FICCI

Pre Budget Memorandum 2009-2010

Housing Sector

A Amendment to Section 80-IB

❖ Under **Section 80-IB(10), tax holiday** is available only for housing projects approved before 31st March, 2007. This cut-off date of 31st March must be extended by at least 5 years which has become increasingly crucial in the context of sluggish real estate market owing to higher interest rates and property prices, global financial turmoil, stock market crash and fears of job curbs. The realty firms must be encouraged through fiscal incentives to construct small dwelling units at affordable prices which should go a long way in uplifting the social status of 'Aam Aadami'. It is also necessary in the sense that the increase in the construction activities would simultaneously give a fillip to other industries like Cement, Iron and Steel, Limestone, Bricks, Paints, Chemicals etc., besides generating employment opportunities.

❖ Under the said section, one of the prescribed conditions is that the built-up area of the shop and other commercial establishments included in the housing projects shall not exceed 5% of the aggregate built-up area of the housing project or 2000 sq. ft., whichever is less. In large housing projects, 2000 sq. ft. may not be adequate, particularly in view of high density as may arise from restriction of maximum built up area of 1000/1500 sq. ft. per residential unit. The absolute limit of 2000 sq. ft. may be deleted.

B Interest on Self Occupied Residential House Property

❖ To **increase the limit for deduction of interest** paid on loans for acquisition or construction of residential house of Rs. 1,50,000/- (as per the budget of 2001-2001) to at least Rs. 3,00,000/-. Impetus is required to be given to the Affordable Housing sector and also to provide relief to the middle class, besides increasing disposable income in their hands, by increasing this deduction. The additional deduction above Rs 1,50000/- may be permitted for re-payment of principal portion of home loan for self-occupied residential house property. This shall encourage affordable housing sector and the middle class to have more disposable income.

C Standard Deduction on Rental Income

❖ Presently section 24(a) of the Income Tax Act provides a **standard deduction** of 30% from the rental income which should be increased to at least 50% of the total income if not 100%.

D Long Term Capital Gains

❖ Short term capital asset is defined u/s 2(42A) as one which is held for not more than thirty six months except in the case of shares, listed securities, units of mutual funds etc. where the holding period is not more than twelve months. It is suggested that the holding period for immovable property should be reduced to not more than twelve months in line with investment in shares.

❖ It is suggested that capital gains tax under section 54F could be applicable for the purchase of not one, but at-least two properties anywhere in the country, so that an individual selling one property can buy not one but two different properties and claim 100% exemption on the capital gains.

D Service Tax

❖ **Service tax** in relation to construction of residential complexes having more than 12 houses has been imposed. Services in relation to construction of residential bungalows, not forming part of a 'residential complex', are excluded. Taxing the construction of residential complex will entail a higher cost of construction. The discriminatory tax treatment for residential complex and bungalows is not justified. Service Tax should not be imposed in the case of construction industry as the said industry is already paying a number of taxes on different inputs purchased for constructing the houses in addition to taxes such as Works Contract Tax (WCT).

❖ **Removal of Service Tax on "Services in relation to renting of immovable properties":** Removal of service tax on rental of commercial and retail property is a great need of the hour not only because of the global economic melt down but also to support for revival of retail industry.