HOUSING SECTOR

Notification and guidelines for housing projects under a scheme of Affordable Housing {Section 35AD (ad)} and Slum Redevelopment or Rehabilitation {Section 35AD (ac)} of the Income Tax Act

- Below provisions were approved by Parliament in Budget for 2011-2012

  "35AD. Deduction in respect of expenditure on specified business:-

  (ad) on or after the 1st day or April, 2011, where in the specified business is in the nature of developing and building a housing project under a scheme for affordable housing framed by the Central Government or a State Government, as the case may be, and notified by the Board in this behalf in accordance with the guidelines as may be prescribed.

  (ac) on or after the 1st day of April, 2010, where the specified business is in the nature of developing and building a housing project under a scheme for slum redevelopment or rehabilitation framed by the Central Government or a State Government, as the case may be, and which is notified by the Board in this behalf in accordance with guidelines as may be prescribed."

- Above proposals were announced in the budget on 28th February, 2011 but they have not been notified till today. It is imperative that the housing industry should know all the provisions under which these benefits can be obtained by the stake holders who undertake such projects.

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

Infrastructure status to affordable housing projects

- Affordable housing being the need of the hour, the Government should look at conferring infrastructure status to affordable housing projects in the country. This will provide for funds at lower interest rates as infrastructure falls within the priority sector lending of banks

Incentives to Housing Finance Companies (HFCs)

- Given the steep increase in interest rates, the borrowing costs of Housing Finance Companies (HFCs) have been impacted significantly. Since they are playing an increasingly greater role in the financing of home buyers, it is critical that they be able to manage their borrowing costs better. Towards this end, HFCs should be allowed to raise funds through the External Commercial Borrowing (ECB) route.

- The registry for all new mortgages, being managed by NHB under Central Registry of Securitisation Asset Reconstruction and Security Interest of India (Cersai), should be extended to all banks, NBFCs and HFCs. Also, this is presently only prospective in nature i.e. for transactions starting April 1, 2011 when CERSAI was launched. All institutions should be asked to send data of existing mortgages, retrospectively i.e. as on March 31, 2011. This will go a long way in reducing the instances of fraudulent multiple financing, thereby providing greater comfort to lenders and resulting in lower interest rates for borrowers.

- Coverage under the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act (SARFAESI) to be extended to Housing Finance Companies and NBFCs. There is no reason not to treat all of them at par with banks and allow them the benefits of this law to recover their dues.

Technology for Low Cost Housing

- Considering the need to construct affordable houses at a very fast pace in this country, new construction technology is required such as aluminum formwork or precast technology. Currently most of these technologies are being imported and have high taxes levied on them. The customs duty/ taxes paid for importing these technologies varies in the range of 20-25%. This prohibits the use of these technologies and hence the pace of development of affordable housing. The need of the hour is to reduce these taxes for the development of housing for the EWS/LIG segment.

Reduce excise/customs duties etc for material used in development of Green buildings, non-conventional energy medium

- Incentives to be provided for the use of equipments/materials used in green building. This will aid Government's national mission on Enhanced Energy Efficiency plan.

Duty exemption for purchase of power generating equipments, water treatment plants in townships

- These incentives will help townships in becoming energy self-sufficient, conserving water etc. It will also reduce burden on State Electricity Board.

Raise the limit for Priority Sector lending

- Following the announcement by Finance Minister in his budget speech 2011-12, priority sector lending limit for housing loan was raised to Rs. 25 lakhs. However, considering the high prices of dwelling units across country and particularly amongst tier 1 and 2 cities, the above limit should be increased.

- Housing loan limit for Priority Sector lending should be raised from the present limit of Rs. 25 lakhs to Rs. 40 lakhs for metro cities, Rs. 30 lakhs for tier 2 cities and Rs. 25 lakhs for tier 3 cities.

Raise the limit for deduction for principal repayment

- In the case of home loan repayments, the ceiling under tax benefits is capped at Rs. 100,000 for principal paid. The ceiling of Rs. 100,000 under Section 80 C is less, particularly when home loan principal repayments are clubbed with other tax saving instruments.

- Therefore, the deduction for principal repayment of housing loan under Sec 80C should be either be increased from the existing limit of Rs. 1 lakh or the principal repayments should be treated as a separate tax exemption entity and excluded from benefits under section 80 C.

Measures to introduce REITs and REMFs

- Rotation of capital is a matter of concern for Real Estate sector in the absence of a secondary market. Therefore, gearing up the momentum towards Real Estate Mutual Funds (REMFs) and Real Estate Investment Trusts (REITs) should receive focus by the Government of India and SEBI.

SEZ – Extension of tax benefits on SEZs

- The DTC proposes alteration in tax benefits available to SEZs. This is making development and occupation of SEZs less attractive. Manpower and property are two of the most expensive cost inputs for IT and services sector companies. Manpower is getting expensive which is making India relatively less competitive for outsourcing. This should be balanced off by in fact increasing property related incentives in SEZ developments so that there is incentive for all to develop and occupy SEZs. To kill tax incentives at such nascent stage of development will be disadvantageous to the development.

- Extending the benefits for SEZs getting notified after March 2012 and units in SEZ beyond March 2014 will result in increase in investments in such units and will also provide for employment opportunities

Impetus to retail segment growth:

1. **Service Tax on retail rentals**

   Commercial rental, which is a cost to the retailer, was brought in the ambit of Service tax in the 2007-08 budgets. Retailers had challenged this levy in high courts but failed to secure a relief. If implemented, this additional levy will put huge burden on the retail segment, which is already operating with low margins.

   Suggestion:

- Service tax on rentals will result in further increase in net retail rentals, impacting both the retailers as well as developers. Additionally, retailers would be forced to pass on the service tax burden to customers. This will result in higher cost of goods. Also considering that rentals are cost incurred by the retailer, the same should be withdrawn.

2. **Incentives for development of supply chain and infrastructure.**

   No significant incentives or exemptions are available for development of supply chain and other logistic / support infrastructure.

   Suggestion:

- Tax holiday / exemptions with respect to cost incurred in development of infrastructure like cold chain, warehouses, etc.
- Granting infrastructure status to supply chain/ cold chain infrastructure

Relax FDI investment criteria for investments in Tier 2 and Tier 3 cities

- The existing criteria of 10 hectares for housing plots, 50,000 sq mtrs of built up area for any construction-development project etc. should be relaxed to attract FDI especially for Tier 2 and 3 cities where market size is smaller.

Pass through status for Real estate funds

- To provide pass through status to real estate funds in order to avoid double taxation of income

URBAN INFRASTRUCTURE SECTOR

- One of the major approaches to improving urban infra financing is to incentivise banks and FIs to increase their exposure to this sector.
- The Government of India can favourably consider declaring urban infra projects as priority sector so that the commercial banks can accommodate an increasing level of exposure to these projects.
- The banks can also be permitted to refinance their exposures through IIFCL so that they can also maintain a reasonable level of asset liability balances.
- The Government of India can also make the Debt Service Reserve Fund facility available to PPP projects in urban sector with sufficient safeguards so that financing these projects can become easier.
- Since most of the PPP projects in urban sector need to have some real estate component to make it attractive to prospective bidders, Government should allow commercial banks to relax restrictions on lending to such PPP based realty projects with sufficient safeguards.