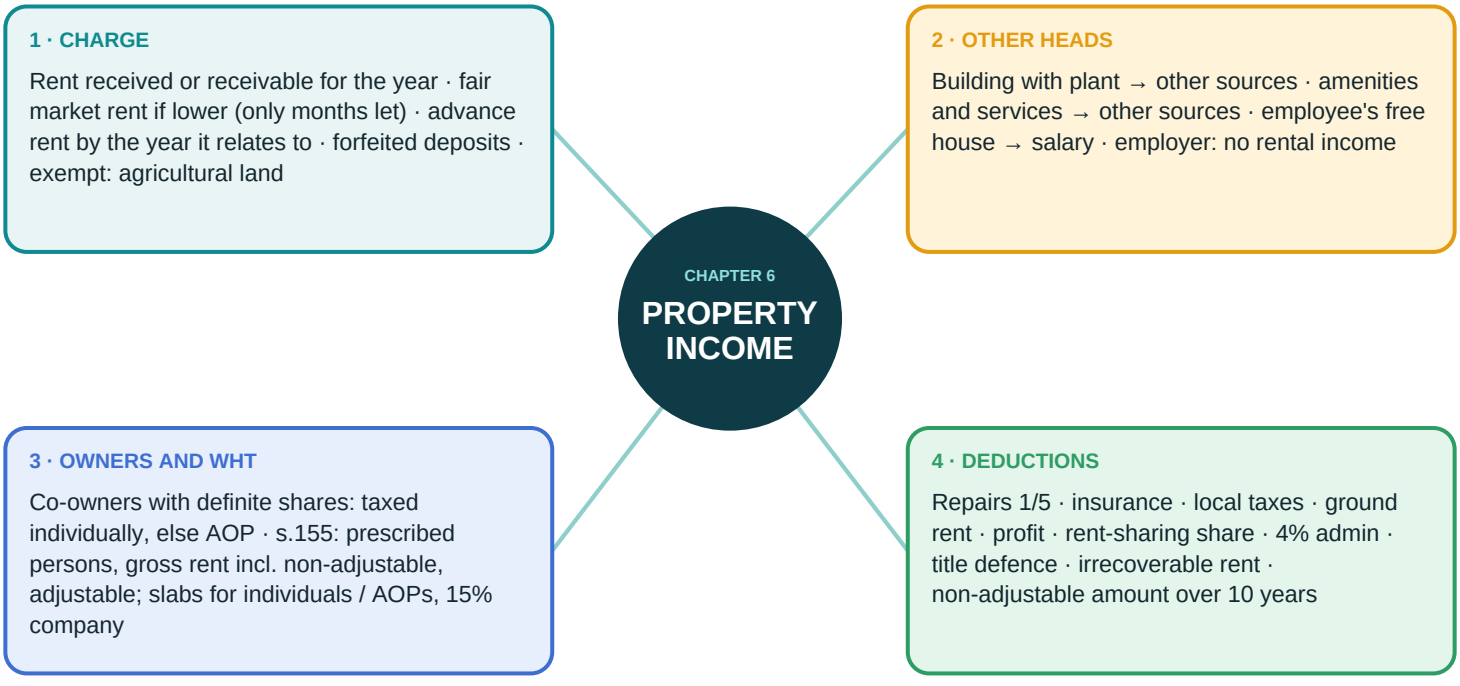
CLASSIFY IT · DEDUCTIBLE OR NOT?

1	Repair allowance of one-fifth of rent	ALLOWED
2	Insurance premium against damage	ALLOWED
3	Ground rent	ALLOWED
4	Profit on a loan to renovate the property	ALLOWED
5	Return of capital to the bank in a rent-sharing scheme	NOT ALLOWED
6	Income tax on the rent	NOT ALLOWED
7	Legal fee to defend the title	ALLOWED
8	Administration cost above 4% of rent	NOT ALLOWED

LIMITS TO KNOW

Repairs	Admin	Unpaid liability	Non-adjustable	WHT company
1/5 of rent	4% of rent	3 years	1/10 over 10 years	15% of gross rent

REVISION MAP



Rent
Received or receivable.

Heads
Plant and services leave property.

s.15A
Repairs 1/5, admin 4%.

s.16
Ten equal parts.