# Eight Common Myths & Misconceptions about tax

In this article we have discussed right Myth or Mis-Conceptions related to Income Tax Prevalent in the Mind of General Taxpayers related to Personal Taxation. Article Aims to clear such Mis-Conceptions. The following are some of the myths and real facts related to same:- .

**Myth No 1:** Deduction related to interest U/s. 24 and repayment of principal housing loan U/s. 80C is applicable to one house only.

**Fact:** Most taxpayers generally believe that the deduction related to interest and repayment of principal housing loan is applicable to only one house. But this is not true. On the contrary, an individual can have more than one housing loan.

If an individual owns more than one house property for his use, then under the provisions of the Income Tax Act, 1961 (the ‘Act’), any one property as per his choice is treated as self-occupied and its annual value is computed to be nil. The other house property is deemed to be let-out and a notional rent as per the provisions of the Act is computed as the taxable income under the head ‘Income from House Property’. In other words, the second house is treated as being rented-out and its estimated rental income is treated as taxable income.

Taxpayer can claim a deduction under Section 80C of the Income Tax Act for the repayment of the principal amount. However, this amount is limited to a total of Rs 150,000 (inclusive of the other investments) and will be available only on repayment of Principal amount of Loan related to Self Occupied Property.

The interest paid on housing loan will be eligible for a deduction up to Rs 200,000 in case of a self-occupied property. However, in case a property is let out or deemed let out, then there is no such limit. If the property is let out, then the rental value is taxable and the interest paid on housing loan can be claimed as a deduction

**Myth No 2:** Tax deduction U/s. 80C is allowed on the entire amount going towards home loan repayment.

**Fact:** Unlike the general perception that tax deduction is allowed on the entire amount going towards home loan repayment, only the amount going towards the repayment of the principal is eligible for tax deduction.

Interest can be claimed as a deduction under Section 24. You can claim up to Rs. 200,000 or the actual interest repaid whichever is lower. (You can claim this interest only when you are in possession of the house)

Principal can be claimed up to the maximum of Rs. 150,000 under Section 80C. This is subject to the maximum level of Rs 150,000 across all 80C investments.

The limit of Rs 2,00,000 is applicable only while calculating the income from one self-occupied property

**Myth No 3:** Filing tax returns is a very complex and cumbersome exercise

**Fact:** This is also not true, provided you have done your homework before filing the return. The government has notified specified forms which can be used by an individual to file tax returns. An individual can file income tax return online , However, the acknowledgement form generated online (ITRV) will need to be submitted manually to the tax authorities. In case you have a digital signature, then you do not need to file the ITRV. There are many free e-filing websites are also there which assist in preparation of Income Tax Return of Individuals.

**Myth No 4:** Tax exemption is received on the actual rent paid for rented home and availble only to those who receives HRA

**Fact:** A tax exemption is available to a salaried employee if he receives house rent allowance (HRA) as part of his compensation from his employer. The exemption is calculated as per the limits prescribed under the law. However, the maximum exemption which can be availed will be equal to the amount of actual HRA received by the employee.

Least of the following is exempt in respect of HRA U/s. (Sec. 10(13A) read with Rule 2A of Income Tax Rules):

a) Actual HRA Received

b) 40% of Salary (50%, if house situated in Mumbai, Calcutta, Delhi or Madras)

c) Rent paid minus 10% of salary

\* Salary= Basic + DA (if part of retirement benefit) + Turnover based Commission

Note:

i. Fully Taxable, if HRA is received by an employee who is living in his own house or if he does not pay any rent

ii. It is mandatory for employee to report PAN of the landlord to the employer if rent paid is more than Rs. 1,00,000 [Circular No. 08 /2013 dated 10th October, 2013].

For an Individual other than one receiving HRA (whether self employed or otherwise), deduction is available under Section 80GG of the Income Tax Act, 1961 for payment of rent on accommodation. In this case, however, the maximum deduction that can be availed is Rs 2,000 per month.

**Myth No 5**: Exemption U/s. 54 of Income Tax Act, 1961 is available on buying home from capital gains.

**Fact:** Section 54 gives relief to a taxpayer who sells his residential house and from the sale proceeds he acquires another residential house Exemption u/s. 54 , contrary to the popular belief, is not available under all circumstances. Following conditions should be satisfied to claim the benefit of section 54.

* The benefit of section 54 is available only to an individual or HUF.
* The asset transferred should be a long-term capital asset, being a residential house
* Within a period of one year before or two years after the date of transfer of old house, the taxpayer should acquire another residential house or should construct a residential house within a period of three years from the date of transfer of the old In case of compulsory acquisition the period of acquisition or construction will be determined from the date of receipt of compensation (whether original or additional).

**Myth No 6:** Section 80C benefits are available only on investments, or on bank FDs and insurance premiums

**Fact:** This is not True as taxpayer can get such benefit on his expense on Fees Paid for his Children to School or University as well as on Repayment of Principal amount for Home Loan. Under Section 80C benefits, you can get an exemption of up to Rs 1.50 lakh on contributions to a wide range of investments. These include Employee Provident Fund (EPF), Public Provident Fund (PPF), National Savings Certificate (NSC), 5-year bank fixed deposits, Sukanya Samriddhi Account, life insurance policies, equity-linked savings schemes (ELSS), and unit linked insurance plans (Ulips), among others.

**Myth No 7:** One can get 100% tax relief on donations under Section 80G.

**Fact:** For donations made to specified trusts or institutions, you can get a tax relief under Section 80G of the Income Tax Act. The rate of deduction, however, is either 50 or 100 per cent, depending on the choice of trust. Further only donations of up to 10 per cent of your total income qualify for such a deduction. It is to be noted that Foreign Donation and Donation to Political Parties is not eligible for deduction

**Myth No 8**: Gifts are always totally tax-free despite receipt from any person

**Fact:** Receiving Gift indeed brings a cheerful smile on the face of the receiver, but if receiver gets to know that he has to pay tax thereon, the smiling face may turn sad. Although Gift Tax Act has been abolished, however there are certain provisions in the Income Tax Act, which make the gift taxable in the hands of the recipient.

Gifts received from specified relatives only are exempt from income tax, and there is no upper limit also. Similarly, gifts of any amount and from anyone received during your marriage are totally tax-free. In case of gifts received on birthday, however, the ones received by from relatives would not have any limit, but from non- relatives, the limit would stand at Rs 50,000 a year.

Normally also, if you receive a cash gift or gifts by cheque or bank draft of more than Rs 50,000 from a non-relative, you are required to pay tax on the excess amount exceeding Rs 50,000.

Source courtesy:taxguru.in