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SUBJECT: INCOME TAX LAW AND PRACTICE

Unit: INCOME FROM HOUSE PROPERTY

Sections 22 to 27 of the Income Tax Act, 1961 deal with the computation of the taxable income from house property. The income from houses, buildings, bungalows, godowns etc. is to be computed and assessed in tax under the head "Income from house property". The income under this head is not based upon the actual income from the property but upon notional income or the annual value of that building.

Rental Value: Meanings

1. Municipal Rental Value [MRV]

For the purposes of levying local taxes the local authority i.e. Municipal Corporation/Committee etc. conducts a periodical survey of the house properties in their local limits. On the basis of such survey the rental values are fixed. The rental value so fixed is called Municipal Rental Value (M.R.V.).

2. Fair Rental Value [FRV]

It is the rental value a house property can fetch. It is based on the rent prevailing for similar type of accommodation in same or similar type of locality. It is based on the principle that rent prevailing in same locality for similar sized property is almost the same. Such rental value is called Fair Rental Value (F.R.V.).

3. Standard Rent [SRV]

The state Govt so fixed the rental value of property. The rent fixed under Rent Control Act, where so ever applicable, is called Standard Rent.

4. Actual Rental Value [ARV]

It is the rent actually received by the owner of the house property from the tenant.

In case tenant pays composite rent i.e. rent of building, plant and machinery, furniture etc. and rent is separable, actual rent is reduced by the amount of rent of plant and machinery, furniture. etc. balance is actual rent of house property. Any amount of local taxes paid by tenant, cost of repairs Borne by tenant or any interest on advance deposit are not to be added.

Important Point

Some the owners may provide some common facilities such as common gardener and watchman lift and pump maintenance, lighting of common stairs and corridors and water and electricity bills. Owner borne these cost but such costs are included in rent. Such cost is reduced out of actual rent received and balance [Real Rental Value] alone should be taken for the purpose of compare with other rental values, to arrive gross Annual value.

If owner collect charges for above said facilities separately, not included in the rent, should not deducted and charges collected is to be treated as separate source of income and the expenses incurred on such facilities are deducted out of amount so collected and balance is taxable under the head, "Income from Other sources."

Unrealized Rent (URR)

The rent which could not be realized by the owner from the tenant is called URR. It should be deducted from actual rent received or receivable (ARR) subject to the following conditions.

1. The tenancy is bona fide
2. The defaulting tenant has vacated or steps have been taken to compel him to vacate the property.
3. The defaulting tenant should not occupy any other property of the assessee.
4. The assessing officer is satisfied with all the steps by taken by the assessee with regard to institute legal proceedings for the recovery of the unpaid rent.

Vacancy Allowance

Vacancy means the period for which no one has occupied the house property.
The loss of rent that arises due to this is called loss due to vacancy.

DETERMINATION OF GROSS ANNUAL VALUE

I. House Let-out whole year and there is no unrealized rent and vacancy.

(a) When Standard rent is not given

(b) When Standard rent is given

II. House Let-out whole year and there is unrealized rent but No vacancy

(a) When Standard rent is not given

(b) When Standard rent is given

III. House Let-out whole year and there is vacancy but No unrealized rent

(a) When Standard rent is not given

(b) When Standard rent is given

IV. House Let-out whole year and there is both unrealized rent and Vacancy

(a) When Standard rent is not given

(b) When Standard rent is given

I. House Let-out whole year and there is no unrealized rent and vacancy.

When Standard rent is not given

Step 1

Municipal Rental Value [MRV]	xxx	w.e.high
Fair Rental Value [FRV]	xxx	
Expected Rental Value ERV	xxx	

Step 2

ERV → Higher value	xxx	w.e.high
Actual rent received [ARR]	xxx	
Gross Annual Value	xxx	

In simple way

Municipal Rental Value [MRV]	xxx	w.e.high
Fair Rental Value [FRV]	xxx	
Actual rent received [ARR]	xxx	
Gross Annual Rental Value	xxx	

When Standard rent is given

Step 1

Municipal Rental Value [MRV]	xxx	w.e.high
Fair Rental Value [FRV]	xxx	
Higher value	xxx	

