TAX PLANNING – AN ANALYSIS ON HOUSING LOANS

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Abstract: Housing loans, for sure, makes it possible to an individual to own a house. A gradual increase over the times in the associated costs of real estate makes a housing loan lasts for decades. As every Government's priority is to provide shelter to all its citizens; on the other hand, it is reducing housing loan borrowers tax burden through several Income Tax provisions. This paper focuses on these issues in every possible dimension.

1. Introduction

Even after seventy years of independence, India has been a developing economy and there is huge gap between haves and have-nots. Providing basic necessity to the people like food, clothing and shelter is the constitutional obligation of the government both at the state and the central level. As part of its duty, governments have been launching various housing schemes for people living below the poverty. Rich people own house by themselves but majority of the middle-class people depend on the housing loans. Housing is a socio-economic problem even after the completion of seventy-four years. The Government's obligation is to provide affordable housing to all and to focus more on vulnerable sections of the society in this regard. People who are financially sound does not face this problem. Whereas, the middle class and the poor segments of the society need Government aid and support to tackle it. Hence, it has induced many financial institutions to offer housing loans at a lower rate of interest and also motivated the middle-class people by providing deductions under Income Tax Act 1961 under different provisions.

Fiscal policies of a Government aim at optimum social welfare and substantial distribution of resources among all the people in the economy. The educative and effective Tax system and public expenditure of the Government is to meet the welfare state objectives. One of the important tools that indirectly impacts on public expenditure is Taxation. Educative Tax System aims to provide Social, Legal and Economic justice. The provisions and concessions under the Tax laws are made to accomplish the objective of Social, Legal and Economic justice.

2. Review of Literature:

The paper carried out a review of literature relating the hosing problems, marketing of housing loans and provisions and tax plans on housing loan barrowers both in India as well as aboard. An attempt has been made to summarise the important studies and the works undertaken keeping in mind the relevance of the present paper.

Savita Lokesh Gautam (2013) carried out a study on Income Tax Planning and Tax Saving Instruments to discover the most suitable tax saving instrument used to save tax and also to examine the amount saved by using that instrument. The analysis results of the respondents rank various tax saving instruments according to their priority of saving tax. The author also reveals in her findings that the most adopted tax saving instrument is Life Insurance policy, which ranked first in this study. The second most adopted tax saving instrument is Provident Fund. Further, the third choice is Tax Saving Fixed Deposits.

Bharathraj Shetty M. Muthu Gopalakrishnan(2013) conducted a study on Investors Attitude Towards Various Tax Saving Schemes to know about investors preference, patterns of investment, assess the awareness level investors about tax saving schemes, the ways investors keep themselves updated about tax saving schemes as well as reasons for investment in tax saving schemes. Under this study it is found and suggested that there is a need for educating people about tax planning in general and tax saving schemes to achieve that in particular from both the government and financial institutions together.

S. Uma Maheswari and M. Ashok Kumar (2014) have investigated Coimbatore Based Salaried Investors' Awareness, Attitude, Expectation and Satisfaction over their Investments. Their study made an attempt to explore the investment attitude of the investors to perceive their level of satisfaction about their investment policies along with the motivating factors of the investment policies with a special focus to the investors' Expected Rate of Return on their Investments. This study facilitates the salaried class investors towards appropriate savings and investments in order to maximize the returns. The detailed analysis of the behavioural pattern of the investors would help the government to work out various schemes to mobilize finance from the salaried class investors by launching tax saving schemes, retirement benefit schemes.

Mrs. R. Vasanthi (2015) observed on Tax Planning Pattern of Salaried Assesses to know the elements of income and savings of the selected respondents and to study the pattern of tax planning by individuals. The current analysis suggests that the gender factor has an influence over the amount of tax paid, whereas the age of respondents has low influence over the amount of tax paid. It is evident from the study that experienced employees are willing to pay tax because of several personal factors. Further, the level of awareness of the respondents is significantly higher over the different tax savings schemes. It is also found that, majority of the salaried employee's opinion regarding direct tax imposed is high and the salaried employees are reducing the tax liability using different Tax Saving Schemes.

