



Tax Benefits and your Dream Home

It is being well said that Roti, Kapda and Makan are the three basis necessities for which a common man is running during his entire life. As all three things are very much necessities and a common man could easily catch them, Government has introduced some incentives to motivate common man to strive to get them. In this article, I am going to discuss regarding Income Tax Benefits associated with Purchase or Construction of House Property.

Introduction:

Looking at Booming Real Estate Sector and Sky High Prices of Real Estate Property, One has to plan properly before Purchasing the New House Property. There are two main benefits which are available under Income Tax Act, 1961 in relation to Purchase or Construction of House Property which are described as under:

- (1) Deduction of Interest on Capital borrowed for purchase or construction of House Property under Section 24 (b) of the Income Tax Act, 1961.
- (2) Deduction on account of payment made towards Capital borrowed for purchase or construction of House Property under Section 80 C of the Income Tax Act, 1961.

Now I will discuss both of them one by one:

■ Deduction of Interest on Capital borrowed for purchase or construction of House Property under Section 24 (b) of the Income Tax Act, 1961.

The provision of Section 24(b) of the Income Tax Act, 1961 is reproduced as under:

“Where the property has been acquired, constructed, repaired, renewed or reconstructed with borrowed capital, the amount of any Interest payable on such capital is allowed as deduction”.

Points to Ponder:

1. It is important to note that it is the amount of Interest payable and not Interest paid which is relevant and can be claimed as deduction.
2. In case of under construction property, Interest will aggregated from the date of borrowing till the end of the previous year prior to the previous year in which the house is completed and allowed in five successive financial years starting from the year in which the acquisition or construction was completed.
3. In case Assessee is owner of more that one residential property then he may exercise an option to treat any one of the houses to be self occupied and the other houses will be deemed to be let out and annual value of such house will be determined as per Section 23(1)(a) of the Income Tax Act, 1961.

Quantum of Deduction of Interest U/s 24 (b):

1. *In case of one self Occupied House where annual value is nil.*

(a) Where the property is acquired or constructed with Capital borrowed on or after 01-04-1999 and such acquisition or construction is completed within 3 years of the end of the financial year in which the capital was borrowed:

■ Actual Interest payable subject to maximum of Rs.1,50,000/-

(b) In any other Case.

■ Actual Interest payable subject to Maximum of Rs.30,000/-

2. *In case of Let Out or Deemed to be let out House Property.*

■ Entire Interest is allowed deduction.

■ Deduction on account of payment made towards Capital borrowed for purchase or construction of House Property under Section 80 C of the Income Tax Act, 1961.

As per provisions of Section 80 C of the Income Tax Act, 1961, any payment made for purchase or construction of a residential house property which is chargeable to tax under the head "Income from House Property" towards any installment or part payment due to any Bank, Financial Institution, Company or Co-Operative Society towards the cost of the house property allotted to him is allowed as deduction U/s 80 C of the Income Tax Act, 1961 to the extent of Rs.1,00,000 along with other Specified Investments mentioned under Section 80 C of the Income Tax Act, 1961.

Points to Ponder:

1. The Deduction under this section is available only in respect of House Property which is chargeable to Income Tax under the head Income from House Property i.e. if assessee has made any repayment of loan obtained from any Bank or Financial Institution during the under construction period of the Property then such payment is not eligible for deduction U/s 80 C of the Income Tax Act, 1961. This will become taxable when the assessee becomes the owner of the property as defined U/s 27 of the Income Tax Act, 1961.
2. In case of Purchase or constructed House Property, Property should be held for minimum period of 5 years from the end of the Financial Year in which possession of such property is being handed over. In case assessee fail to do so, no deduction under this section shall be allowable in the previous year in which the house property is transferred and the aggregate deduction claimed in the past years shall be considered as deemed Income of the assessee of the previous year in which such property transferred.