

Tax Reforms in Housing Finance Sector in India

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ABSTRACT

Housing is a fundamental necessity, next only to food and clothing, for a healthy and civilized society. However, India faces a growing gap between housing demand and supply. Addressing this deficit requires innovative approaches and modifications to existing policies. Tax incentives and financial schemes introduced by the government have facilitated the development of housing finance, thereby promoting tax savings for individual taxpayers and contributing to overall economic growth. This paper examines the role of tax reforms and financial planning in enhancing the housing finance sector in India.

Keywords: *Tax Reforms, Housing Finance Sector*

The housing sector is vital for societal development, ranking next to essential needs such as food and clothing. Historical records indicate no housing deficit in India until 1951. Post-independence, urbanization and globalization significantly widened the gap between housing supply and demand. For instance, the housing deficit in 1991 was 31 million units, which rose to 41 million by 2001. The estimated housing stock requirement for 2021 was about 77 million in urban areas and 63 million in rural areas. The National Housing Policy of 1994 was a significant step in addressing these challenges, shifting the government's role from provider to facilitator.

Tax Implications of Housing Finance

- 1. Self-Occupied Properties:** Tax laws allow deductions of up to ₹2,00,000 annually for interest paid on loans for self-occupied properties. This incentive encourages taxpayers to prioritize homeownership, especially individuals in higher income brackets. Employers can facilitate tax deductions by including interest payments in employee tax planning.
- 2. Double Income No Kids (DINKs):** DINK households benefit significantly from housing loans, as both partners can jointly claim deductions on interest payments if the property is co-owned with specified shares. This approach optimizes tax savings for young couples with dual incomes.
- 3. Hindu Undivided Families (HUFs):** HUFs can leverage housing loans for residential or rental properties to avail tax benefits on interest payments. This strategy not only facilitates housing investment but also supports long-term wealth creation through real estate.
- 4. Minor Children:** Despite income clubbing provisions under Section 64 of the Income-tax Act, properties financed in the names of minor children can yield future

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benefits. Proper planning can mitigate tax burdens, ensuring asset accumulation for the child's majority.

5. **Second Residential Properties:** For second homes intended for rental purposes, tax laws allow unrestricted deductions on loan interest payments. Properties rented for over 300 days annually are also exempt under wealth tax provisions.
6. **Commercial Use of Properties:** Housing loans used for properties intended for commercial purposes qualify for deductions on interest against rental income, promoting real estate investment with financial benefits.
7. **Investment in Properties:** Housing finance for property investments allows capitalization of interest costs, reducing taxable gains upon sale. This provision benefits investors seeking long-term appreciation.
8. **Zero-Interest Loans by Employers:** Employees receiving zero-interest housing loans are taxed on the perquisite value. Strategic financial decisions can help optimize such benefits without excessive tax burdens.
9. **Home Repairs and Renovation:** Loans taken for renovations or repairs are eligible for interest deductions within the overall limit for self-occupied properties, facilitating property upkeep and modernization.

CONCLUSION

Tax reforms and financial schemes in housing finance have significantly influenced India's housing sector, providing relief to taxpayers while addressing the housing deficit. These incentives not only support individual financial planning but also bolster economic development by promoting investments in real estate. Future policies should focus on expanding these benefits to ensure inclusive growth and sustainable housing solutions.

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Acknowledgment

The author(s) appreciates all those who participated in the study and helped to facilitate the research process.

Conflict of Interest

The author(s) declared no conflict of interest.

How to cite this article: Makkar, N.K. (2021). Tax Reforms in Housing Finance Sector in India. *International Journal of Social Impact*, 6(3), 33-34. DIP: 18.02.005/20210603, DOI: 10.25215/2455/0603005