

Tax Benefits

The benefits of taking a home loan The income tax authorities look with favour upon those servicing a housing loan from specified financial institutions. And, it is up to you to be wise enough to take advantage of this.

Let's start with Section 24 of the Income Tax Act.

Interest paid on capital borrowed for the acquisition, construction, repair, renewal or reconstruction of property is entitled to a deduction. That means you are allowed to deduct an amount equivalent to the total interest payable on the housing loan from your taxable income within the same financial year.

This is now a substantial amount. It started off with the Income Tax Department offering Rs 15,000 as the maximum amount eligible for deduction in the case of self-occupied property. This later got doubled to Rs 30,000. It did not stop there. After getting enhanced to Rs 75,000, it was then taken to a limit of Rs 1 lakh. Presently, the limit stands elevated to Rs 1.5 lakh.

So, should you borrow money to acquire, construct, repair, renew or reconstruct property on or after April 1, 1999, you get a deduction of up to Rs 1.5 lakh. The criteria being: the property has to be acquired or constructed by March 31, 2003 and be self-occupied.

When put in figures, this is quite an amount:

1. Assume taxable income of Rs 4 lakh, placing the assessee in the highest tax bracket.
2. Assume interest payment during the first financial year is Rs 1.60 lakh
3. Taxable income stands reduced to Rs 2.5 lakh (Rs 4 lakh - Rs 1.5 lakh being the maximum limit)
4. Total tax amounts to Rs 49,980 (tax of Rs 49,000 + surcharge of Rs 980)
5. Tax saved is Rs 45,900 (tax @30% on Rs 1.5 lakh plus 2% surcharge as the investor is in the highest tax bracket)

That brings us to Section 88 of the Income Tax Act.

You get a 20% rebate on repayment of principal during a financial year. Once again, over the years, the principal repayment eligible for rebate has been enhanced from Rs 10,000 to the current limit of Rs 20,000. Stamp duty, registration fee or other such expenses paid for the purpose of transfer of such house property to the assessee is also considered under this amount.

Going back to our earlier example:

1. Taxable income of Rs 4 lakh
2. Taxable income stands reduced to Rs 2.5 lakh
3. Tax before rebate and surcharge: Rs 49,000 (no surcharge is computed as surcharge is applicable on tax payable after allowing for rebate under Section 88)
4. Rebate of Rs 4,000 (20% of Rs 20,000 being principal repayment)
5. Tax less rebate of Rs 4,000 + surcharge @ 2% = Rs 45,900
6. Tax saved = Rs 49,900 (Rs 45,900 as shown above plus rebate of Rs 4,000)