OSC KNOWLEDGE ARTICLE

HOUSING LOAN AND DEDUCTION UNDER INCOME TAX ACT

INTRODUCTION

Affordable housing has always been the top agendas of Government in power whether in the State or the Centre. This is true for India as well as other countries around the world. Affordable housing schemes have seen a kick off lately with the ambitious plan for offering people affordable housing under the 'Housing for All' initiative by the year 2022. And it is not only the Ministry of Housing and Urban Affairs supporting for this dream come true but the Ministry of Finance too by providing interest subvention schemes in some cases while providing for income tax exemptions in some.

The recent new deduction under **Section 80EEA** of the Income Tax Act, 1961 for the interest paid on housing loan in order to incentivize purchase of a residential house vouches for Government's true intent for the dream. The Income Tax Act already had a few provisions in place supporting affordable housing and we will see how exactly the newly added provision is different from the ones already existing along with an overview of all the provisions at disposal while computing taxable income when an individual has a housing loan.

NEWLY INSERTED SECTION 80EEA

From the Bare Act

(1) In computing the total income of an assessee, being an individual not eligible to claim deduction under section 80EE, there shall be deducted, in accordance with and subject to the provisions of this section, interest payable on loan taken by him from any financial institution for the purpose of acquisition of a residential house property.

(2) The deduction under sub-section (1) shall not exceed one lakh and fifty thousand rupees and shall be allowed in computing the total income of the individual for the assessment year beginning on the 1st day of April, 2020 and subsequent assessment years.

(3) The deduction under sub-section (1) shall be subject to the following conditions, namely: —

(i) the loan has been sanctioned by the financial institution during the period beginning on the 1st day of April, 2019 and ending on the 31st day of March, 2020;

(ii) the stamp duty value of residential house property does not exceed forty-five lakh rupees;

(iii) the assessee does not own any residential house property on the date of sanction of loan.

(4) Where a deduction under this section is allowed for any interest referred to in sub-section (1), deduction shall not be allowed in respect of such interest under any other provision of this Act for the same or any other assessment year.

(5) For the purposes of this section,—

(a) the expression "financial institution" shall have the meaning assigned to it in clause (a) of sub-section (5) of section 80EE;

(b) the expression "stamp duty value" means value adopted or assessed or assessable by any authority of the Central Government or a State Government for the purpose of payment of stamp duty in respect of an immovable property.

The section provides for deduction from the Gross Total Income to an individual with respect to interest payable on a loan taken from a financial institution for the purpose of acquisition of a residential housing property. It is important to note that the deduction is only available to an individual assesse only with respect to the interest payable on the loan taken for a residential property and who are otherwise not eligible to claim deduction under section 80EE.

Further, the deduction under this section is capped at INR 1,50,000 starting from the assessment year 2020 and the subsequent assessment years.

There are certain conditions for claiming the deduction under the newly inserted section 80EEA. The conditions are stated below:

1. **Loan to be sanctioned within the period stated-**

   The interest deduction is only available for the loans sanctioned between 1st April, 2019 and 31st March, 2020 by a financial institution. Loans from family, friends etc. are not covered under this section. Also, any loan with a sanction date not falling within the above period is not eligible for deduction under this section.

2. **Limit on the Stamp Duty Value (SDV) of the house-**

   The SDV of the property for which the loan is taken should not exceed INR 45,00,000. The SDV is simply the value adopted or assessed or assessable by any authority of a State Government for the purpose of payment of stamp duty. With this provision, the intent of the Government is out and loud, that is to make sure that the benefit only reaches for affordable houses and not for expensive residential properties. But this condition might also impact buyers where the value goes up with the increased demand thus impacting the eligibility under this section.

3. **Existing house property ownership-**
   This condition is the most important of all. The individual assessee must not own any other residential property in order to be eligible for interest deduction under section 80EEA. The provision states that the assessee should not own any other house property on the date of sanction of the loan.
4. **No deduction under any other section-**

   Where deduction for interest payable on a loan sanctioned within the stated period is claimed under section 80EEA no deduction can be claimed under any other provision of the Act.
5. **Cap on the carpet area-**

   Carpet areas have been specified in the memorandum of the Finance Bill 2019. The carpet area should not exceed 60 sq. m. (645 sq. ft) in metropolitan cities of Bengaluru, Chennai, the National Capital Region (limited to Delhi, Noida and Greater Noida, Ghaziabad, Gurgaon and Faridabad), Hyderabad, Kolkata and Mumbai (entire Mumbai Metropolitan Region). In other cities or towns, it should not be more than 90 sq. m. (968 sq. ft.).

THE COMPLETE PICTURE

For a housing loan, the Income Tax Act provides for various benefits under the Act though with different conditions. The tax benefits on a housing loan can be towards the interest payment and the principal amount repayment. The principal amount repayment is covered under section 80C while interest payment is covered under section 24/section 80EE/section 80EEA.

Section 80C- Deductions in respect of certain payments

The principal amount repaid on a loan during the year is allowed as deduction under section 80C of the Act. Though the maximum amount of deduction under section 80C is capped at INR 1,50,000 along with deduction for other investments as well, the actual deduction for principal amount could be much lower given other investments are also made by an individual. Further, this tax benefit is allowed only for residential properties whose construction is complete and completion certificate has been awarded.

Section 80C also states that in case the assessee transfers the house property on which he has claimed tax deduction under Section 80C before the expiry of 5 years from the end of the Financial Year in which the possession has been obtained by him, then no deduction and tax benefit on Home Loan shall be allowed under Section 80C. The aggregate amount of tax deduction already claimed in respect of previous years shall be deemed to be the income of the assessee of such year in which the property has been sold and the assessee shall be liable to pay tax on such income.

Section 24- Deductions from income from house property

Tax benefit for interest payment on a home loan is also allowed under section 24. As per the section, the income from the house property is reduced by the interest paid where the loan is taken for the purpose of purchase/construction/repair/renewal/reconstruction of property. The maximum deduction allowed under section 24 for a self-occupied property is subject to the maximum limit of INR 2,00,000. In case of a property which is not self-occupied, there is no limit for the deduction allowed.

Section 80EE- Deduction in respect of interest on loan taken for residential house property

The conditions for section 80EE are more or less similar to section 80EEA but it applies to loan sanctioned between 1st April, 2016 to 31st March, 2017. The deduction under this section is limited to INR 35,000 unlike the new deduction under section 80EEA limited to INR 1,50,000. However, now the section is only relevant to individuals who were granted loan between the stated period.

CONCLUSION

The section definitely provides benefits to new home owners with an increased limit of INR 1,50,000. This additional deduction will be over and above INR 2,00,000, which qualifies for deduction under section 24 of the Income Tax Act. Therefore, the total deduction available to the tax payers will become INR 3,50,000 a year. Deductions under section 24(b) and section 80EEA shall be independent of each other. As states by the finance minister in her speech, “This will translate into a benefit of around 7 lakh to the middle class homebuyers over their loan period of 15 years”.

However, the section come with a few caveats including the provision applicable only to individuals with no ownership of a residential property as on the date of sanction of loan and the cap on the size of the property, among others. Given the cap on the property size, this is bound to help only people purchasing smaller units. But the section has been welcomed by many and the industry experts with impacting the affordable housing scheme in a positive manner.