

Business Standard

Use your house as a tax haven

Whether buying, selling or renting, there are opportunities for saving tax. Make the most of these

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The

government has provided many tax benefits for people trying to fulfil the need for shelter. It is important to learn the tax-saving opportunities you can avail of while buying, selling or renting a house.

Loan for house purchase

Most young couples now take a home loan to buy a house. There are generous tax benefits on these.

You can avail of tax deduction on interest repaid under Section 24(B) of the Income Tax (I-T) Act. If the property is for self-occupation, there is a limit of Rs 2 lakh a year on this deduction.

If you are going to rent out the property, the deduction allowed is even more generous - there is no ceiling and you can claim a deduction on the entire interest repaid. This benefit, however, comes with a

proviso. "You must get possession of the house or complete its construction within three years of the end of the financial year in which the loan was taken. If you fail to do so, the tax deduction on interest repayment gets reduced from Rs 2 lakh to Rs 30,000 only," says Amar Pandit, chief executive, My Financial Advisor.

You can only avail of the tax deduction on interest repayment from the year in which construction is completed or possession is obtained. Whatever interest you paid in the years prior to the year of possession or completion can be availed as deduction in five equal annual instalments, from that year over the next five years.

You can also avail of tax deduction on the principal repaid on a home loan under Section 80C. This benefit is limited to Rs 1.5 lakh annually and also comes with a caveat. "You must hold the property for at least five years from the end of the year in which you obtained possession. If you fail to do so, the deduction gets reversed," says Jatin Khemani, managing director, Stalwart Advisors, a Delhi-based wealth management company.

Renting a house

For those who live in rented accommodation, tax benefits are available under Section 10(13A) or under Section 80GG of the I-T Act. Under the former, you can avail of exemption on the House Rent Allowance (HRA) from your employer. The actual exemption you enjoy will be the least of the following three - actual HRA received, rent paid less 10 per cent of salary, or 40-50 per cent of salary (depending on the city you are based in, the former being the rate for metros).

Section 80GG applies to people who don't get HRA from their employer, and to non-salaried people. The amount of deduction these people may take on their total income will be the least of the following - rent paid less 10 per cent of total income before deduction under Section 80GG; Rs 2,000 a month for the period the rented house was occupied, or, 25 per cent of total income before deduction under the section.

If an individual buys an apartment or stays in his own house, he will not be eligible for these tax benefits.

Sale of house

When you make a profit on the sale of your house, you are liable to pay a tax to the government on those profits. However, the Act also allows you to reduce this liability or even escape paying it entirely.

The first thing to determine is whether you are liable to pay long-term or short-term capital gains tax. Three years must have passed between the date of purchase and sale of property for you to be liable for the long-term tax. If the time elapsed is less, you are liable for the short-term tax.

The tax rate applicable on long-term capital gain is 20 per cent. Short-term capital gain is taxed at the marginal tax rate (the bracket you're in). You are also entitled to indexation benefit on long-term capital gains, which considerably reduces the tax liability.

You can escape paying long-term capital gains tax by investing in another property, under Section 54. "To be entitled for the benefit, you must invest in the second property a year before or within two years of the sale of the first property. If you are constructing a new house, this must be completed within three years from the date of sale of the first property," informs Vishal Dhawan, chief financial planner, Plan Ahead Wealth Advisors. This benefit is not available on short-term capital gain. The exact exemption you get under Section 54 will be the lower of the two amounts, capital gain from the first property or the

amount invested in the second property.

To prevent misuse of this benefit, the government has stipulated that you can't sell the second property in less than three years from its date of possession or date of completion of construction. If you do so, the amount claimed as exemption under Section 54 will be deducted from the cost of acquisition of the new house and you will be liable for taxation. This exemption is available only on one residential property within India.

Another way to avoid paying long-term capital gain on sale of property is to invest your gains in specified bonds, under Section 54EC of the Act. The must be issued by Rural Electrification Corporation or National Highways Authority of India. The investment must be made within six months of sale of the property. There is a ceiling of Rs 50 lakh on the amount you can invest in these bonds.

TAX LAWS THAT HELP HOUSEOWNERS

- Interest paid on home loan is exempt under Section 24 (B) up to Rs 2 lakh per year
- If house is given on rent, entire interest paid is exempt
- Principal paid on home loan is exempt under Section 80C up to a limit of Rs 1.5 lakh
- Salaried people staying on rent can get exemption on HRA under Section 10 (13A)
- Self-employed persons staying on rent can get exemption on the rent paid under Section 80GG
- Long-term tax on capital gains arising from selling a house can be invested in another property under Section 54
- Investing in specified bonds under Section 54(EC) can also help avoid capital gains tax arising from selling property, up to a limit of Rs 50 lakh and provided the investment is made within six months of the sale