

## Tax Rebate Allowed on Capital Gains Following Property Sale

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Income-Tax Appellate Tribunal (ITAT) of Chennai has held that interest on home loans will continue to remain out of the tax net even if the house is sold later.

The tribunal clarified that the interest paid on loans is certainly an expenditure that should be taken into account while computing the income from house property as well as in computing capital gains arising from sale of the same property. The order was given on October 31 by a two-member bench comprising OK Narayanan and SS Godara.

In this case, the taxpayer C Ramabrahmam borrowed money for buying property and claimed deduction for interest paid for the borrowed funds, while computing income from house property. However, when the house was sold, the taxpayer treated the interest paid on loan as “cost of acquisition” for the purpose of computing capital gains and claimed deduction there too. The assessing officer, however, refused to accept the claim on the ground that interest has been allowed as deduction under section 24 (b) of the Income tax Act that deals with income from house property and the deduction cannot be allowed again while computing capital gains arising from the sale of house.

The first appellate authority, Commissioner (Appeal), allowed the claim of the tax payer but the income-tax department moved the Income tax Appellate Tribunal (ITAT), the second appellate authority for deciding tax disputes. The ITAT dismissed the appeal, holding that deduction under section 24 (b) of the Income-tax Act and computation of capital gains under section 48 of the Income-tax Act are covered under different heads of income. The first section deals with house property and the other section deals with capital gains. The first deduction was claimed when the taxpayer computed income from house property, while the second claim was made when the house was sold and capital gains were computed.

The ITAT held that both these provisions of the Income-tax Act are altogether different, the taxpayer is entitled to claim deduction of interest paid on borrowed loans while computing capital gains too.



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