DDT exemption on REIT will be a game changer for the real estate sector:Surendra Hiranandani

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The budget 2016 outlined the shift in focus to the rural economy as the finance minister introduced a slew of taxes and cess to be imposed on services to help rural welfare programmes. It also reflected the government's concern and priority to improve the investment climate with a view to stimulate growth. The massive push for improvement in infrastructure including outlay for roads, railways and development of smaller airports to improve connectivity will benefit the real estate sector in the long run. The abolishment of DDT is a welcome move and will put the REIT structure in India at par with global standards. REIT listing will soon be a reality. The finance minister also announced certain other measures to bring investment into the real estate sector, while giving special emphasis on affordable housing, few long pending demands of the real estate sector were not met in the budget. Industry status to the real estate sector, single window clearance, tax concessions on home insurance premiums are some of the measures that could have significantly boosted the sentiments in the sector.

I have listed below few key points offered to the real estate sector by the government in the budget.

Removal of Dividend Distribution Tax (DDT) on Real Estate Investment Trusts (REITs): DDT has long been one of the biggest hurdles that made REIT financially unviable for Indian commercial stakeholders. 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. This will help developers raise funds and will also effectively address issues pertaining to transparency, liquidity and execution of property developments across the country, that will spur growth in the future.

Boost for first time home buyers: By introducing an additional interest deduction of Rs 50,000 on home loans not exceeding Rs 35 lakhs, and the value of homes not exceeding Rs 50 lakhs the budget has given some reason to cheer to the first time home buyers. This could boost demand for housing in smaller cities where the cost of ownership is on the lower side. However, this will make little or no difference if one is buying a property in any metro city in India where housing prices are significantly higher. So, the relief will not make any material difference to the sector.

Modernization of land records under digital India initiatives: The government has provided Rs150 crores for modernization of land records which aims at ushering in the system of providing online access of land details and plugging of loopholes. This is a welcome move for the sector as the integrated land management system will not only increase the transparency in the whole system but will also expedite the process of land acquisition and enable holistic growth.

Tax deduction for construction of affordable housing:

The service tax exemption for developers focusing on affordable housing with unit sizes not exceeding 30 square meters in the larger cities and 60 square meters in the smaller cities is definitely a positive move and will encourage private participation as well. This will increase profits making it easier for the developer to attract foreign and domestic investments in housing projects. It is in line with the governments vision to boost affordable housing. It will be a challenge though for developers to deliver in the three year time frame given the lack of single window clearance for the projects.

Tax relief on HRA: The increase in reduction limit from Rs 24,000 per annum to Rs 60,000 per annum is a welcome move and will give the much needed push to rental housing across major cities in India. It could also boost demand in the long run.

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