

Wrong Tax Deduction on Home Loan Can I in Tax Penalties

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The purchase of a house, by taking out a home loan, is considered good by experts, who generally scoff at long-term liabilities.

A house, unlike other personal goods such as cars, is considered to be an benefit too. Home buyers can claim an exemption of up to Rs 1.50 lakh on payments for home loan under Section 80C of the Income Tax Act.

Buyers can avail Rs 2 lakh deduction paid towards interest component of h year.

The above-mentioned benefits apply for self-occupied properties and not for construction houses. Further, in case of a delayed possession, the tax benefit is substantially. Many a times, tax payers - unaware of this provision - claim it on their home loan and get notices from the tax department.

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According to Section 24B of Income Tax Act, a person can claim a tax deduction of Rs 2 lakh on the interest paid on a self-occupied house if the possession of the house is done within three years of taking the loan.

In case the possession is given after three years, then the amount of deduction is limited to Rs 30,000 per year.

This means in case of delayed possession (when houses are delivered three years after the home loan has been taken), buyers can claim only Rs 30,000 (15 per cent of the allowed deduction of Rs 2 lakh) as exemption.

Those who unknowingly claim exemption can get into serious trouble and face huge penalties, experts say.

"If the home buyer in such cases still claims interest of Rs 2 lakh per annum, the tax department could disallow the deduction of Rs 1.7 lakh per annum which could result in interest payable by the home buyer to the tax office. At their discretion, the tax department can also levy penalty for claiming excessive deduction," says Parizad Sirwa, Head-Global Mobility Services-Tax, KPMG.

The penalty in this case may range between 100 per cent and 300 per cent of the deductions claimed, says Amit Maheshwari, managing partner of Ashok Maheshwari Associates.

Tax experts say that home buyers are getting tax notices for claiming over deduction, despite delayed possession. "As people are getting the possession which they booked five to seven years back now, tax department are scrutinizing and people are getting notices from the tax department for the same," says chief financial officer, Taxspanner.com.

Tax experts believe that Finance Minister Arun Jaitley in the budget should consider the benefits offered on home loans. "It may be worthwhile to consider an amendment provision not limiting such deduction to Rs 30,000 per annum in cases where the completion of construction is caused on account of reasons beyond the control of the home buyer," says Parizad of KPMG.

Tapati Ghosh, partner at Deloitte Haskins & Sells, said: "One of the measures considered is the extension of time limit to 5 years at least for the under-constructed properties."

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