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HOUSING FINANCE AND TAX PLANNING

HOME LOANS

A home loan, also known as a mortgage, is a **loan provided by a lender to help a borrower purchase a home.**

The borrower agrees to repay the loan amount along with interest over a predetermined period.

28.2 TAX BENEFITS IN RESPECT OF HOUSING FINANCE

A borrower who has taken a **home loan for purchase, construction, or repair of a residential unit can claim tax benefits on both:**

- ✓ **Interest Payment (Section 24)** 
- ✓ **Principal Repayment (Section 80C)** 
- ✓ **Additional Benefits for First-Time Buyers (Section 80EE)**

Tax Benefit Under Section 24(b) - Interest on Housing Loan

✓ Home loan interest **can be deducted up to ₹2,00,000 per year** under **Section 24(b)** of the **Income Tax Act, 1961.**

✓ Conditions to Claim This Deduction

- Loan has been **taken on or after 1st April 1999** and Interest payment of home loan must be taken **for a self-occupied property**.
- A loan is for **purchase or construction of a residential property** or as **re-finance (takeover)** of the principal amount outstanding under a loan taken earlier for purchase or construction of a residential property.
- If the property is **not acquired or construction** is not completed **within 5 years** from the end of the financial Year in which the loan was taken. The tax benefit under **section 24 is reduced from 2 lakh to 30,000**.
- If the loan is availed **for repair or renewal** an amount of **30,000** is only allowed under Section 24(b).

Note

In case the property for which the home loan has been taken is not self-occupied, i.e., Rented or deemed to be rented, **no maximum limit for tax deduction** has been prescribed and the taxpayer **can take the deduction of the whole interest amount** under section 24.

TAX BENEFIT UNDER SECTION 80C

- Under Section 80C of the Income Tax Act in India, taxpayers are eligible for a deduction **on the principal repayment of a home loan.**
- This deduction can be used for **both self-occupied and let-out properties**, up to a maximum of 1.5 lakh every year.

CONDITIONS

- A deduction can be availed only if the **construction of property is complete** and have received a completion certificate for the same.
- No deduction would be allowed for **those years during which the property was under construction.**

Reversal of tax benefits availed under section 80C.

- If a taxpayer **sells a property within 5 years of acquiring it** and had previously claimed deductions under Section 80C, **those deductions won't be applicable.**
- In addition, the **total deduction amount claimed earlier will be treated as income in the year of sale**, resulting in potential tax liability on that amount.

TAX BENEFIT UNDER SECTION 80EE

- Under section **80EE** is also available on the **interest paid on the home loan** by taxpayer or assessee. But his deduction is **only available to first time home buyers**.
- The quantum of deduction is **50,000 for interest** paid on the home loan. This deduction is available **over and above the deduction of section 24 and section 80C**.

CONDITIONS

- The value of property for which the loan has been taken **should be less than 50 Lakh**.
- The home **loan amount** should **not exceed 35 Lakh**.
- The tax benefit here can be claimed **till the time repayment of loan continues**.
- The property can be either **self-occupied or non-self-occupied**.
- The **amount of claim deducted** under this section will **not be eligible to claim the deduction us 24** again for the same amount of interest.
- As on the date of sanction of loan **no other house is owned by you**.

ELIGIBILITY FOR CLAIMING SECTION 80EE

- The deductions under this section can be claimed **only by individual taxpayers** on properties purchased **either singly or jointly**.
- Section 80EE is applicable on a **per person basis instead of a per property basis**. So if you have purchased property jointly with your spouse and you both are paying the instalments of loan **then you both can individually claim this deduction**.
- It is **not necessary to reside in the property** for which you want to claim this deduction. So, borrowers staying in rented accommodation can also claim this deduction.

Note

If The property is rented out, interest paid on Loan can be fully deducted from the Income derived from the property without the limit of 2,00,000 or 30,000, as the case may be.

Key Takeaways on Home Loan Tax Benefits

- ✓ **Maximum tax benefit available: ₹3.5 lakh per year (₹2 lakh under 24(b) + ₹1.5 lakh under 80C).**
- ✓ **For first-time home buyers: Additional ₹50,000 benefit under 80EE.**

✓ If property is rented: Full interest deduction **allowed**.

