Be tax smart with a second home

- For let out property, no limit on interest deduction on loan

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AS THE INCOME tax laws will now allow two properties to be treated as self-occupied instead of one, investing in a second home can be an appealing option, especially for those in the higher tax brackets. Apart from tax-savings, the property can yield long-term capital appreciation.

Due to the exemption of notional rent, taxpayers can save significantly. For instance, if the notional rent was ₹7.5 lakh a year, after considering a 30% standard deduction of ₹2.25 lakh the taxable rental income would have been ₹5.25 lakh. So, for an individual in the 30% tax slab (plus applicable cess), the tax would have been ₹1,63800. But after the changes effective from April 1, 2025, the tax outgo will be nil.

"The potential savings will vary based on the value of the property and the specific circumstances of the owner. The higher the deemed rental value of the property, higher will be the tax saving," says Vishwas Panjiar, partner, Nangia Andersen.

Even buying a second property with a bank loan can be beneficial. For a self-occupied property, the maximum tax deduction on interest amount of a home loan is capped at ₹2 lakh a year under the old tax regime. However, there is no limit on deduction of interest amount paid every year in case of a let-out property in both the old and new tax regimes.

Capital gains on sale

For residential individuals and Hindu Undivided Families, the long-term capital gains from the sale of property held for more than 24 months will be taxed at 12.5%. In case of property purchased before July 23, 2024, there are two options to calculate the LTCG tax: One at 20% after factoring cost indexation benefit and the other at 12.5% without indexation.

Amit Maheshwari, tax partner, AKM Global, says if the tax computed without indexation exceeds the tax calculated using the indexation benefit, the excess tax will be ignored. "The taxpayer has the option to choose the treatment that is more beneficial to them, allowing for flexibility in tax planning."

The tax rate of 20% with indexation could be advantageous in cases where property appreciation is closer to the inflation rate. However, if the value of the property at the time of sale has appreciated significantly, opting for 12.5% will be more beneficial. A longer holding period generally leads to a higher indexed cost of acquisition and, consequently, lower capital gains, say experts.

Reinvest capital gains

A person earning long-term capital gains from the sale of a property can avail tax exemption under Section 54EC by reinvesting the capital gains in specified bonds of companies such as NHAI, REC, PFC and IRFC redeemable after five years. The gains have to be reinvested within six months from the date of the transfer of the original asset.

However, the maximum exemption that can be claimed under this section is limited to ₹50 lakh in a financial year.

Real estate taxation

For two house properties

Particulars	New Tax Regime SOP	New Tax Regime LOP	Old Tax Regime SOP	Old Tax Regime LOP
Gross Annual Value (GAV)	NIL	Higher of Fair Market Rent and actual rent received	NIL	Higher of Fair Market Rent and actual rent received
Municipal taxes	Not allowed as deduction	Amount paid is deductable	Not allowed as deduction	Amount paid is deductable
Deduction u/s 24(a) @ 30% of GAV	NIL	Allowed	NIL	Allowed
Deduction for interest on home loan (u/s 24B)	Not allowed	Allowed without any limit	Allowed up to ₹2,00,000	Allowed without any limit

SOP: Self occupied property; LOP: Let out property; Budget 2025 has proposed that an assessee can claim a maximum of two properties as self-occupied if no rent is received

Indexation on sale

	Property purchased before July 23, 2024	Property purchased after July 23, 2024
Indexation	Allowed	Not allowed
Tax rate	12.5% or 20% with indexation	12.50%

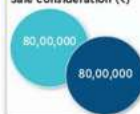
How it works

Property purchased before July 23, 2024

- Purchase date: April 1, 2010
- Sale date: October 1, 2024
- Purchase price: ₹20 lakh
- Sale price: ₹80 lakh
- CII for FY11: 167
- CII for FY25: 363

@20% with indexation | @12.5% without indexation

Sale consideration (₹)

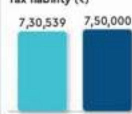


Cost of acquisition (₹)

Long-term capital gains (₹)

Tax rate (%)

Tax liability (₹)



In this case, the excess amount of ₹19,461 can be ignored and the assessee can pay the lower amount as tax plus the applicable surcharge and cess

Set-off loss from house property

Particulars	New Tax Regime: Allowed/Not allowed	New Tax Regime: Against which income	Old Tax Regime: Allowed/Not allowed	Old Tax Regime: Against which income
Set off of current year house property loss	Allowed	House property	Allowed	1. House property (full) 2. Other income (up to ₹2,00,000)
Carry forward of losses to future years	Not allowed	Not applicable	Allowed	Set off only against house property income (up to ₹2,00,000 and for 8 years)

Source: Nangia & Company