

Prepayment charges on home loans are deductible as 'interest' under Sec. 24(b): Mumbai ITAT

Summary – The Mumbai ITAT in a recent case of Peepul Tree Properties (P.) Ltd., (the Assessee) held that Prepayment charges and processing fee made for purpose of availing loan at lower interest cost are allowable under section 24(b)

Facts

- During relevant year, assessee had been claiming deduction on account of payment of interest to six bankers from whom the assessee had taken loan for construction of property.
- Deduction of interest had been consistently allowed by the Assessing Officer in all the years.
- In the year under concern, the assessee took fresh loan from Axis Bank which was utilized for exclusive purpose of repayment of loans to the aforesaid six parties. In the process of change over of lender, the assessee paid prepayment charges to these six bankers to whom loans were prepaid and also paid processing charges.
- Assessing Officer disallowed the assessee's claim for deduction of prepayment charges as well as processing fee and Commissioner(Appeals) upheld order of Assessing Officer.
- On appeal to the Tribunal.

Held

- Any interest paid on impugned loans is allowable under section 24(b). The term 'interest' shall include any services fee or other charges in respect of moneys borrowed and it goes to the extent of saying that any charges in respect of any credit facilities which has not been utilized. The 'processing fee' charged by Axis Bank is nothing but service fee charged by the bank and therefore it is clearly allowable as per plain provisions of the Act. As far as the prepayment charges are concerned, these have been paid for the loans which have been refunded and thus no more utilised by the assessee. It has been clearly provided that any charges incurred even for any credit facility which has not been utilised shall also form part of the term 'interest'. Even, otherwise, both of these payments have been made for the purpose of availing of the loan at lower interest cost. Thus both the prepayment charges and processing fee are allowable under section 24(b).