

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 deductible up to Rs.1,50,000/-

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

Under the proposed new section 80C, an individual or a HUF, will be allowed a deduction from income of an amount not exceeding Rs.1,00,000/- with respect to sums paid or deposited in the previous year, out of income chargeable to tax, in certain specified schemes, which inter alia include repayment of principal amount of housing loans.

The following payments will qualify for the purpose of section 80C:

- 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 or 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 State 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)(viii), 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 an authority or a board or a corporation or any other body established or constituted under a Central or State Act.

- viii. 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 :

- 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 addition 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

A person gets a loan equal to 40 months of income or 80 per cent of the value of the house property, whichever is less. The basic principle is repayment capacity, which can be increased by having a co-applicant. 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 u/s 24 to the Co-borrowers will amount to Rs. 3 lakhs and the total eligible rebate u/s 80C will be Rs.2,00,000/-.

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).