

HOW TO MAKE GAINS FROM A VACANT HOUSE

Interest rates have been on the rise for almost three years. While the interest rates were on a downslide during 2001-03, many individuals made investments in real estate with the twin objective of owning house property and getting some tax rebates.

Today, those investments may seem like an albatross. Over the last three years, interest rates have increased by around 500 basis points, leading to a near 50% rise in EMIs. However, few know that you can avail of the tax concessions, even if your house property is lying vacant.

If you have taken a home loan, you are entitled to two deductions - deduction of interest and deduction of principal. You can claim a deduction of the principal sum and stamp duty, registration fee and other specified expenses incurred for the purpose of the house property under Section 80 C (up to a maximum of Rs 1 lakh; inclusive of other tax-saving investments such as PPF and life insurance premia) starting from the financial year in which the house property is purchased or constructed. This concession is applicable only in the case of a self-occupied (or deemed to be self-occupied) property.

Similarly, the borrower can also claim a deduction of the interest due on the housing loan under Section 24. Interest deduction on the housing loan is allowed to the extent of Rs 1.5 lakh in case the house was acquired or constructed after April 1, 1999. If the house was acquired or constructed before that date, a deduction of up to Rs 30,000 is permitted.

Often, individuals move cities or stay in a different locality (within the same city) for professional reasons and leave their house property vacant. Let's illustrate this with the example of Sanjay Verma, who bought a house in Mumbai in 2002 and had to shift to Delhi due to his job. If the flat in Mumbai is the only flat he owns, he can avail of the tax concessions (under Section 80-C and Section 24) even if this flat is lying vacant and he is paying rent for the house in Delhi.

As per the rules, if an individual buys a house property for self-occupation but cannot occupy it due to employment, and the property is lying vacant, its 'annual value' is taken as nil. The 'annual value' is the value after deduction of municipal tax, if any, paid by the owner.

The annual value or 'notional rent' is determined in four ways (a) actual rent received; (b) municipal value (determined by the municipal authorities for levying taxes on house property); (c) fair rent (the rent a similar property can fetch in the same or similar locality); and (d) standard rent, that is fixed under the Rent Control Act.

In this scenario, Verma can avail of tax concessions on the interest paid on his housing loan. In fact, he can derive twin benefits in case he is paying rent for his house in Delhi and gets an HRA from his employer. This way, he can reduce his taxable income substantially.

What happens if Verma decides to rent out his flat in Mumbai sometime in the middle of this financial year? In this case, he can be still eligible for tax concessions for the period during which his Mumbai flat was lying vacant.

Tax concessions can also be availed of in case of more than one vacant house property. Let's take the case of Verma's colleague, Alok Jain, who has two vacant house properties - one in Mumbai, another in Bangalore - and he is living in Delhi for reasons of

employment. In the case of two vacant house properties, a notional rent (or annual value) is applicable to one property. In this case, Jain can treat any one house as meant for self-occupation. If Jain declares the Mumbai flat as the one meant for self-occupation, the Bangalore flat is deemed to be let out. On the Mumbai flat that is vacant, the same concessions are applicable as the one applicable to Verma.

Let's assume the annual value of Jain's Bangalore flat is Rs 3.6 lakh. He can deduct a third of this value (Rs 1.2 lakh) as expenditure towards repairs and maintenance. After that, Jain can set off interest paid on this house property against the notional rent. Let's assume Jain pays an interest of Rs 90,000 on the loan for his Bangalore house. The net notional income from his Bangalore flat comes down to Rs 1.5 lakh, on which Jain is liable to pay tax.

If Jain falls in the highest income bracket, the income tax he is liable to pay for the notional income from his Bangalore flat comes to around Rs 50,985 (@33.99%). He has to pay no tax for his flat in Mumbai.