Step 2

Higher value	xxx	w.e.less
* Standard Rental Value [SRV]	xxx	
Expected Rental Value [Lesser]	xxx	

Step 3

ERV Lesser value	xxx	w.e.high
Actual rent received [ARR]	xxx	
Gross Annual Rental Value	xxx	

II. House Let-out whole year and there is unrealized rent but No vacancy

When Standard rent is not given

Step 1

Municipal Rental Value [MRV]		xxx	w.e.high
Fair Rental Value [FRV]		xxx	
ERV — Higher value		xxx	

Step 2

ERV → Higher value		xxx	w.e.high
Actual rent received [12 months' Rent is taken]	xxx		
Less: Unrealized rent	xxx	xxx	
Gross Annual Value		xxx	

In simple way

Municipal Rental Value [MRV]		xxx	w.e.high
Fair Rental Value [FRV]		xxx	
Actual rent received [12 months' Rent is taken]	xxx		
Less: Unrealized rent	xxx	xxx	
Gross Annual Rental Value		xxx	

When Standard rent is given

Step 1

Municipal Rental Value [MRV]		xxx	w.e.high
Fair Rental Value [FRV]		xxx	
Higher value		xxx	

Step 2

Higher value		xxx	w.e.less
* Standard Rental Value [SRV]		xxx	
Expected rental Value [Lesser]		xxx	

Step 3

ERV → Lesser value		xxx	w.e.high
Actual rent received [12 months' Rent is taken]	xxx		
Less: Unrealized rent	xxx	xxx	
Gross Annual Rental Value		xxx	

III. House Let-out whole year and there is vacancy but No unrealized rent

When Standard rent is not given

Step 1

Municipal Rental Value [MRV]	xxx	w.e.high
Fair Rental Value [FRV]	xxx	
Expected Rental Value ERV	xxx	

Step 2

ERV → Higher value	xxx	w.e.high
Actual rent received [ARR] [Take 12 months' rental value]	xxx	
Higher value	xxx	
Less: Loss due to vacancy	xxx	
Gross Annual Rental Value	xxx	

In simple way

Municipal Rental Value [MRV]	xxx	w.e.high
Fair Rental Value [FRV]	xxx	
Actual rent received [take 12 months rental value]	xxx	
Higher value	xxx	
Less: Loss due to vacancy	xxx	
Gross Annual Rental Value	xxx	

When Standard rent is given

Step 1

Municipal Rental Value [MRV]	xxx	w.e.high
Fair Rental Value [FRV]	xxx	
Higher value	xxx	

Step 2

Higher value	xxx	w.e.less
* Standard Rental Value [SRV]	xxx	
Expected Rental Value [Lesser]	xxx	

Step 3

ERV Lesser value	xxx	w.e.high
Actual rent received [Take 12 months rental value]	xxx	
Higher value	xxx	
Less: Loss due to vacancy	xxx	
Gross Annual Rental Value	xxx	

IV. House Let-out whole year and there is both unrealized rent and Vacancy

When Standard rent is not given

Step 1

Municipal Rental Value [MRV]	**xxx**	w.e.high
Fair Rental Value [FRV]	**xxx**	
ERV — Higher value	**xxx**	

Step 2

ERV → Higher value		**xxx**	w.e.high
Actual rent received [12 months' Rent is taken]	xxx		
Less: Unrealized rent	xxx	**xxx**	
Higher value		**xxx**	
Less: Loss due to vacancy		**xxx**	
Gross Annual Value		**xxx**	

In simple way

Municipal Rental Value [MRV]		**xxx**	w.e.high
Fair Rental Value [FRV]		**xxx**	
Actual rent received [12 months' Rent is taken]	xxx		
Less: Unrealized rent	xxx	**xxx**	
Higher value		**xxx**	
Less: Loss due to vacancy		**xxx**	
Gross Annual Rental Value		**xxx**	

When Standard rent is given

Step 1

Municipal Rental Value [MRV]	**xxx**	w.e.high
Fair Rental Value [FRV]	**xxx**	
Higher value	**xxx**	

