Kill two birds with one stone

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Are you a profitably employed couple? And do you intend to buy a house with a housing loan ? If yes, here's a tax plan for you.

Take care to buy the house property in joint names. This way both members could claim tax benefit while filing tax returns.

The investor gets tax benefits on account of interest payments and principle repayments over and above the capital appreciation on the property.

***Tax benefits**:*

1. In the form of deduction of interest on borrowings :

Under section 24,Interest on borrowed capital is allowable as deduction on accrual basis if capital is borrowed on or after April1,1999 for the purpose of purchase, construction, repair, renewal or reconstruction of the house property and the property is acquired or construction is completed before April 1,2003 This is however deductible subject to maximum of Rs. 1,50,000 under section 24(1)(vi).

Accordingly, the owner of the house property gets a deduction equal to the actual interest payment or Rs. 150,000, whichever is lower.

2. In the form of tax rebate on amount of loan repayments:

Under section 88 ,For any payment made towards the cost of purchase/construction of a new residential house property ,the deduction will be allowable in respect of payments made up to Rs. 20,000 during the previous year.

This limit is actual amount or Rs. 20,000 per annum which ever is less.

The following payments (subject to a maximum of Rs. 20,000) will qualify for the purpose of section 88:

a. Any instalment or part payment of the amount due under any self-financing or other scheme of any development authority, housing board or other authority engaged in the construction and sale of the house property on ownership basis; or

b. Any instalment of part payment of the amount due to any company or co-operative society of which the assessee is a shareholder or member towards the cost of the house property allotted to him; or

c. Repayment of the amount borrowed by the assessee from --
   - i. The Central Government or any Sate Government, or
   - ii. Any bank including a co-operative bank, or
   - iii. The life Insurance Corporation of India, or
   - iv. The National Housing Bank, or
   - v. Any public company formed and registered in India with the main object of carrying on the business of providing long-term finance for construction or purchase of houses in India for residential purposes which is approved for the purpose of section 36(1)(iii), or
   - vi. Any company in which the public are substantially interested or any co-operative society, where such company or co-operative society is engaged in the business of financing the construction of house, or

vii. the assessee's employer where such employer is a public company or public sector company, or a university established by law or a college affiliated to such university or local authority or co-operative society,

d. stamp duty, registration fee and other expenses for the purpose of transfer of such house property to the assessee.

The following payments are not qualified for the purpose of section 88 :

a. the admission fee, cost of the share and initial deposit which a shareholder of a company or a member of a co-operative society has to pay for becoming such shareholder or member; or

b. the cost of any admission or alteration to, or renovation or repair of the house property which is carried out after the issue of the completion certificate in respect of the house property by the authority competent to issue such certificate or after the house property (or any part thereof) has either been occupied by the assessee or any other person on his behalf or been let out, or

c. any expenditure in respect of which deduction is allowable under the provisions of section 24.

Housing loan

What do the housing loan people have to say about it:

The modus operandi is quite simple. A person gets a loan equal to 40 months of income or 80 per cent of the value of the house property, which ever is less.

Further, the basic principle is repayment capacity and hence the loan given must not have a monthly EMI exceeding one third of the monthly income of the borrower.

So, if in case a person wants to borrow an amount greater than his borrowing capacity, he can have a co-applicant to enhance his loan borrowing limit.

This is for the sake of convenience. This is because, the incomes of both the applicants are clubbed together to compute the borrowing limit of the borrowers.

Benefits of co-application

In such case, interest deduction and rebate is available to both the borrowers, up to the maximum limits as mentioned above. Thus, the total deduction increases from Rs. 1.5 lakhs to 3 lakhs and the eligible limit for rebate rises from Rs. 20,000 to Rs. 40,000.

In such cases separate interest payment/ loan repayment certificates should be taken from the lending institutions and filed with the income tax returns in case of each assessee (borrower).

Stipulation

The property should be owned in joint name.

What if the co-applicant is only for loan purposes and not a joint owner of property.

If the co-applicant is only for the sake of convenience, to increase the loan limits, then the tax benefits will not be available to him. This means that if the house property is owned by only one applicant, but has used a co-applicant for increasing the loan limits, then only the actual owner is entitled to tax benefits, and not both the applicants.

Word of caution/suggestions

Who will get the tax benefits in case of loans in joint names?.

The deduction and the rebate is available to both : the applicant and the co-applicant, if the house is owned by both the borrowers. The basis to decide, whether the tax benefits are available or not depends on who really owns the house property.

In view of recent amendments w.r.t. perquisites it should be kept in mind that interest free or concessional housing loan made available to the employee or any member of his household by the employer or any person on his behalf shall be a taxable perquisite at prescribed rates. Plan your taxes accordingly.

Take care to buy the property in joint names. This way both members could claim tax benefits while filing tax returns. The investor gets tax benefits on account of interest payments and principle repayments, over and above the capital appreciation of the property.