

## Housing Gains

*Our taxman has given tax incentives not just on the purchase of property, but also on the sale of the same. ETIG presents the accruing benefits*

INVESTMENT begins at home. Though the real estate sector has seen a deep correction, a house is probably one of the best investment avenues one can seek today. Despite the global economic slump, which has hit the property prices too, real estate still remains a prized possession. If falling interest rates and cooling off property prices are prompting some to take a leap and grab their dream houses, there is also no dearth of those who want to sell their house to overcome the recession blues. And, given the importance attached to this most prized asset class, taxman has provided tax incentives for both the buyer as well as the seller of the house.

### Buying A House

If your dream house has now come within your reach, check out the following before taking the plunge. (a) It is always advisable to go in for a home loan. Interest paid on home loans can be deducted from your taxable income up to a maximum of Rs 1.5 lakh. As this deduction is applicable to each individual owner of the house, this can be a double bonanza in the case of joint ownership. Thus, if the joint owners equally bear the interest burden, then each owner shall be eligible for a deduction up to Rs 1.5 lakh

However, it is important to note here that where more than one owner claims deduction, the total deduction cannot exceed the actual interest paid by the joint owners.

For example, if the annual interest liability on the house property is Rs 2 lakh and the property is jointly owned by husband and wife, then each gets a deduction of Rs 1 lakh only. Similarly, where the annual interest liability is Rs 4 lakh, then each owner gets a deduction of Rs 1.5 lakh only, taking the total deduction to Rs 3 lakh (b) It is not only the interest repayment but even the principal re-paid can be claimed as a deduction under section 80C. The limit here is restricted to Rs 1 lakh provided the loan is borrowed from a recognised financial institution

### Owning More Than One House

It is not unusual to see people own more than one house these days, especially by those who like to invest in real estate. It has in fact become a common practice to buy and let out houses, which also adds substantially to

one's income, given a high demand for rental premises.

If the subsequent houses are also purchased through borrowed finance, the entire amount paid as interest can be claimed as deduction from taxable income. Ceiling limit of Rs 1.5 lakh is not applicable in case of subsequent properties as these are deemed to be let out. Thus even if the same are vacant, the owner shall be required to disclose a notional rental income that the property would have derived had it been actually let out.

### **Selling A House**

Selling a house is rewarding - from tax perspective - provided the same is held for at least for three years before transferring the title. Holding a property for three years and more makes it a long-term capital asset and eligible for various tax incentives under the Income Tax Act.

Gains arising from the sale of a house are treated as income and are thus taxable in the hands of the seller of the property. However, if the sale proceeds are utilised for either buying or constructing another property, the same shall be exempt from taxes. However, one needs to keep in mind the following to avail of these tax incentives. (a) If the new house is intended to be bought, the same should be purchased one year before or within two years of selling the existing property (b) However, if the new house is to be constructed, ensure that it is done within three years of sale of the earlier property. It is not necessary to begun construction only after selling the earlier property. However, the construction must be complete within three years of sale (c) For the interval between the sale of the existing property and buying or constructing another property, the sale proceeds need to be deposited in the 'capital gains deposit account scheme' with any nationalised bank. The proof of this deposit should be submitted along with the return of income to claim an exemption from capital gains tax

For those who do not wish to acquire another house from the sale proceeds of the existing property, capital gains tax can be avoided by investing the sale proceeds in the capital gains bonds issued by NHA1 or REC within six months of sale of the property. The maximum investment permitted in such bonds is Rs 50 lakh, and these bonds can be redeemed only after three years from the date of investment.

### **Rental Accomodation**

Tax incentives are available not only for the owners but also for those who have rented accommodations. In case of salaried employees who receive a house rent allowance (HRA) from their employers, the least of the following three options can be claimed as an exemption under section 10(13A): (a) HRA actually received from the employer (b) Rent paid in excess of 10% of the salary (c) 50% of the salary (metros) or 40% of the salary (non-metros).

In case of self employed individuals or those employees who do not receive an HRA, the least of the following three options can be claimed as an exemption under section 80GG: (a) Rs 2000/- per month (b) 25% of the total income (c) Rent paid in excess of 10% of total income.

## **HOUSEWISE**

**Sell a property only after holding it for at least three years.**

**New house property should be purchased one year before or two years after sale.**

**Construction of new house ought to be completed within three years of sale.**

**Deposit sale proceeds in capital gains deposit account scheme till the time of new purchase.**

**Capital gains can also be used to purchase bonds from NHAI or REC.**

**Buyers would do well to take a loan to finance a house.**

**Joint ownership is always advisable if you are borrowing money for house property.**

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