Step 2

Higher value	**xxx**	w.e.less
* Standard Rental Value [SRV]	**xxx**	
Expected rental Value [Lesser]	**xxx**	

Step 3

ERV → Lesser value		**xxx**	w.e.high
Actual rent received [12 months' Rent is taken]	xxx		
Less: Unrealized rent	xxx	**xxx**	
Higher value		**xxx**	
Less: Loss due to vacancy		**xxx**	
Gross Annual Rental Value		**xxx**	

Important point

Note: Some the owners may provide some common facilities such as common gardener and watchman lift and pump maintenance, lighting of common stairs and corridors and water and electricity bills. Owner borne these cost but such costs are included in rent. Such cost is reduced out of actual rent received and balance [Real Rental Value] alone should be taken for the purpose of compare with other rental values, to arrive gross Annual value. If owner collect charges for above said facilities separately, not included in the rent, should not deducted and charges collected is to be treated as separate source of income and the expenses incurred on such facilities are deducted out of amount so collected and balance is taxable under the head, "Income from Other sources."

Illustration 1

The following information provided by Mrs.Jayabharathi about her house property for the AY 2019-20. Find out gross annual value.

Particulars	House-A Rs.
Municipal value	30,000
Fair rental value	24,000
Actual value	42,000

Solution

Steps to be followed			
Step 1	**Step 1**		
Compare MRV with FRV and find whichever is higher.	Municipal Rental Value [MRV]	30,000	w.e.high
	Fair Rental Value [FRV]	24,000	
	Expected Rental Value ERV	30,000	
Step 2	**Step 2**		
Compare the higher value which is find in step 1 with Actual rent received find whichever is high.	ERV → Higher value	30,000	w.e.high
.	Actual rent received [ARR]	42,000	
	Gross Annual Value	42,000	
When standard rent is given, alternatively we can find the GAV	**In simple way[Alternatively]**		
	Municipal Rental Value [MRV]	30,000	w.e.high
	Fair Rental Value [FRV]	24,000	
	Actual rent received [ARR]	42,000	
	Gross Annual Rental Value [GAV]	42,000	

Illustration 2 [when standard rent is given]

Calculate the Expected Rental Value from the information given below:

Municipal value Rs. 35,000, Fair rental value Rs.46,000 and Standard Rent Rs.32,000

Solution

Calculation of Expected Rental Value

Steps to be followed	**When Standard rent is given**		
Step 1	**Step 1**		
Compare MRV with FRV and find whichever is higher.	Municipal Rental Value [MRV]	35,000	w.e.high
	Fair Rental Value [FRV]	46,000	
Step 2	Higher value	46,000	
Compare the higher value which is found in step 1 with standard rent, finds whichever less is.	**Step 2** Higher value	46,000	w.e.less
	* Standard Rental Value [SRV]	32,000	
	Expected Rental Value [Lesser]	32,000	

Illustration 3 [when standard rent is given]

Calculate the Expected Rental Value from the information given below:

Municipal value Rs. 24,000, Fair rental value Rs.22,000 and Standard Rent Rs.30,000.

Solution

Calculation of Expected Rental Value

Steps to be followed	**When Standard rent is given**		
Step 1	**Step 1**		
Compare MRV with FRV and find whichever is higher.	Municipal Rental Value [MRV]	24,000	w.e.high
	Fair Rental Value [FRV]	22,000	
Step 2	Higher value	24,000	
Compare the higher value which is found in step 1 with standard rent, finds whichever less is.	**Step 2** Higher value	24,000	w.e.less
	* Standard Rental Value [SRV]	30,000	
	Expected Rental Value [Lesser]	24,000	

Note: **Important point**

Based on the judgment given by the Hon'ble Supreme Court of India in a case Balbir Singh vs. MCD [1985] 1521TR 388(SC). Either MRV or FRV is less than the Standard Rent which lesser value is ERV. The higher value among these two MRV or FRV should not exceed over SRV.

Illustration 4

Mr. Nithilan has a house at Chidambaram where Rent Control Act is applicable. Its MRV is Rs. 27,000 p.a. and FRV is rs.30,000 p.a. Standard Rent is Rs.25,500. Calculate the Expected Rental Value from the information given above and shows what difference it will make, if Rent Control Act is not applicable and Standard Rent is not given.

