Sec. 80E Deduction in respect of interest on loan taken for higher education

The deduction under section 80E is available only TO **an INDIVIDUAL.**

Deduction:

- Only **Available** To Individual
- Not **Available** To HUF And
- Not **Available** To Other Type Of Assessee

Section 80E provides deduction **To an Individual Assessee**

- ✓ in respect of **any interest** on loan **paid** by **him**
- ✓ in the previous year
- ✓ Out of his income chargeable to tax.

Analysis :

- ✓ Deduction is available only to an Individual
- ✓ Deduction is for interest on loan
- ✓ Interest must be paid in the previous year
- ✓ Interest must be paid out of income which must be chargeable to tax

The loan must have been taken for the purpose of pursuing **higher education**

- For himself or
- For his relative viz.
  - Spouse or
  - Children of the individual or
- For the student for whom the individual is the legal guardian.

- **Parents can claim the deduction in respect of interest paid on education loan taken for the education of children**
- **But children cannot claim the deduction in respect of Interest Paid for Education of Parents.**

Analysis :

- ✓ More clearly we can say that Loan is taken for the purpose of pursuing **higher studies** of Individual, Spouse, Children of Individual or the student for whom individual is legal Guardian.

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- "Higher education" means
  - Any course of study (including vocational studies) pursued **After Passing The Senior Secondary Examination** or its equivalent
    - from any school, board or university recognised by the Central Government or State Government or local authority or
    - By any other authority authorized by the Central Government or State Government or local authority to do so.

  - Therefore, interest on loan taken for pursuing **any course after CLASS XII** or its equivalent, will qualify for deduction under section 80E.

- More clearly we can say that Higher studies means full-time studies for any graduate or post-graduate course

  - As per section loan should be for pursuing his higher education or for the purpose of higher education of his relative (i.e. Spouse, Children of Individual or the student for whom individual is legal Guardian.) and If the assessee or such relative has pursued the higher course so he should be eligible for the deduction as he has fulfilled all the conditions and
    - There is no condition that the course should be completed or assessee or such relative should be passed definitely in the course.
    - The main demand of the section is purpose of the loan should be higher education and it should be drawn and used for the purpose of higher studies for his or his relatives.

- **Deductible amount:**
  - The **amount of interest paid is eligible for deduction** and moreover there is **no limit on the amount to be deducted.**
  - We can deduct the **entire interest** amount from our taxable income.

  - **However there is no benefit available on the repayment of principal amount of the loan.**

- Deduction available if Interest is paid **during the previous year** and **paid out of income chargeable to tax.**
  - It connotes that if repayment is made from income not chargeable to tax then deduction will not available.

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⌗ Loan must have been taken by him from

- **any** financial institution **or**
- **any** approved charitable institution
- **For the purpose of pursuing** higher education**.**

⌗ Interest on Loan taken from relatives or friends will not be eligible for deduction under section 80E.

- In short the loan must have been taken from any financial institution or approved charitable institution.

"FINANCIAL INSTITUTION" means;

- A banking company to which the Banking Regulation Act, 1949 applies or
- Any other financial institution which the Central Government may, by notification in the Official Gazette, specify in this behalf.

"APPROVED CHARITABLE INSTITUTION" means

- an institution established for charitable purposes and approved by the prescribed authority under section 10(23C) or
- an institution referred to in section 80G (2)(a).

⌗ Deduction period

- Deduction shall be allowed in computing the total income in respect of
  - The **initial assessment year** and
  - **Seven assessment years immediately succeeding the initial assessment year** or **until the interest is paid by the assessee in full**, whichever is earlier.

- The tax benefits on education loan are **only valid once you start the repayment and moreover they are only available up to eight years.**

- For instance if your loan tenure **exceeds eight years**, you cannot claim for deductions beyond eight years. **Hence it is better that the education loan is repaid within eight years.**

- Unless if the loan amount is very high and it is difficult to afford a high amount of equated monthly instalment (EMI), one should not opt for education loan with longer tenure.

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- **More clearly we should say that**
  - the deduction is allowed in computing the total income in respect of the initial assessment year (i.e. the assessment year relevant to the previous year, in which the assessee starts paying the interest on the loan) and
  - seven assessment years immediately succeeding the initial assessment year or until the interest is paid in full by the assessee, **whichever is earlier**

- **Initial assessment year means the assessment year relevant to the previous year, in which the assessee starts paying the interest on the loan.**

- **Loan should be in the name of Individual:** Deductions on education loan **can only be claimed** if the loan has been taken on your own name. **If your parents, spouse has taken the loan for your studies, then you are not entitled to get tax benefit.**

- The loan includes **not only tuition or college fees but also other incidental expenses for pursuing such studies like hostel charges, transport charges** etc.

- Repayments of education loan NOT covered under Section 80C.

- ***There is no condition that the course should be in India.***

  - Tax benefits on education loans help assessee reduce the overall cost of the loan.
  - The assessee can claim a deduction under section 80E of the Income-Tax Act for the interest paid on an educational loan.
  - The assessee will get the tax benefit on an education loan **only if the loan is in his own name** and is taken for the purpose of higher education of self, his spouse or his children.
  - Education loan taken for the higher education of brother or sister is not covered in this regard.

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