

Home loan prepayment fee eligible for tax benefit

A ruling by the Mumbai bench of the Income Tax Appellate Tribunal spells welcome relief for taxpayers who have paid huge sums as prepayment or foreclosure charges on early repayment of their housing loans.

Such taxpayers can claim prepayment charges as deductible under the head income from house property and could set it off against other heads of income, such as salary income. This will help in saving tax.

Hearing an appeal filed by Windermere Properties, the tribunal examined the definition of interest. Interest on housing loan is admissible as a deduction under income from house property. The bench comprising R K Gupta and R S Syal observed, "The appellant had obtained a loan from HDFC for acquisition of property. The bank accepted the early repayment of loan on receipt of prepayment charges (of Rs 1.56 crore). It is obvious that these prepayment charges have a live and direct link with the housing loan."

Dismissing the stand taken by the tax department, the tribunal bench added, "It is beyond our comprehension as to how the amount paid as interest for the housing loan taken is allowable as a deduction but the amount paid as prepayment charges of the very same loan is not deductible."

Both the direct interest and prepayment charges were held by the tribunal to fall within the definition of the term interest and allowable as a deduction from house property income.

"This ruling will help those who had paid prepayment charges during FY 2012-13. This payment will be deductible from income from house property. As a next step in the tax computation, salaried employees can claim a set-off against their salary income while filing their returns, the due date for which is July 31," explains Sonu Iyer, tax partner, Ernst & Young.

It must be noted that the Reserve Bank of India in June last year had prohibited banks from charging foreclosure charges or prepayment penalties of any kind on home loans taken on floating interest basis. Against this backdrop, it is likely that taxpayers for the financial year 2012-13 would have paid foreclosure charges only during April and May 2012. However, tribunal decision will also help in the course of pending assessment of earlier years.

(Economic Times)