Solution:

When Standard rent is not given

Step 1

Municipal Rental Value [MRV]	27,000	w.e.high
Fair Rental Value [FRV]	30,000	
Expected Rental Value ERV	30,000	

When Standard rent is given

Step 1

Municipal Rental Value [MRV]	27,000	w.e.high
Fair Rental Value [FRV]	30,000	
Higher value	30,000	
Step 2		
Higher value	30,000	w.e.less
* Standard Rental Value [SRV]	25,500	
Expected Rental Value [Lesser]	25,500	

Illustration 5

Calculate Gross Annual Rental Value from the particulars given by Abishnavi for AY 2019-20.MRV Rs. 1,20,000 p.a. FRV Rs. 1,32,000 p.a. Actual Rent is Rs. 1,44,000 p.a. and Standard Rent is Rs.1,38,000 p.a.

Solution :

Note: Standard rent is given

Step 1

Municipal Rental Value [MRV]	1,20,000	w.e.high
Fair Rental Value [FRV]	1,32,000	
Higher value	1,32,000	
Step 2		
Higher value	1,32,000	w.e.less
* Standard Rental Value [SRV]	1,38,000	
Expected Rental Value [Lesser]	1,32,000	
Step 3		
ERV Lesser value	1,32,000	w.e.high
Actual rent received [Take 12 months rental value]	1,44,000	
Gross Annual Rental Value [Higher value]	1,44,000	

Illustration 5 [When there is Unrealised Rent]

Calculate Gross Annual Rental Value from the particulars given by Mr. Muthuvel for AY 2019-20. Municipal Rental Value Rs. 60,000 p.a. Fair Rental Value Rs. 65,000 p.a. Actual Rent is Rs. 70,000 p.a. and Standard Rent is Rs.75,000 p.a. Unrealised Rent Rs. 10,000.

Solution :

When Standard rent is given

Step 1			
Municipal Rental Value [MRV]		60,000	w.e.high
Fair Rental Value [FRV]		65,000	
Higher value		65,000	
Step 2			
Higher value		65,000	w.e.less
* Standard Rental Value [SRV]		75,000	
Expected rental Value [Lesser]		65,000	
Step 3			
ERV Lesser value		65,000	w.e.high
Actual rent received			
[12 months' Rent is taken]	70,000		
Less: Unrealized rent	10,000	60,000	
Higher value		65,000	
Gross Annual Rental Value		65,000	

Illustration 6 [When there is Unrealised Rent]

Calculate Gross Annual Rental Value from the particulars given by Mr. PrasathMurali for AY 2019-20. Municipal Rental Value Rs. 36,000 p.a. Fair Rental Value Rs. 33,000 p.a. Actual Rent is Rs. 3,000 p.m. and Standard Rent is Rs.31,000 p.a. Two months' rent is unrealised.

Solution

When Standard rent is given

Step 1			
Municipal Rental Value [MRV]		36,000	w.e.high
Fair Rental Value [FRV]		33,000	
Higher value		36,000	
Step 2			
Higher value		36,000	w.e.less
* Standard Rental Value [SRV]		31,000	
Expected rental Value [Lesser]		31,000	
Step 3			
ERV Lesser value		31,000	w.e.high
Actual rent received			
[12 months' Rent is taken]	36,000		
Less: Unrealized rent	6,000	30,000	
[2 x 3,000]			
Higher value		31,000	
Gross Annual Rental Value		31,000	

Illustration 7 [When there is Vacancy]

Calculate Gross Annual Rental Value from the particulars given by Mr. Rajiniprasath for AY 2018-19. Municipal Rental Value Rs. 72,000 p.a. Fair Rental Value Rs. 66,000 p.a. Actual Rent is Rs. 5,000 p.m. and Standard Rent is Rs.55,000 p.a. The house was vacant for two months.

