

## 4 Housing Finance Scheme

Construction / Purchase of house by taking housing Loan are the best possible way to save income tax. Housing Loan can be taken for the following purposes:

- Purchase /construction of a house or Purchase of plot for construction of house
- Renovation / Extension of house
- Selling of old house & purchasing of new house
- Conversion of higher interest loan into lower interest loan

Permissible Deduction on housing loan as per section 24 of the *Income Tax Act*:

1. Following deductions are permissible on due interest of housing loan u/s 24 of income tax, in various conditions, under the head of income from house property.

SN	Purpose of Loan Taking	Date of Loan Taken	Use of Building Property	
			Self Occupied	Given on Rent
1.	Construction or acquiring (purchase) of house property	Before Apr 01, 1999	Rs. 30,000	No Limit
		On or After Apr 01, 1999	Rs. 2,00,000 u/s24 Rs. 50,000 u/s80EE	No Limit
2.	Reconstruction/ Extension/ Renovation of house property	Any Time	Maximum Rs. 30,000	No Limit

2. Housing Loan can also be taken from any person (friend or relative). In this case, deduction towards repayment of principal is not admissible u/s 80C; however, deduction in reference with the due interest shall be admissible u/s 24.

**Loan Amount:** Amount of Housing Loan is decided on the basis of your monthly income & Cost of the property, normally one can get 85 % of total cost of the property as Loan Amount. Loan Amount & Repayment period is calculated in such a way that *EMI (Equated Monthly Instalment)* should not exceed 40 % of your monthly income. Loan may be taken for a period of 12 to 15 years or up to the age of retirement whichever is less.

**Co-Applicant:** If your monthly income is less & you are getting a lesser amount of Loan, then you can make your relative (life-partner, son, daughter, brother) as a co –applicant & increase your Loan Amount. However, in this case only owner of the property can claim the deduction of principal & interest paid against the housing loan.

**Co-Owner:** It is compulsory that all the Co-owners should invest in purchase/ construction of property from their own income resources. That means all the Co-owners should also be the Co-applicants for housing Loan. All the Co-owners will get deduction & exemption in income tax for the interest and principal paid against housing Loan depending on the ratio of their investment.

**Example:** If Vivek and Rekha are the co-owners of one property, with ownership ratio of 60:40. and they have taken Rs. 20 Lakh of house loan for the property. Both are residing in the property. During the year 2015-16 accrued Interest is Rs.3 Lakh and they have paid Rs.50,000 as principal amount. What tax deduction they may get separately?

**Solution:** As per section 24 & 26 of Income Tax Act Vivek will get a deduction of Rs. 1,80,000 against due interest of housing loan & under section 80C deduction of Rs. 30,000 against re-payment of principal of housing loan. Same way, Rekha will get deduction of Rs. 1,20,000 against due interest of housing loan and deduction of Rs. 20,000 against payment of principal of housing loan. Thus, the co-owners can take benefits of tax deduction proportionate to their share.



**Methods of Interest Calculation :**

**(A) Interest on Monthly Rest :** Monthly interest is calculated on estimated principal at the beginning of every month.

**(B) Interest on Annual Rest :** Annual interest is calculated on estimated principal at the beginning of every year after the payment of EMI.

**EMI :** EMI is calculated based on loan amount, interest rate and repayment schedule. EMI includes full amount of monthly-accrued interest and some part of principal amount, so that the principal gets reduced month wise, which further causes reduction in monthly interest. Thus in EMI, the portion of principal increases while the portion of interest decreases, as the time progresses. It is advisable to take care of these issues at the time of tax planning.

**Conversion of higher interest rate of housing loan into lower interest rate housing loan:**

Interest rates on housing loan are of two types- *fixed & floating*. You can change your plan any time. For this you will have to pay 0.5 – 1 % processing fees / Administrative fees of the balance loan amount. If you are not satisfied with the working pattern of institution from where you have taken loan, or their interest rate is high, then you can take loan from other institution of your choice also repay the balance loan before schedule. Deductions from taxable income are permissible on this new loan also.

**Land Loan :** You can avail loan for purchasing of land for construction of house, but you can claim deductions on interest of loan (called as Pre-EMI) only after construction of house that too in the form of five equal yearly instalments in the coming years after completion of construction of such house.

**Land Ownership :** If you possess land of any relative, then also you can take loan against it and construct house & if you are the owner of that house, you can avail income tax deductions on the loan taken.

HOUSING FINANCE AT A GLANCE (Updated as on July 1, 2016)							
Monthly Instalment (EMI) for one Lakh loan at Floating Rate of Interest	Period of Loan	ICICI	HDFC	Allaha. Bank	LIC HFL	SBI	PNB HFL
	For 05 Yr	2047	2097	2105	2114	2097	2102
	For 10 Yr	1290	1290	1299	1310	1290	1297
	For 15 Yr	1061	1041	1050	1062	1041	1057
	For 20 Yr	921	921	939	951	921	935
Interest Rate		9.45–9.7%	9.45%	9.6%	9.8–11.7%	9.55%	9.5–10.5%

*Please note that these rates are applicable for 1<sup>st</sup> year of the loan, thereafter EMI may change.*

**Note :** Before taking any loan one should check the following:

1. Hidden charges like – Processing / Legal /Administrative / Technical / Documentation / Prepayment / Delayed payment charges etc.
2. Rate of interest, which changes frequently. So Please confirm it with the related institution.

