

Budget 2016: Proposals should assuage realty sector's pain points

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All hopes are pinned on the Union Budget 2016, and the policies crafted therein for the real estate sector, to pull it out from the slump that practically seized the sector due to a number of factors. The real estate sector has, for long, been waiting for things to brighten up. Therefore, realty players are eager to know how the government plans to lift up the sector.



Reuters

To strengthen the realty market, while a number of programmes have been already earmarked for the sector such as, Housing for all by 2022, Smart cities and REITS, not much headway has been made regarding these.

One reason could be that there are big lapses in the administrative, land, legal and financial spheres. The sector is in dire need of reforms. Unless corrective measures are taken in these areas, these lofty programmes envisaged by the government will not be able to take off and their impact will remain confined to the papers they were noted in.

Realty professionals have a few suggestions to make to ease the monetary burden of buyers, provide a facilitative environment for developers, and ways to strengthen the sector. The Union Budget 2016 should encapsulate these standpoints to assuage realty woes.

Offer financial shield to home buyers from project delays

As construction delays have become the norm rather than the exception, buyers bear the brunt of it. According to the law, when a buyer purchases under construction property, the buyer can claim a tax benefit of Rs 2 lakh after possession, provided the construction is completed within three years.

As construction within a three year period has become quite an impossible task for developers, the buyer loses his tax benefit. Post the three-year term or delay in construction, his benefit rides down to a mere Rs 30,000 and is forced to pay higher interest. On top of it, as a first-time home buyer, he has to pay for his rent, too.

To ease the monetary burden of the buyers, Anuj Puri, Chairman and Country Head, JLL India, suggests, "The Union Budget should make a provision that allows tax benefits from the time the buyer starts paying interest on

housing loans.”

Puri thinks another fact the Union Budget should take into consideration is that when an under-construction property is purchased from capital gains, its construction must be completed within three years of its sale to avail exemption. However, as we know, hardly abt developers are able to complete in the given timeline. Hence, deductions should be brought at par.

The construction timeline should be comfortably extended from a period of three to five years, to avail exemption from capital gains.

“Tax concessions on house insurance premiums could be introduced to encourage end-users to insure their homes. Similarly, the tax exemption limit should be increased by about Rs 1 lakh and be auto-set to match inflationary trends in a financial year,” suggests Puri.

Make home loans affordable

The cost of finance to buyers should be reduced to make housing for all by 2022 a reality. “It is impossible to achieve this goal if home loans do not become affordable to all. The budget, therefore, should bring the interest rate on home loans down to between 7.5 percent-8 percent,” recommends Kishor Pate, CMD, Amit Enterprises Housing Ltd.

Additionally, the home loan interest amount exemption under Income Tax benefit should be increased from the existing limit to Rs. 3 lakh. Further, this exemption should be made applicable for more than single property purchases.

Today, many people are second home buyers, so the Finance Ministry should take due note of this fact too, and accordingly provide relief for both first home and second home buyers.

Eliminate multiple taxation on property purchase

The budget should do away with the multiple taxes involved in the purchase of residential property. As of now, home purchasers are required to pay service tax and value-added tax (VAT) on top of stamp duty and registration charges. Goods and Service Tax (GST) should be introduced in the place of these taxes, say realty experts.

Reduce cost of property registration

Another expectation from the Union Budget is reduction in the cost of property registration. Stamp duty and registration costs are as high as six percent in most cases. This needs to be reduced by a few basis points to aid consumers.

Alternatively, a slab-based approach should be introduced. Stamp duty falls under state government purview, but the Centre can nevertheless issue a directive to reduce stamp duty costs.

How the Union Budget 2016 can facilitate developers

1. Grant industry status to the real estate sector. Realty players have been demanding for an industry status to be accorded to the sector, which they believe will also help in financing the sector
2. Clarity on the land acquisition policy holds the key to the development of realty and infrastructure sector, points out Kishore Bhatija, MD, Real Estate Development, K Raheja Corp.
3. Make available reduced cost of finance to developers, which will go a long way in fulfilling the dream of affordable housing.
4. Cutting duties on building material such as cement and steel can help reduce cost of construction. The benefits could be passed on to home buyers, states Rajesh Prajapati, Managing Director, Prajapati Constructions
5. Single window clearance system will solve the problem of approval delays and bring transparency in the overall working system
6. Remove or reduce service tax substantially. Residential construction be taken out of 14.5 percent service tax net. This exemption should cover builders and developers who are registered
7. Allow income tax exemption for affordable homes built for Economic Weaker Section and Lower Income

Group segments. Give tax concessions for construction companies to incentivise them to build low cost homes.

Besides these suggestions to mitigate the woes of realty buyers and developers, the finance minister should also take a few necessary steps for the sector's advancement.

Promote REITs (Real Estate Investment Trusts) and remove roadblocks such as DDT (Dividend Distribution Tax)

The focus of the Union Budget should be on making REITS start off and for transactions to happen to instil confidence in the realty market. "There hasn't been a single REIT listing in India since its inception and we attribute this to the existence of DDT (Dividend Distribution Tax), currently 15%," laments Surendra Hiranandani, Chairman & Managing Director, House of Hiranandani. "Removal of DDT (tax levied on the dividend paid to investors) will result in a rush of investment in REITs and this could prove to be decisive for the sector," he advocates. Additionally, REITs offer the benefits of diversification, safety and easy exit. Simplifying the tax system will provide a major lift to the industry.

Additional allocation of funds for infrastructure development

With the government's 'Housing for All by 2022' initiative under way, it is imperative to allot new land on the outskirts of metropolitan areas in order to promote affordable housing. The government must allocate an amount exclusively for developing infrastructure and improving connectivity in the peripheral areas of cities, especially the metros.

FDI funding in under construction projects

The National Real Estate Development Council (NAREDCO), an apex body of real estate stakeholders, is demanding external commercial borrowing in all spheres of housing and real estate development, including SEZ projects. Praveen Jain, President NAREDCO, is propagating that funding to real estate be allowed through FDI, particularly in under construction projects. Also, three years period for acquisition or completion from the year of borrowing should be dispensed with, said Jain, adding that this will provide much needed impetus to housing sector which is reeling under huge housing shortage in the country.

Prepare Urban Rental Policy 2015 and look at increasing rental exemption

With the percentage of self employed people growing, the house rental demand is shooting up. The government should speed up on the Draft National Urban Rental Policy 2015 and Draft Model Tenancy Act 2015. Also, one suggestion is that income from renting of properties should be taxed at a flat rate of 10%, since the high cost of houses and high property taxes lead to low rate of return (ROR) from rental housing, making renting out an un-remunerative proposition. In addition, the government can look at raising house rent deduction limit for people working in an organisation as well as for self employed home buyers. For the latter, the tax deduction limit is restricted to only Rs 2,000 under Section 80GG, the government should increase the limit.

Real Estate Regulatory Bill

The sector also, is hopeful of the regulatory bill coming up in this budget session to keep the real estate working environment trouble-free and efficient.

These are the changes which the real estate fraternity expects the government to incorporate in the Union Budget 2016, which are vital to the revival of the sector. And positive pronouncement for the sector in the upcoming budget is the impetus the sector requires to come back in its true form, which has the potential to boost the economy.