

CBDT caps losses from house property for TDS at Rs 2 lakh

An employer can set off loss declared by an employee under the head 'income from house property' only up to Rs 2 lakh against such employee's salary to arrive at the amount of tax to be deducted at source (TDS).

Ahead of the tax filing season, this comes as an important tweak in rules.

The amendment to section 71 of the Income-Tax (I-T) Act applies for the first time from 2017-18. If an employee has declared a loss higher than Rs 2 lakh, the excess is to be ignored for calculating the amount of TDS, which is deducted monthly from salary income, the Central Board of Direct Taxes (CBDT) has said.

In a circular issued last month, the CBDT has pointed out key amendments to the I-T Act, which employers who are responsible for TDS against salary income should consider. Issue of such a circular is an annual feature.

An employee is permitted to provide details of other income (say, bank interest) that he or she has earned during a year, together with the tax that has already been deducted (say, TDS deducted by the bank). Similarly, losses can also be declared by the employee. However, only loss from house property can be considered by the employer, as this is allowed to be set off against salary income. The employer has to take into consideration the details of income and loss from house property declared by the employee for the purpose of computing TDS which is deducted from the employee's salary each month.

Making such a declaration is not mandatory. However, if an employee does so, he or she may not have to separately compute and pay advance taxes, as the employer will be deducting tax at source on the employee's taxable income based on the details given (and not just salary income).

If an employee had let out his or her house (which typically was the case when a second house was owned), the corresponding interest on home loan is fully allowed as a deduction. This, in many cases, led to a significant loss under the head 'income from house property' (which is mainly the difference between the rental income and the interest on the home loan). Earlier, there was no cap prescribed for set-off of such loss, which could be kept against salary income. Such set-off reduced the taxable income for that particular financial year. Now, the Finance Act, 2017, has capped the limit for the purpose of set-off to Rs 2 lakh. The balance loss, if any, can be carried forward, but it can only be set-off only against income from house property of the subsequent eight years.

In the light of this amendment, employees having a loss of more than Rs 2 lakh will have a higher tax outgo for the financial year 2017-18. Employers now need to be careful to ensure that the set-off, if any, is adjusted against salary income, only to the extent of Rs 2 lakh, the CBDT said. Any excess or deficit in TDS made in the earlier months, can be adjusted by the employer, by increasing or decreasing the amount of subsequent deductions during the same financial year. Thus, 2017-18, any rectification in TDS can be done in respect of salary for the coming three months.

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