Reshma Mathew(2016) studied on Tax Planning among Working Women with Special Reference to Cochin City by focusing on the extent of knowledge of tax planning and tax filing options, awareness about different investment opportunities and various alternatives in which investment is made to minimize tax liability and most attractive investment schemes using a sample of 60 respondents via questionnaire. From the analysis it is clear that majority are of the opinion that tax planning and updating with tax related matters are highly essential in an earning person's life. And a few show genuine effort to update themselves in these matters. Majority of the respondents are satisfied with their present investments and avail deduction under 80C, 80D and 80G sections for tax planning.

Pinal Barot (2016) conducted a study on Investors Attitude towards Investment Instrument and Insurance as a Tax savings and for Investment and concluded that most of the respondents considered Pension plans and Fixed Deposits to achieve the twin goals of Investment and Tax Planning. Investor's perception about investment towards the above said sectors is to get maximum Tax benefits and risk minimisation. The study also reveals that, though other investment schemes are good for them and yield maximum tax benefit, the respondents are less aware of it and this restricts them to take decision of investment in those schemes.

Preeti Kalgutkar (2018) empirically analysed on the income tax provisions awareness and tax planning of individual assessee and the effect of tax awareness, planning on wealth creation of individual assessee as well. For this study data has been collected from 100 individual assesses of five different kinds like, Teachers, Bank employees, Railway employees, Company workers, and Doctors. Primary data has been collected in the form of questionnaire and personal meets with individual assessee. It is concluded that, in order to save tax, an individual assessee invests his or her hard-earned money on law prescribed investment avenues which creates wealth in the hands of individual assesses.

3. Objectives of the Study:

1. To study the provisions for Tax Planning under Income Tax Act for housing loan borrowers.
2. To study the scope for Tax Planning with respect to Individual Assesses for housing loan.
3. To evaluate the Tax Planning provisions under Income Tax Act for curing housing problem of the economy for the present context
4. To suggest measures to make tax planning for housing finance more effective in addressing the housing problem of the economy.

4. Research Methodology:

The research paper has been designed on the basis of secondary data. An effort is made to collect the data about Housing Loans. The paper is based on the review of literature, reports, statistical figures and such other are collected from books, journals, research papers of both national and international data.

5. Data Interpretation:

Marketing of Housing loans in India:

Home is an integral part of an individual, buying a home is a dream for everyone. Huge amount of investment is required as loan to make it possible. Due to gradual increase in the price of properties, it has become unattainable for an average earning person to buy a home on a lump sum payment. There are numerous housing finance companies, private and public sector banks and foreign banks that have been offering home loans at competitive rate.

5.1 Types of Home Loan

Common categories of Home loans in India are as follows,

1. New Home Loan to buy a new flat, apartment or house from a builder or seller. Also includes loan for the construction of the house on an existing plot.
2. Home Improvement Loan to renovate existing home like tiling, flooring, painting etc.
3. Home Extension Loan to expand the house by adding new space like floor, room, balcony etc.
4. Composite loan are loans which are given to an individual who plans to buy a land on loan or to construct the home on the same within the stipulated time. Interest rates are 1.5-2% higher than a home loan, with prespecified time limit for construction.
5. Home Conversion Loan scheme to allow borrowers to transfer their existing loan from fixed rate to floating rate or vice-versa A conversion fee is levied on the outstanding principal to switch the loan.
6. NRI Home Loans - Home Loan for Non Resident Indians to buy, construct or renovate a home in India.
7. Home Loan Overdraft - Borrowers can add surplus funds in an overdraft account for any period to reduce interest liability. Interest rates are 0.15-0.2% higher than regular housing loan.
8. Home Loan Top Up to borrow additional amount on existing home loan from the same bank or at the time of balance transfer up to a percentage of property value. Interest rates are 0.25-1% higher than regular housing loan.
9. Home Loan Balance Transfer to transfer home loan from one bank to another bank offering lower interest rate to save interest and to get top up loan
10. Pre-approved Home Loan, Loans that are approved even before the property transaction based on credit history, current EMI obligations. Interest rates are low and pre-approved offer is valid up to 6 months.

