Pre Budget Memorandum 2010-2011

Housing Sector

Housing and real estate is a vital segment of the economy in the sense that it has multiple connectivity with the rest of the economy. Housing and real estate generates demand for steel and cement, consumer durable goods, plastics, sanitary ware, electrical goods and a variety of services. Housing starts are, therefore, regarded as critical indicators of the activity levels of an economy. It is therefore important to push up the housing sector through the following measures:-

A Interest Deduction on Home Loans

- It would be desirable to **raise the Interest deduction limit** of Rs.1.5 lakhs in the computation of income from house property under section 24 of the Income Tax Act, to Rs.3 lakhs.

- Deduction for interest on housing loans in the hands of the house buyers is allowed only after the possession is handed over to them and interest payments for the construction period is allowed @ 20% each for five years. **Therefore, the tax benefit accrues and is available to the house buyers only after 3-4 years from the date the housing loan was raised by them despite regular interest paid during construction period.**

- To boost the housing demand and to motivate buyers to book their dream house/flat, it is desirable that the **deduction of interest on housing loans should be allowed in the respective assessments from the date the loan is disbursed subject to rider that such house shall not be sold before three years from the date of taking over the possession of the house/flat.** In the event, the house is sold, deduction allowed earlier shall be taxed as income in the year the house is sold. This provision will motivate large class of people to book the house/flat in newly launched schemes by the real estate companies which will take at least 3-4 years to complete before the possession is handed over to the buyers.

B Amendment to Section 80-IB

- The tax holiday available for smaller residential units under Section 80-IB (10) was earlier discontinued for the projects sanctioned after 31st March, 2007. However, in the current year Budget, **the sanction date was extended by one year meaning that the project sanctioned upto 31st March, 2008 will be eligible for exemption**. In view of the general recession, there were very few builders, who had launched new projects and obtained sanctions before 31st March, 2008. **The exemption should be liberalized by extending the benefit to projects sanctioned during the financial year 2009-10 and more advisably for one or two more years with necessary provision in Direct Tax Code**. This will better fulfill the intended purpose and would give a boost to the industry.
- Under **Section 80-IB (10)**, 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**.

C Stamp Duty Reduction & Introduction of Credit System

- **Stamp duty needs to be brought down further to 4-5%** and made uniformly applicable across all states.
- Also, if stamp duty has already been paid on one transaction, there should be a **mechanism to provide concession or a system of credit for any subsequent transactions**. This would avoid the resultant cascading effect of Stamp Duty, thereby reducing the cost of a

property. The concept of credit for taxes paid on subsequent transactions already exists in other statutes such as CENVAT, VAT, MAT, etc.

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 such residential complex will now entail a higher cost of construction. The **discriminatory tax treatment is not understandable**. Also, what is the sanctity of the threshold of 12 dwelling units in a residential complex. **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).

- Also, **Service Tax should not be leviable on rental income of commercial premises** which has a crippling effect on occupiers of retail premises.

E Reinstate the Definition of Real Estate as in FEMA

- The definition of "infrastructure" earlier used by the government and all financial institutions allowed for funding of townships and residential / commercial buildings. This seems to have got de-linked and branded as Real Estate during the time when land and property prices were spiraling. **A change in the definition of Real Estate sector resulted in these activities being categorized as "outside of infrastructure sector".** The immediate implication of this was that banks could not extend loans to real estate activities on the same norms as they can to infrastructure companies, even though building new townships are similar activities as building infrastructure facilities. In the ongoing sluggish environment of real estate market, it may be desirable to **reinstate the definition of Real Estate business as contained in FEMA**.

F Industry Status to Real Estate Sector

- The industry should fairly be accorded the long pending **status of Industrial Undertaking for purpose of availing long term and short term finances as available to other industries**

G Standard Deduction on Rental Income

- Presently section 23 of the Income Tax Act provides a standard deduction of 30% from the rental income which should needs to be substantially **increased to around 50% of the total income**.

H Long Term Capital Gains

- As per Section 54, capital gain arising from transfer of any capital asset is exempt from tax in cases where the sale proceeds are invested in acquiring one residential house. FICCI feels that exemption should be available where the **capital gains are re-invested even in more than one house**.

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