



UNION BUDGET 2016

**2016
BUDGET**



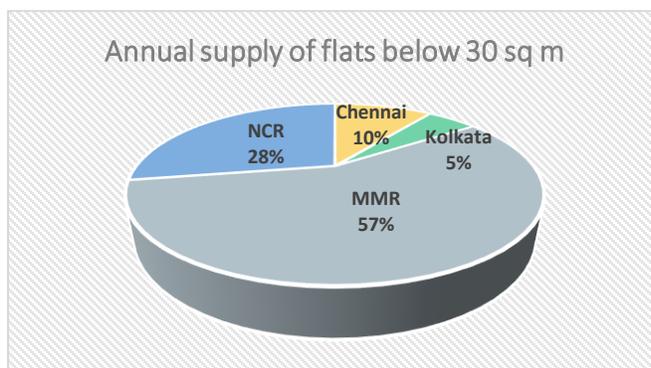
KEEPS ITS FOCUS ON AFFORDABLE HOUSING



Union Budget 2016 keeps its focus on affordable housing

Pune slated to be the biggest beneficiary

The third budget under the NDA government was delivered amidst much anticipation. While it received a tepid response from the individual and corporate sectors, the weaker sections of the society and rural India have quite a lot to cheer about. Another major area of focus was “Affordable Housing” and many reforms have been rolled out on that front. Some of the proposals by the Finance Minister under the plan are:



Source: Liases Foras

1- Section 80-IBA: 100% deduction for profits to developers opting for flats up to 30 sq. metres in Chennai, Delhi, Kolkata or Mumbai and 60 sq. metres in other cities, approved during June 2016 to March 2019 and completed in three years. MAT will still be applicable.

2- Exemption from service tax on construction of affordable houses up to 60 square metres under any scheme of the Central or State Government including PPP Schemes.

Effect on Realty: The supply of flats up to 30 sq. metres in Chennai, Delhi, Kolkata or Mumbai is only approx. 9,000 units, led by MMR and NCR, while the supply of flats up to 60 sq. metres in 23 cities in India except the above are 1,63,722 units in total which is only 25% of their total supply. Thus this reform is not likely to have far-reaching effects. However, Pune is likely to benefit from the service tax exemption of houses up to 60 sq mt, since the demand for 1 BHKs and compact 2BHKs is the highest in this city. On the other hand, developers in Kolkata will not benefit much from the reform underlying 100% deduction on profit for flats up to 30 sq. metres, as the migrant population in the city is very less and there is muted demand for compact 1BHKs and studio apartments. The government has plugged the previous loophole and plans to curb investor sales by correcting the definition of **residential unit** as unit in the housing project is allotted to an individual, no other residential unit in the housing project shall be allotted to the individual or the spouse or the minor children of such individual.

Annual Supply of flats below 60 sq m.

Cities	Percentage
Pune	36%
Nashik	29%
Nagpur	28%
Ahmedabad	27%
Grand Total	25%
Kanpur	22%
Lucknow	21%
Goa	19%
Coimbatore	18%
Bhubaneswar	15%
Indore	14%
Vadodara	14%
Surat	14%
Bhopal	14%
Jaipur	12%
Cochin	9%
Bangalore	8%
Patna	6%
Mangalore	6%
Chandigarh	6%
Hyderabad	5%
Thiruvananthapuram	1%
Average	25%

3- Distribution made out of income of SPV to the REITs and INVITs having specified shareholding will not be subjected to Dividend Distribution Tax, in respect of dividend distributed after the specified date.

Effect on Realty: There had not been a single REIT listing in India despite a green signal last year. The primary reason is the ambiguity over the status of Dividend Distribution Tax (DDT). Now with the scrapping of DDT, REITS will be able to realize its full potential.

4- Deduction for additional interest of Rs 50,000 per annum for loans up to Rs 35 lakh sanctioned in 2016-17 for first time home buyers, where house cost does not exceed Rs 50 lakhs.

Effect on Realty: The biggest hindrance to the scheme of *Affordable housing* is the availability of funds for the buyers. Unless the government incentivizes first home buyers, this will be a distant reality. The scheme is a welcome move on two fronts. Firstly, the amount of interest exemption has been increased to Rs 2,50,000 and second, the upper limit of house cost has been increased to Rs 50 lakhs. So a larger number of fence-sitters will be encouraged to become genuine buyers.

5- Budget has increased the timeline for construction from three years to five years in Section 24, for claiming deduction

Effect on Realty: Currently a tax deduction of Rs 2 lakh per year was allowed against payment of interest on home loans, if the house is acquired within three years of taking the loan. Delay in deliveries is a blatant practice at present and as a result, buyers lose tax exemption— this is something they cannot foresee at the time of availing the home loan. But now the clause under Section 24 has been amended and the timeline for construction changed from three years to five years. It is positive for buyers as, with a realistic completion timeline, they can be hopeful of availing full tax exemption under this.

6- Increase the limit of deduction of rent paid under section 80GG from Rs 24,000 p.a to Rs 60,000 p.a to provide relief to those who live in rented houses

Effect on Realty: This will not have direct impact on the realty sector, but will reduce the taxable component of the salary and the salaried class will have more income in their hands for consumption.

7- Total outlay on roads and rails will be Rs. 2.80 lakh crore. 10,000 km of national highways in 2016-17 and 50,000 km state highways to be converted to NH roads

8- Extend excise duty exemption, presently available to Concrete Mix manufactured at site for use in construction work to Ready Mix Concrete

Effect on Realty: This will have a positive bearing on the logistics. An upgraded road infrastructure will facilitate faster transfer of raw materials and thus reduce construction delays. On the other hand, extension of excise duty exemption to Ready Mix Concrete will lead to increased production and lower input costs.

9- The government will relaunch its national land record digitization scheme and fund it with Rs 150 crore.

Effect on Realty: Currently properties in most of the cities have a unique identification number for taxation purposes. However, once records are digitized and there are proper linkages established between registration, property taxes and titular records, chances of fraud and scams related to property will be very less. This will enhance accountability and transparency. This is in line with the **Torrens system of land titling** wherein there is a direct registration of title in a central registry based on identification of land parcels and ownership. Lack of clear land titles and title insurance in India makes it difficult for developers to acquire suitable land parcels and often results in long-drawn and expensive litigation for them.



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