5.2 Home loan providers and interest rates applicable in India

All the Nationalized banks, Private sector banks, Housing finance companies, Foreign banks and Co-operative banks provide Home loan in India. The rate of interest varies from8.20% to 10.45%.

Quantum of Loan: The quantum of loan to be granted by the loan providers is based on a ration which is called as Loan to Value (LTV) ratio. Commonly adopted LTV ratio by the housing loan providers in India is as under:

Table No. O1

Housing loans sachems

Category of Loan	Loan to value
Up to ₹ 20 lakhs	90%
From ₹ 20 lakhs & up to₹ 75 lakhs	80%
Above ₹ 75 Lakhs	75%

Source: SBI Official Website

5.3 Customer Reviews Rating

By taking into consideration several parameters like lowest interest rates, Quantum of loan sanctioned, Eligibility criteria considered, Estimation of EMI, Processing charges applicable, Customer relationship and the Turnaround time; Housing Finance providers are given rating by the customers. Following list exhibits the providers having a rating of more than 3.5 out of 5.

Axis Bank, ICICI Bank, Citibank, Standard Chartered Bank, Edelweiss, GIC Housing Finance, Reliance Capital, HDFC, PNB Housing Finance, Bank of Baroda, Corporation Bank, IDBI Bank, PNB, SBI, DCB Bank, Federal Bank, Canara Bank, Central Bank of India, United Bank of India, DBS Bank, LT Housing Finance.

5.4 Concessions/ special schemes in case of women and Senior citizens:

Indian women get a concession on the rate of interest when taking a home loan. This concession can be between 0.05% and 0.1% to the regular rate. Stamp duty is another factor that adds to the cost of the property. To encourage women to own property, different states in India offer a reduction of 1% to 2% in the stamp duty. This again makes for considerable savings. Women also enjoy income tax benefits on their home loan repayments. The maximum tax deduction allowed is Rs.1.5 lakh on principal amount and Rs.2 lakh on interest repayment. If both husband and wife are co-owners of the property and have different sources of income, both can claim tax deductions.

5.6 Provisions prescribed under the Income Tax Act-1961 regarding Housing Loans.

The act of 1961 has provided some provisions in the form of Section 24(b), Section 80C and Section 80EE with respect to Housing loans.

a) **Section 24(b) :** Amount of interest on loan borrowed for the purchase, construction, reconstruction, renovation or repairs of the property can be claimed as deduction from the Annual value of that property. There is no upper limit in case of Let Out Properties on the amount of interest that can be deducted under this section. There is maximum ceiling of ₹ 30,000 or ₹ 2,00,000 for Self-Occupied properties. If the following conditions are satisfied, one can get the maximum deduction of Rs.2,00,000. Pre-construction period interest is deductible in five equal annual instalments commencing from the previous year in which the house has been constructed.

b) **Section 80 C:** Section 80C provides deduction exclusively on certain payments and deposits made by the Assessee during the previous year. An Assessee can claim up to a maximum of Rs. 2, 00,000for payments and contributions.

c) **80EEA:** This section provides a deduction of Rs 1,50,000 for interest on loan taken for the acquisition of residential house where the value of the property should not exceed Rs 45 lakhs.

