

## **Pre-payment charges for closure of housing loan eligible for Section 24 deductions.**

**Summary – The Mumbai bench of the ITAT has recently pronounced a decision in the case of Windermere Properties (P.) Ltd., (the Assessee) and held that prepayment charges for closure of loan account which was taken for acquisition of property fetching house property income are allowable as a deduction under section 24(b).**

### **Facts**

- The Assessing Officer disallowed the assessee's claim for deduction of amount paid as prepayment charges for closure of a loan account which was taken for acquiring a property fetching the assessee house property income.
- The Commissioner (Appeals) upheld the disallowance.
- The assessee moved an appeal to the ITAT.

### **Held**

- The ITAT held that the definition of interest under section 2(28A) makes it manifest that it has basically two components, (a) the amount with nomenclature of interest for moneys borrowed and (b) the amount paid by whatever name called in respect of the money borrowed or debt incurred.
- The second category may also encompass any charge paid for not utilizing the credit facility. Incorporating the definition of 'interest' in section 24(b), the position emerges that not only the amount paid designated as interest but also any other amount paid, by whatever name called in relation to such debt incurred, also qualifies for deduction.
- By early repayment, the assessee managed to wipe out its interest liability in respect of the loan, which would have otherwise qualified for deduction under section 24(b) during the continuation of loan.
- It is obvious that these prepayment charges have a direct nexus with the obtaining of loan which was availed for acquisition of property. It is beyond comprehension as to how the amount paid as interest for the loan taken is allowable as deduction but the amount paid as prepayment charges of the very same loan is not deductible.

- The payment of such 'prepayment charges' cannot be considered as *de hors* the loan obtained for acquisition or construction or repair, *etc.*, of the property on which interest is deductible under section 24(b).
- The ITAT held that both direct interest and prepayment charges, are species of the term 'interest'. Therefore, the impugned order was set aside and deduction claimed by the assessee was granted.