

# ICICI BANK CUSTOMER FIRST SERIES

TIMES BUSINESS ASSOCIATE COMMUNICATION

A consumer education initiative

## Honey, I Blew the Tax Benefits

Taking a joint home loan could help optimise the amount of loan as well as the tax benefits



Anita and Raghu were tired of moving from one rented flat to another. They were keen to buy their own house, but not sure if they would get a large enough loan for a decent house in their city. Every time they discussed the house, they invariably spoke about how they could pay the EMI instead of the rent and about how they could save on income tax. When they approached their bank, they were in for a pleasant surprise.

### CO-OWNERS AND CO-APPLICANTS

The bank official told them that they could apply for a joint home loan. The home loan is given against property and if they owned the property together, they can apply for the loan together too. Since both of them were working and having a steady income, the bank looked at their combined eligibility and agreed to give them a bigger loan. Their dream house now seemed within reach.

### TAX PRINCIPLES

Anita and Raghu went to their tax consultant to understand how they could claim the tax benefits. They would hold the property and loan jointly, but

they filed their income tax returns individually after all. The consultant told them that the basic principle was that tax deduction depended on loan repayment. If both of them repaid the loan, then both of them were eligible for the tax deduction.

Every assessee (person paying the income tax) can claim up to Rs.1 lakh a year on the principal repayment and up to Rs.1.5 lakh on the interest repayment on their home loan. Both Anita and Raghu could claim the deduction for what they paid towards the joint loan.

### BASIS OF APPORTIONMENT

Anita and Raghu would hold the house and the loan together. So, what is the basis for splitting the loan repayment? Anita and Raghu decided on a 50:50 ratio. The tax consultant asked them to enter into a simple loan sharing agreement on a stamp paper. In the agreement, they stated the amount of loan, the sharing ratio and agreed to pay their part of the loan. The repayment of the loan will have to be according to the agreed sharing ratio of 50:50. Anita would pay six EMI cheques in a year and Raghu would pay the remaining six.

### REPAYMENT CERTIFICATE

Anita and Raghu now approached the bank for a certificate to claim the tax deductions. The bank would issue one certificate for the joint loan, showing that Raghu and Anita as the joint loan applicants. However, it would not get involved with the sharing agreement and ratio between the two of them. A repayment certificate would be issued, for tax purposes, at the end of every year. The certificate would show how much of the principal and how much of the interest was repaid in that year, to help them claim the tax benefit under each head.

### CLAIMING THE BENEFIT

Raghu and Anita would submit their income tax return with a copy of the repayment certificate and the sharing agreement. If the interest paid in a year was Rs. 3 lakh, Anita would claim half of it and Raghu the remaining half. If the principal paid in a year was Rs. 1 lakh they would split that in their sharing ratio of 50:50 and claim the deduction in their income tax returns.

### ADVANTAGES

Anita and Raghu are individually eligible for the home loan and the tax benefits on its repayment. Since they decided to use the benefit for a single property they would jointly own, they were able to take a joint loan. They were able to afford a bigger loan and as a family, able to get a better tax benefit. They turned out to be really smart borrowers, didn't they?

Centre for Investment Education and Learning

(Tax rates mentioned herein are subject to change and revision by the government. The tax information given herein is general in nature and its applicability can vary. For your specific situation, please consult your chartered accountant/ tax consultant/ financial advisor.)

Kindly send us your suggestions and comments by visiting the "Email Us" link at [www.icicibank.com](http://www.icicibank.com)

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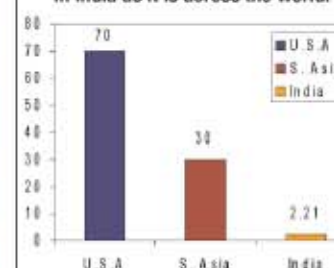
**Question**  
If a couple repay a home loan together, the tax deduction can be claimed by

**Answer**  
A. Either the husband or wife  
B. The one who repays most of the loan  
C. Each of them depending on actual repayment

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### DID YOU KNOW

Borrowing to buy a house is not as big in India as it is across the world.



For every Rs. 100 of GDP, we have Rs. 2.21 of home loan

### FAQs

#### Who can be a co-applicant to a home loan?

A co-applicant should also be a co-owner of the property and be independently eligible for the loan, according to the terms of the lender.

#### Can a wife who does not have a full time employment, be eligible for tax deductions applicable to a home loan?

As long as she has an independent source of income and is a tax payer, she can repay part of the loan and be eligible to claim the tax benefits.

#### Can a couple split the monthly EMI and pay from their individual bank accounts?

Several banks do not accept two cheques for the same EMI. The payment for few months can be made by the wife and for few months by the husband.

#### Can the tax deductions be claimed even if there is a default on the EMI?

Repayment of the loan is the basis for the tax deduction. Therefore only the amount of loan repaid, as per the repayment certificate, is eligible for tax deduction.

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