Solution:

When House was Vacant		
Step 1		
Municipal Rental Value [MRV]	72,000	w.e.high
Fair Rental Value [FRV]	66,000	
Higher value	72,000	
Step 2		
Higher value	72,000	w.e.less
* Standard Rental Value [SRV]	55,000	
Expected Rental Value [Lesser]	55,000	
Step 3		
ERV Lesser value	55,000	w.e.high
Actual rent received [Take 12 months rental value][12 x 5,000]	60,000	
Higher value	60,000	
Less: Loss due to vacancy [2 x 5,000]	10,000	
Gross Annual Rental Value	50,000	

Illustration 8 [When there is both Vacancy and unrealized rent]

Calculate Gross Annual Rental Value from the particulars given by Mrs.Rukmani for AY 2019-20. Municipal Rental Value Rs. 64,000 p.a. Fair Rental Value Rs. 68,000 p.a. Actual Rent is Rs. 6,000 p.m. and Standard Rent is Rs.62,000 p.a. Two months' rent was unrealised and the house was vacant for three months.

Solution

Step 1
Compare MRV with FRV and find whichever is higher.

Step 2
Compare the higher value which is found in step 1 with standard rent, finds whichever less is.

Step 3
Compare the lesser value which is found in step 2 with actual rent received, finds whichever is higher.

Note:
The rent actually received or receivable for full year (after deducting unrealised rent as per conditions given but before deducting loss of vacancy) should be taken for comparing with ERV.

Firstly deduct unrealised rent out of annual rent received/receivable and compare with ERV and find the higher one and then reduced by an amount of actual rent in proportion of vacancy [deduct the loss due to vacancy] and the value so arrived at shall be the gross annual value.

When Standard rent is given

Step 1			
Municipal Rental Value [MRV]		64,000	w.e.high
Fair Rental Value [FRV]		68,000	
Higher value		68,000	
Step 2			
Higher value		68,000	w.e.less
* Standard Rental Value [SRV]		62,000	
Expected rental Value [Lesser]		62,000	
Step 3			
ERV Lesser value		62,000	w.e.high
Actual rent received [12 months' Rent is taken]	72,000		
Less: Unrealized rent [2 x 6,000]	12,000	60,000	
Higher value		60,000	
Less: Loss due to vacancy [3x 6,000]		18,000	
Gross Annual Rental Value		42,000	

Illustration 9 [When monthly rent includes some maintenance charges]

Mr. Selvaganapathi has given some information about his letout house property for AY 2018-19. Municipal Rental Value Rs. 80,000 p.a. Fair Rental Value Rs. 75,000 p.a. Actual Rent is Rs. 7,000 p.m. and Standard Rent is Rs.73,000 p.a. Monthly rent includes Lift maintenance charges Rs.200 p.m, Pump maintenance Rs. 250 p.m., Salary of Gardener and Watchman Rs. 450 p.m and swimming pool expenses Rs.100 p.m. Calculate Gross Annual Rental Value.

Solution

Note:
In case the monthly includes cost of common facilities such as lift and pump maintenance, alary of common gardener and watchman, lighting of common stairs and corridors and water and electricity bills are borne by the owner and rent includes the cost of these items. Such cost is reduced out of actual rent received and balance is called

When Standard rent is given

Step 1		
Municipal Rental Value [MRV]	80,000	w.e.high
Fair Rental Value [FRV]	75,000	
Higher value	80,000	
Step 2		
Higher value	80,000	w.e.less
* Standard Rental Value [SRV]	73,000	
Expected rental Value [Lesser]	73,000	

Real Rental Value (R.R.V.) only should be taken for compare with ERV.

Monthly rent		Rs.7,000
Less:		
Lift maintenance charges	Rs.200	
Pump maintenance	Rs. 250	
Salary of Gardener and Watchman	Rs. 450	
Swimming pool expenses	Rs.100	1,000
*** Real Rental Value**		**Rs.6,000**

Step 3

ERV	Lesser value	73,000	w.e.high
*Real Rent received [12 x 6,000]		72,000	
	Higher value	73,000	
Gross Annual Rental Value		73,000	

COMPUTATION OF NET ANNUAL RENTAL VALUE

Gross Annual Rental Value as computed above	xxx
Less : Municipal Tax [Local Tax]	xxx
Net Annual Rental Value	xxx

Important Points

1. Municipal [Local] Tax may include any other tax levied by local authority in respect of house namely Sanitation cess, Education cess, House tax, water and fire tax, conservancy and Sewerage tax.

