

## **Tax Deduction on Educational Loans**

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LOANS FOR higher education are given by the banks on liberal terms and conditions. Beneficiaries are entitled to certain tax deductions thereon. These deductions have now undergone some fundamental changes from this year. See, what you get and what you lose.

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

Repayment of principal as well as interest thereon on educational loans have been allowed as deduction upto a certain limit under section 80E.**Beware of the change proposed in the Finance Bill 2005.**It is proposed to substitute the present section with a new amended section 80E whereby no deduction will now be allowed w.r.t. repayment of principal but interest paid on the educational loan will be now allowed as a deduction without any limit. The substituted section shall be effective from 1<sup>st</sup> of April,2006.

**Q. Who all are eligible for the deduction?**

Only individuals are eligible for the deduction .

**Q. Do education loans taken from private parties also come within the ambit of this section?**

Payment of Interest on 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) will be eligible for deduction. No deduction for interest paid will be available if the educational loan is taken from any private party.

**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?**

Earlier deduction was allowed without any discrimination between principal repayment and interest payments.Now it is proposed to allow the entire amount of interest paid by an individual during the previous year.

**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 paid.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?**

Earlier the following amount was deductible :

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

As per the proposed new section 80E,only interest paid on education loan will be allowed and shall be allowed in full without any limit.

**Q. What would be the tenure of repayment of the interest on education loan?**

The deduction shall be allowed for eight years beginning from the year in which payment of interest on loan begins or until the interest is paid, whichever is less.

Q What happens if the Education loan is taken from a bank, 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.

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.