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Budget 2018 allows property valuation up to 5% below circle rate: Realty buyers, sellers to benefit

BY [SUNIL DHAWAN](#), ET ONLINE | UPDATED: FEB 02, 2018, 12:32 PM IST

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Budget 2018 has proposed a tax relief for buyers and sellers of property by allowing it to be valued at up to 5% below circle rates for calculation of [stamp duty](#) and capital gains tax.

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The finance minister presenting the Budget 2018 announced that no adjustment shall be made in respect of transactions in immovable property, where the [Circle Rate](#) value does not exceed 5 percent of the consideration.

Ashish Jindal, Co-Head, [Real Estate](#), Sanctum Wealth Management says, "In major cities, the circle rates were increased and had become more than the market rates. This resulted in a gap between the two rates, which was counted as income in hands of both buyer and seller. Hon'ble Finance Minister has given a big relief by allowing upto a 5% gap between the two and this has the potential to remove the irritant and revive [secondary market](#) transactions."

The state government collects revenue on real estate transactions by levying stamp duty on the transaction value based on the circle rate. The circle rate is the minimum value at which sale or transfer of plots, built-up houses, apartments or commercial property can take place. It is the price at which the buyer pays stamp duty to the government while getting a property registered.

Of late, the real estate prices have been languishing and often the actual sale happens much below the circle rate fixed by the government. One may sell an immovable property lower than the circle rate, but the stamp duty will still be levied on the circle rate. However, the difference in the circle rate and sales value becomes taxable for both the buyer and the seller.

"The move to allow a variation of 5% between transaction value and circle rates for computation of capital gains will not impact transactions significantly in any of the metropolitan cities in India," says Surendra Hiranandani, CMD, House of Hiranandani.



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At present, while taxing income from capital gains (section 50C), business profits (section 43CA) and other sources (section 56) arising out of transactions in immovable property, the sale consideration or stamp duty value, whichever is higher is adopted. The difference is taxed as income both in the hands of the purchaser and the seller.

It has been pointed out that this variation can occur in respect of similar properties in the same area because of a variety of factors, including shape of the plot or location. In order to minimize hardship in case of genuine transactions in the real estate sector, it is proposed to provide that no adjustments shall be made in a case where the variation between stamp duty value and the sale consideration is not more than five percent of the sale consideration.

These amendments will take effect from 1st April, 2019 and will, accordingly, apply in relation to the assessment year 2019-20 and subsequent assessment years.

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