2. If the above said taxes levied by state government shall not be allowed to deduct from Gross Annual value.

3. The local taxes shall be allowed as deduction only if municipal [Local] tax paid and borne by the owner of the house property only shall be allowed as deduction. Thus, where the above said tax paid by tenant shall not be allowed as deduction. If both owner and tenant shared the local tax, a part paid by owner only shall be allowed as deduction.

4. The local taxes should be related to previous year. And actually paid alone shall be allowed, if it have not been paid still pending at the end of previous year shall not allowed as deduction.

5. Municipal taxes should not be allowed as deduction if the house property is self-occupied.

Illustration 10 [Computation of Net annual value]

Mrs. Shanthi has one houses at Chennai. The particulars of the house are as follows.

	House-A Rs.
Municipal value	1,44,000 p.a.
Fair rent	1,06,000 p.a.
Standard rent	1,18,000 p.a
Actual rent	10,000 p.m.
Municipal tax [paid by Shanthi]	14,400 p.a.

Compute net annual value.

Solution

Step 1		
Municipal Rental Value [MRV]	1,44,000	w.e.high
Fair Rental Value [FRV]	1,06,000	
Higher value	1,44,000	
Step 2		
Higher value	1,44,000	w.e.less
* Standard Rental Value [SRV]	1,18,000	
Expected rental Value [Lesser]	1,18,000	
Step 3		
ERV Lesser value	1,18,000	w.e.high
Actual rent received [12 months' Rent is taken] 12 x 10,000	1,20,000	
Higher value	1,20,000	
Gross Annual Rental Value	1,20,000	
Less: Municipal Tax	14,400	Municipal tax is paid by owner, is allowed to deduct
Net Annual Value	1,05,600	

Illustration 11 [Computation of Net annual value]

The following particulars Mr. Srinivasan' houses at Chennai, compute net annual value.

	House-A Rs.
Municipal value	72,000 p.a.
Fair rent	54,000 p.a.
Standard rent	59,000 p.a.
Actual rent	6,000 p.m.
Municipal tax [paid by tenant]	8,000 p.a.

Compute net annual value.

Solution

Step 1		
Municipal Rental Value [MRV]	72,000	w.e.high
Fair Rental Value [FRV]	54,000	
Higher value	72,000	
Step 2		
Higher value	72,000	w.e.less
* Standard Rental Value [SRV]	59,000	
Expected rental Value [Lesser]	59,000	
Step 3		
ERV Lesser value	59,000	w.e.high
Actual rent received [12 months' Rent is taken] 12 x 6,000	72,000	
Gross Annual Rental Value	72,000	
Less: Municipal Tax	NA	Municipal tax is paid by tenant, is allowed NOT ALLOWED [NA] to deduct
Net Annual Value	72,000	

Illustration 12 [Computation of Net annual value]

The following particulars given by Mrs. Vijayalakshmi about her houses property at Delhi , Compute net annual value for AY 2019-20.

	Rs.
Municipal value	70,000 p.a.
Fair rent	85,000 p.a.
Standard rent	60,000 p.a.
Actual rent	5,500 p.m.

Municipal tax

For 2016-17 Rs. 2,000

2017-18 Rs. 4,000

25% of Municipal tax paid by owner. Compute net annual value.

Solution

Step 1		
Municipal Rental Value [MRV]	70,000	w.e.high
Fair Rental Value [FRV]	85,000	
Higher value	85,000	
Step 2		
Higher value	85,000	w.e.less
* Standard Rental Value [SRV]	60,000	
Expected rental Value [Lesser]	60,000	
Step 3		
ERV Lesser value	60,000	w.e.high
Actual rent received [12 months' Rent is taken] 12 x 5,500	66,000	
Gross Annual Rental Value	66,000	
Less: Municipal Tax Rs.4,000 x 25%]	1,000	The part of Municipal tax is paid by owner alone allowed to deduct. The part municipal tax paid by tenant is not allowed. Preceding previous year's municipal tax not allowed as deduction.
Net Annual Value	65,000	

Deduction U/S 24

Standard Deduction [Sec. 24(a)]

Owner of the house property may incurred certain expenses like rent collection charges, insurance of house, repair of house, etc in connected with earning of rental income. The actual expenses incurred by the owner of house property are not to be considered. out of net annual value, a flat deduction is allowed for all the expenses with earning of rental income. It is allowed @ 30% of "net annual value".

