

Are you taking full advantage of tax rebates available to home buyers?

A house, besides being a long-term asset, makes you eligible for significant tax breaks as well. You can claim deduction up to Rs 1 lakh for repayment of home loan principal under the overall limit of Section 80C of the Income Tax Act. Moreover, you can claim an additional deduction of up to Rs 1.5 lakh under Section 24B for interest payment once you get possession and occupy the house.

Also, a joint loan means each of you can claim both these deductions individually, thus optimising your tax savings. If you have paid your municipal taxes in the current year, you can show them as deductions from your total income. A flat 30% of the annual value can also be claimed as deduction for maintenance expenses such as repairs, insurance, etc., irrespective of the level of actual incurred expenditure.

All this is common knowledge and we all know these rules. Here are some lesser-known tax deductions many of us miss out on:

Rebate on Interest Paid Before Possession: Any pre-construction interest is also allowed for deduction only if your project gets completed within 3 years of starting of the construction. Once the house is ready, you can claim the deduction for it within five years from possession in equal installments within the Rs 1.5 lakh under Section 24B.

For instance, imagine you have taken a 20-year loan of Rs 30 lakh at 11% annual interest for a property that gets completed in 3 years. By the time you get possession, you would have already incurred an interest of Rs 82,500. Now, going by the above provision, you can claim a deduction in respect of this interest of Rs. 82,500, over and above the yearly rebate available on interest, in five equal instalments of Rs 16,480 each starting from the fourth assessment year.

However, if you rent out the property, you can claim the entire interest component as deduction from the rental income as in case of rented property, the actual interest payable is eligible for deduction, thus not being subject to any maximum limit. This applies even in the case where you have two home loans for two different properties, where one is self-occupied and the other is on rent.

Rebate on Renovation Loan: If you have taken a home improvement loan for reconstructing or repairing of your property, you are eligible for a deduction under Section 24(b). This is over and above the flat 30% deduction available annually for the maintenance of property. However, there is a restriction on the amount—Rs 30,000 per fiscal, irrespective of whether it is self-occupied or you rent it out. In case you are already serving a home loan and are availing of the full tax benefit limit on interest paid, that is, Rs 1.5 lakh, then this additional benefit won't be available to you. But if, say, your the interest paid on the home loan is Rs 1.2 lakh or below, then you will be able to claim the full Rs 30,000 as deduction, provided you have actually paid that much interest during the year.

Special Offer Under 80EE: The financial year 2013-14 was especially beneficial for first-time home-buyers. The finance minister in his budget speech announced an additional tax deduction of Rs 1 lakh for interest payments on new loans up to Rs 25 lakh, provided value of residential house does not exceed Rs 40 lakh. So, the total deduction under Section 24B for 2013-14 will be Rs 2.5 lakh. Although this is a one-time benefit and it can be claimed over two financial years in a piecemeal manner, that is, one may claim benefit spreading it over FY 2013-14 and 2014-15, however, if your interest component is more than the deduction limit, the balance can also be claimed in the next financial year. Since affordable housing is one of the top agendas of the government, we can expect such special sops in future as well.

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