6. Major Findings of the paper:

1) Housing loan marketers should provide finance for the needy people based on the requirement by ensuring the mortgage instead of considering the age and Credit worthiness of the borrower. It accomplishes the business aim of providers as well as borrower's dream of owning a house.
2) There are different types of Housing loan products that are marketed by the financial institutions, lack of proper knowledge about the products and its usefulness from the point of view of borrowers convenience as well as tax deductions. In the initial stage of housing loan repayment, Section 24(b) has been getting more scope and Section 80C for the repayment of principal has less scope for tax planning.
3) The provision under Income Tax Act for Housing Loans under Section 24(b), 80C and 80EE are made long before. This is not sufficient for all the class of Housing Loan borrowers. The limit of Rs. 2,00,000 interest under Section 24(b) and maximum deduction limit of Rs. 1,50,000 under Section 80C may be appropriate for middle class people and it does not suit both the extreme ends of the borrowers.
4) From the previous year 2019-20, the Government brought the cost of 2 Self Occupied (one at the residential place and another at the working place) Properties to claim deduction under Section 54 of Income Tax Act.It will encourage the development of Infrastructure sector on one side and directly influence on the economic development activities on the other side.
5) There must be an evaluation process in order to make the tax provisions beneficial to the needy people, by the appropriate authorities in issuing licenses and number of houses owned by a person. Currently due to these loopholes in records maintaining system anyone can enjoy this benefit.
6) India is still a developing country. Providing roof for all the people is a tough task, but it is a constitutional obligation on the part of the Government to provide shelter for all the people. The government has introduced a lot of housing schemes for people lying under below poverty line and the rich people can construct a house on their own. 80% of the middle class are not provided assistance from the Government.
7) Deduction under section 80EE(b) Additional benefit of Rs.1,50,000 interest new housing loan barrowed after 1st April 2019 before 31st march 2020 where the stamp duty value of the property should not exceed Rs.45,00,000 for the first house will further encourage for taxpayer to make the tax planning.

8) From the financial year 2019-20 onwards notional rent of the second house will also be exempted even though the second house is vacant during the assessment year. This will also motivate the tax payer to own a second house.

7. Major Suggestions:

1) There is a healthy competition in the marketing of Housing Loans among public sector, private sector and other housing finance institutions. This will make a free housing market for the borrower; it requires proper education about housing loans, rules and regulations about tax deduction, processing fee, rate of interest and repayment of EMI.
2) The housing finance providers must properly educate the borrowers at the initial stage itself about the, repayment of loan, changes in the rate of interest, submission of completion certificate and tax benefits in the form of deductions under various sections available under the Income Tax Act.
3) The provisions are made under the Income Tax Act about Housing Loans to provide both social and economic justice. But there is a need for rationalisation of the eligible amount of deduction particularly under section 80C which deals with respect to deduction of principal amount one among the twenty three saving schemes.
4) Providing exemption of two residential houses under Income Tax law from the assessment year 2019-20 for an individual assessee is a welcoming move from the government through its budget. Before providing any kind of tax benefits, the tax authorities should make sure about the number of houses held by the loan borrower, number of loans borrowed, type of loan and the amount of deduction in this regard. With the help of technology and digitalisation this process can be simplified.
5) Public Sector Banks remained the main drivers of Indian economy to keep pace with socio economic development. In fact, the Public Sector Banks act as social banking, by lending under various socio economic programmes launched by the government, to support for a social cause. The housing finance agencies which could focus on profitability and safety should not ruin the social banking system in the country.

8. Conclusion:

The housing finance, which is a part of the modern financial service, has undergone tremendous changes mainly to keep in pace with rapid changing global expectations. The economic reforms paved the way for the competition as the mantra for the survival of the banks in particular and all other concerns in general. The housing financial institutions, private banks, foreign banks, and public sector banks are compelled to compete with each other mainly to grab the opportunity besides accelerating the housing finance market share. On the other hand, tax planning being an intellectual activity requires proper information about the available housing loan products and its tax benefits available under the income tax Act for accomplishing the objectives. It is also noteworthy that, the Government should indulge in an evaluation process in tax analysis so that, the benefits mentioned under the law should reach the needy people.

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