Note: The Standard deduction is available even if the owner has not incurred any expense for earning rental income. No Standard deduction is allowed in respect of self-occupied house property.

Interest on 'Housing Loan' [Section 24(b)]

Housing loan means loan taken/amount borrowed for purchase, construction, repairs or renovation, etc. of house property. Interest paid/payable on housing loan is allowed as deduction while computing house property income.

Interest on loan borrowed for the purpose of sun/ daughter higher education, marriage, purchase of car or other assets or any other purpose shall not be allowed as deduction.

Let Out House Property/Deemed To Be Let Out House Property

Interest on loan taken for purchase/construction /repairs/renovation etc. is allowed as deduction in full.

There is no maximum limit in respect of such interest.

Amount of deduction = Actual interest (without any limit)

For self-occupied house

Although net annual value (NAV) is taken as nil in respect of self-occupied house property, yet interest on loan taken for purchase/construction/repairs/renovation of such a house property is still allowed as deduction.
If loan is taken before 1-4-99. Interest on loan is allowed upto a maximum of Rs.30,000. Purpose of loan may be construction/ purchase/ repair/ renovation/extension, etc.

2) If loan is taken on or after 1-4-99. (a) For purchase/ construction of house property. Interest on loan is allowed up to a maximum of Rs.2,00,000 provided the following conditions are
The construction or acquisition of house property is completed within 3 years from the end of the financial year in which capital was borrowed. For repairs etc. or for purchase/construction of house property if such acquisition/ is not completed within 3 years as prescribed in point 2(a) above. Interest on loan is allowed as deduction up to a maximum of Rs. 30,000.

Interest on Loan for Pre - Construction Period

Meaning of Pre-acquisition or pre-construction period. It means the period starting from the due date of borrowing and ending on March 31st immediately proceeding to the year of completion of completion or acquisition. Pre-construction period shall be the period starting from 1st April and ending on 31st march only any fraction periods shall not include in pre-construction period.
Interest for pre-acquisition/pre-construction period shall be allowed as deduction in 5 equal installments starting from the previous year in which the house is acquired or the construction is completed and for the next 4 previous years .

Illustration

Mr. Samybharathi owns a house at Mumbai whose municipal value is Rs.48,000 p.a. and fair rent is Rs.60,000 p.a. It was let out for residential purposes at a monthly rent of Rs.6,000. The house was vacant during the P.Y 2017-18 for two months. The expenses relating to the property during the previous year were as follows:

		Rs.
Municipal taxes		10,000
Annual charge		12,000
Collection charges		9,000
Interest on loan for:		
i) Purchase of T.V	3,000	
ii) Construction of house	15,000	

Compute his income from house property

Solution

Step 1			
Municipal Rental Value [MRV]		48,000	w.e.high
Fair Rental Value [FRV]		60,000	
Higher value		60,000	
Step 2			
Higher value		60,000	w.e.less
Standard Rental Value [SRV]		NiL	
Expected rental Value [Lesser]		60,000	
Step 3			
ERV Lesser value		60,000	w.e.high
Real Rent received [12 x 6,000]		72,000	
Higher value		72,000	
Less: Loss on vacancy [6,000 x 2 month]		12,000	
Gross Annual Rental Value		60,000	
Less: Municipal Tax		10,000	
Net Annual Value[NAV]		50,000	
Less: Deduction u/s 24			
Standard deduction 30% of NAV for cost of repair and maintenance [50,000 x 30%]	15,000		
Interest on loan for construction of house	15,000	30,000	
Income from house property		20,000	

Note:

While calculating property income, Standard deduction should allow 30% of NAV irrespective of whether it is given in the problem or not. Loan is borrowed for purchase of TV is not allowed as deduction u/s.24.