TAKING A HOUSING LOAN:

Typically, the longer the loan tenure, the lower is the monthly EMI but higher is the interest outgo. The Reserve Bank of India (RBI) has prohibited banks from levying any foreclosure charges if you pay off the loan prior to its tenure. Once you have the loan in hand, you will be paying a periodical interest and also repaying the principal — in tranches. The I-T law provides for benefits in both instances.

Tax Benefits on interest paid:

Interest payable on 'self-occupied' property is subject to a maximum deduction of Rs 2 lakh under the head 'Income from house property'. Even a loan taken from an employer, friend or private lender is eligible for such a deduction. Booking an apartment which is under construction is sometimes cheaper. The I-T law permits you to claim the total interest paid during the pre-delivery period as a deduction in five equal installments starting from the financial year in which the construction was completed or you acquired your apartment (generally this denotes the date of possession). Of course, the maximum you can claim as deduction per year continues to be Rs 2 lakh.

Caution point: A certificate from the lender is required to claim deduction on interest even if the lender is an employer or a friend. To claim deduction of Rs 2 lakh, it is essential that the acquisition or construction is completed within 3 years from the end of the financial year in which the loan was taken; else the deduction allowed will be limited to Rs 30,000.

Union Budget 2015

Set off your interest payment:

As income from a 'self-occupied property' is nil, deduction of interest, in technical parlance, will mean a loss under the head 'Income from house property'. This "loss" can be set off against other income, which includes salary income, in the same year. This reduces your total tax liability. Any loss not set off within the same year can be carried forward and set off in the next 8 years. However, in the subsequent years, such set-off is possible only against 'Income from house property'. So even if you let out your property next year, this carry-forward of loss can bring a marginal relaxation in your tax liability.

Definition Of 'self-occupied' property:

Here is some guidance on what exactly constitutes 'self-occupied' property. If you are suddenly transferred to another city (where you live in a rented apartment) your own property will be considered as 'self-occupied'. Also, if you have opted to purchase a new apartment in a tier-2 town where property is cheaper and continue to stay in a rented house, this new apartment would be regarded as 'self-occupied' entitling you to deduction of housing loan interest.

Hot tip: If you have bought the new apartment jointly — say with your spouse — then each of you is entitled to a deduction of Rs 2 lakh, as explained above. In case you have a working son or daughter and the bank is willing to split the loan three ways, all three can avail deduction up to Rs 2 lakh each. Repayment Of Your Housing Loan: The principal repayment of the housing loan made by you is allowed as a deduction from your gross total income (subject to an overall cap with other eligible investments of Rs 1.5 lakh). Please refer to the section on savings.

Caution point: Unlike deduction of interest, deduction of principal repayment will be allowed only if the loan is taken from specifi ed institutions like banks or LIC.

Buying an apartment and your TDS obligations:

As per the I-T law, the buyer of an immovable property worth Rs 50 lakh or more is required to deduct (and deposit) withholding tax at the rate of 1% from the consideration payable to the seller. In case of failure to comply with the provisions, interest and penalty are imposed on the buyer.

Thus, if the purchase price of your fl at is Rs 50 lakh or more, then you have to comply with the tax deduction at source (TDS) obligations. You will be required to furnish information about the tax deducted and deposited online on the Tax Information Network (TIN) website in Form 26QB (URL is https://onlineservices.tin.egov-nsdl.com/etaxnew/tdsnontds.jsp). Further, you will also have to download Form 16B, which is the TDS certificate from the website (URL is https://www.tdscpc.gov.in/app/login.xhtml) and issue it to the seller.

Caution point: If you have booked a fl at and are paying the builder in instalments, but the value of the fl at as per the sale agreement is more than Rs 50 lakh, then tax has to be deducted against each instalment payment. You also need to comply with the timelines for deduction and deposit of TDS and fi ling of the information online and submission of the TDS certifi cate to the builder.

Letting out your second house:

Investing in real estate has become attractive, but make sure not to keep your second house (which is not a self-occupied property — as explained above) unoccupied: it makes better sense from the I-T law perspective to rent it out. Your second house, if locked and empty (with no income accruing from it in the form of rent), will still attract tax on its 'deemed value'. In other words, tax is calculated at expected market rent.

YOUR 2ND LOCKED FLAT COULD LEAD TO TAXABLE INCOME		
	Let Out Property	Locked Flat
Gross rental value	8,00,000*	6,00,000*
Less: Municipal taxes	(-)50,000	(-)50,000
Net annual value	**7,50,000**	**5,50,000**
Less: Flat 30% deduction	(-) 2,25,000	(-)1,65,000
Less: Housing interest (actual)	(-) 2,50,000	(-) 2,50,000
Taxable income from house property	2,75,000	1,35,000

* Figures in ₹/yr; ₹8 lakh is the actual rent received; ₹6 lakh is expected rent

Interestingly, if you let out the second house, you can deduct the entire amount of interest you are paying on it without any cap from the rent received. If there is a loss, you can deduct it from your taxable income. For example, if your interest outgo is Rs 10 lakh and the rent is Rs 6 lakh, you can get a tax benefi t on Rs 5.8 lakh (Rent Rs 6 lakh less: (a) Standard deduction of 30% of rent which is Rs 1.8 lakh and (b) Interest Rs 10 lakh). This is applicable for any number of houses and there is no cap on the amount of deduction you can claim.

SELLING YOUR APARTMENT:

If you sell your house, whether it is self-occupied or your second apartment, you will incur capital gains tax (given that there has been appreciation in property prices, it is unlikely that you will be making a loss).

Capital gains is the difference between the sale proceeds and the cost of acquisition of the apartment you are selling. Further, capital gains can be either short-term or longterm depending on the tenure for which the house was held. A short term capital gains will have a different tax impact than a long-term capital gains (LTCG).

If the house is held for not more than 36 months, on sale, you will incur a short-term capital gain, which is subject to income tax based on your applicable slab rate. If you fall in the lower tax bracket with a tax rate of 10.3%, short-term capital gains will not pinch you. Else you could end up with a 33.99% tax rate.

If the property is held for a longer period, LTCG arise. The cost of acquisition used for computing LTCG is the indexed cost of acquisition (in other words an adjustment is made for infl ation). Tax is levied on LTCGs at 20% (plus surcharge and cess).

Reinvesting in residential property or securities:

To be able to save tax on capital gains, you must invest the entire LTCG from the sale of residential property in another (only one) residential property in India. Such investment can either be within one year before or two years after the date of sale. You could also construct another residential property in India within three years of the date of sale.

Also, you may deposit the amount of capital gains under capital gains account scheme with a bank in case investment in new property is not made before fi ling of I-T return (not later than the due date for fi ling your I-T return). If the entire amount is not reinvested or not deposited in capital gains account scheme, the remaining portion of the gain will be taxable
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Caution point: Exemption from LTCG will not be available in case the reinvestment is made in more than one fl at, even if the same are adjoining fl ats, or in a commercial property. Further, while the RBI permits you to invest in property overseas (a remittance of $250,000 or Rs 1.5 crore approx per year is permitted which can even be used for property acquisition), if LTCGs are reinvested in property overseas you will not get the tax exemption.

Exemption is also available on investments made in certain bonds within six months of sale. They include Rural Electrifi cation Corporation and NHAI. The maximum amount that can be so invested is Rs 50 lakh.