✦ Common Mistakes to Avoid When Claiming Home Loan Tax

Benefits

- ✓ ✗ Claiming Tax Benefits Before House Completion
- ✓ ✗ Missing Interest Certificate from Bank
- ✓ ✗ Not Registering the Home in Your Name
- ✓ ✗ Failing to Meet First-Time Buyer Conditions for Section 80EE

🏠 Computation of Income from Self-Occupied Property

When a house is self-occupied, its **Gross Annual Value (GAV)** is **NIL**.

This means that no rental income is generated from the property.

However, homeowners can still claim **tax deductions** under **Section 24(b)** and **Section 80C** on their home loan.

✦ Computation of Income from House Property (Self-Occupied)

 Particulars	Amount
Gross Annual Value (GAV)	Nil
Less: Municipal Taxes Paid	Nil
Net Annual Value (NAV)	Nil
Less: Deductions under Section 24	-



Deduction under Section 24(a) - Standard Deduction @ 30% of NAV	Nil
Deduction under Section 24(b) - Interest on Borrowed Capital	(XXXX)
Income from House Property	XXXX

Who is Eligible to Claim Section 80EE Deduction?

Eligible Individuals	Not Eligible
Individual taxpayers	HUFs, Companies, or Partnership Firms
Joint Property Owners (Both Can Claim Separately)	If already owning another house at loan sanction time
Taxpayers staying in rented houses can claim it too	Property owned by parents/spouse where you are not a co-owner

Taxation of Let-Out Property

If a property is **rented out**, the **entire interest paid on the home loan is fully deductible**

No **₹2 lakh limit** like in **self-occupied property**.

Computation of Income from Let-Out Property

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 Particulars	 Amount
Gross Annual Value (GAV)	XXXX
Less: Municipal Taxes Paid	(XXXX)
Net Annual Value (NAV)	XXXX
Less: Deduction under Section 24	-
 Deduction under Section 24(a) - Standard Deduction (30% of NAV)	(XXXX)
 Deduction under Section 24(b) - Interest on Borrowed Capital	(XXXX)
 Income from House Property	XXXX

Example:

A property earns ₹4 lakh rent per year, and the owner pays ₹1 lakh in municipal taxes & ₹3 lakh as home loan interest.

 Particulars	 Amount (₹)
Gross Annual Value (GAV)	4,00,000
Less: Municipal Taxes	(1,00,000)
Net Annual Value (NAV)	3,00,000
Less: 30% Standard Deduction (24(a))	(90,000)
Less: Interest on Home Loan (24(b))	(3,00,000)

Income from House Property	(90,000) (Loss)
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✓ The taxpayer can set off this ₹90,000 loss against other taxable income. ✓ 📊

HOME LOAN IN JOINT NAMES

- In the case of home loan in joint names, the **tax benefits get divided among owners**. The division takes place in the **same proportion in which the asset is owned** by each co-applicant.
- Each co-applicant can claim a maximum tax rebate of **up to 1.50 Lakh** for principal repayment (Section 80C) and **2 Lakh for interest payment** (Section 24).
- Benefit, if available, **under 80EE can also be claimed individually**. Therefore, a joint home loan can give more tax benefits.

TAX IMPLICATIONS IN RESPECT OF NRI HOME LOAN

NRI who repays the home loan **can avail a tax benefit** on repayment of up to **1.50 Lakh** on the principal component and **2.00 Lakh on the interest** component.

CONDITIONS

- If an NRI's **sole income is from abroad**, no tax exemption on home loan repayment is possible.

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- NRI with extra **taxable income from India can claim home loan tax exemption** similar to resident individuals.

Summary Table: Joint Home Loans & NRI Tax Implications

 Aspect	 Key Rules	 Example
 Joint Home Loan Benefits	Tax benefits split as per ownership ratio.	A couple gets ₹7 lakh tax benefits together.
 NRI Home Loan Deductions	NRIs can claim tax benefits only if earning in India.	An NRI earning rent in India claims deductions.
 80C & 24(b) Limits	₹1.5 lakh (Principal) + ₹2 lakh (Interest).	Same for NRIs if taxable in India.
 NRI With No Indian Income	No tax deduction allowed.	An NRI earning only abroad cannot claim benefits.