

Deduction On Repayment Of Educational Loans

FE NEWSLINE

Chandigarh. Wednesday, August 7, 2002

Q. Is there any deduction allowed under the Income Tax Act for repayment of education loan?

Repayment of loan taken for higher studies is eligible for deduction u/s 80E of the Income Tax Act.

Q. Who all are eligible for the deduction?

Only individuals are eligible for the deduction in respect of repayment of loan taken for higher studies.

Q. Are repayment of education loans taken from private parties also eligible for deduction?

Repayment of loan taken from any financial institution (banking company or notified financial institution) or an approved charitable institution (an institution approved for the purpose of section 10(23C) or 80G(2)(A) are eligible for deduction. Therefore repayment of loan taken from any private party other than the above shall not fall within the ambit of this section.

Q. What does higher studies mean for eligibility of this deduction?

Higher studies would mean full-time studies for any graduate or post-graduate course in engineering (including technology, architecture), medicine, management or for post-graduate course in applied sciences or pure sciences including mathematics or statistics,

Q. What is allowed as deduction, the repayment of principal or the interest thereon?

The deduction is allowed without any discrimination between principal repayment and interest payments. Both are allowed.

Q. Is there any particular source of income out of which such deduction shall be allowed?

The assessee is eligible for deduction irrespective of the source from which it was repaid. The assessee even if repays the loan out of his business income the eligibility for deduction is satisfied. The only criterion being that such amount is paid out of his /her income chargeable to tax.

Q. What is the quantum of deduction allowed?

The following amount is deductible :

- a. amount paid during the year by way of repayment of loan or interest thereon; or
- b. Rs.40,000 ,whichever is lower.

Q. What is the tenure of repayment of the education loan?

The eligibility for deduction will be from the initial assessment year and seven assessment years succeeding the initial assessment year. In other words, the deduction is available for a maximum period of 8 years consecutive or till the principal amount of such loan together with interest is liquidated, whichever is earlier.

Q. When does this repayment period of 8 years start?

The first year in which the deduction is available is the year in which the person starts repaying the loan. Thereafter, the deduction is available for a maximum period of 8 years or till the principal amount of such loan together with interest is liquidated, whichever is earlier.

Q. Will approved charitable institutions include educational societies too?

Yes, repayment of loan to educational societies approved for the purposes of section 10(23C) or 80G(2)(a) is also eligible for deduction under this section.

Q. If education loan has been taken from an educational society which is claiming exemption u/s10(23C)(iiiad), is that also eligible for deduction?

Yes, repayment of education loan to educational society whose annual receipts are less than Rs.1 crore and who do not require any further approval and whose income is automatically exempt u/s 10(23C)(iiiad) are also eligible for deduction under this section.

Q. What happens if the loan is taken for higher studies but is used for other purposes?

Deduction under this section would not be available if the loan taken for higher studies is used for other purposes .

Q. What happens if the loan is taken for higher studies but the applicant does not get admission to the course and has to pay some interest on the loan for this short period say three months.(say the time for processing the application)?

Usually such loan for higher studies are granted only after the candidate has got admission in the particular course. But in case ,the question arises as it is posed, then the interest required to be paid on the loan for the short period shall be allowed to be set off against any income chargeable to tax.