<u>Press – Release</u>

BUDGET EXPECTATIONS FROM REAL – ESTATE SECTOR: 2019 -20

WISH-LIST FROM CREDAI – MCHI

FROM – NAYAN A. SHAH, PRESIDENT, CREDAI - MCHI

This being the election year, with heightened expectations, all eyes are set on February 1, 2018, when Hon'ble Finance Minister Shri Piyush Goyal will present his maiden Union Budget.

The Real Estate Industry today is going through a rough patch and some of the impediments, both revenue and non-revenue in nature are only making going tougher by the day. The specter of premiums coupled with the ever-increasing Ready Reckoner Rates have resulted in a compounding effect leaving no further elasticity for developers to absorb prices with increased taxes. If such forced increases in costs, taxes & premiums by the State Government are not seriously looked into, it would only be detrimental to the industry's health and has the potential to result in catastrophic results with nothing available as affordable housing for millions of households. The various industry reports on huge inventory pile up are the harbinger of more difficult times to come. The ultimate loser is the aspiring house hunter.

Just at the time, post 6~8 quarters, when the real estate sector was just about showing initial signs of recovery, that it was hit by the NBFC crisis. This crisis has further pushed the sector into the doldrums from where, if some major corrective actions are not taken without any further delay, timely completion of under-construction projects and roll out of new ones would come to a standstill. Should the cascading effect of credit flow into the real estate sector not resume immediately, it is only a matter of time that while on one side many developers across the country will have to shut shop, the lakhs of daily wage earners that depend on this sector for livelihood, will not have an alternative. As customers confidence gets further dented, and their increased apprehension on the delivery credibility of even established names forcing them to keep away, for once, developers despite having physical assets backing them would be out of business for lack of liquidity / cash flows. The gravity of this crisis is much gloomier than it appears and this is really our "***MAYDAY***" calling!

The Real Estate industry is collectively looking up to this Union Budget as the last glimmer of hope, the last bridge leading to doom or the path to recovery!

<u>HIGHLIGHTS:</u>

- Rational Concessions in Income Tax for Home-Buyers

- Booster package for the Real Estate Industry to tide over the current liquidity crisis
- Improving Business Viability for real-estate by rationalization of taxes and premiums

The Real Estate Industry today is at a break point post To give substantial boost to the housing sector and enabling real-estate industry retaining its position as second biggest contributor to GDP, following amendments are requested in the Budget 2018 -19.

RATIONAL CONCESSIONS IN INCOME TAX FOR HOME – BUYERS:

The deduction under section 80C should be allowed to individuals in respect of the cost of their first self-occupied house property up to INR 5,000,000. The said deduction could be spread over a period of 5 years. Alternatively, the deduction for principal repayment of housing loan can be considered as a separate or standalone exemption.

Under Section 24 (b) for deduction of housing loan interest, the interest in respect of first self-occupied property should be allowed without any limit. Alternatively, the limit for deduction of interest should be increased to INR 10,00,000 in respect of the self-occupied property. Under Section 54F, the exemption for the investment of sale proceeds in one additional residential property (other than the existing limit of one property) should be provided and the necessary amendment should be made in the Act.

Deemed taxation based on stamp-duty valuation for home assets should not be taxed as Capital Gains as in section 43CA and 50C as property prices are determined by various factors including distress sale by common home owner.

BOOSTER PACKAGE FOR THE REAL ESTATE INDUSTRY

The current vicious cycle or the current crisis may culminate in the shutting down of the industry. The industry today is in dire need of a comprehensive package to bail itself out of this crisis, and looks forward unto the Hon'ble FM to kindly provide us with a path :

1) Allow one-time restructuring of all developer loans, irrespective of NPA classification with a one year moratorium period for interest;
2) At time of restructuring, PSU Banks to be allowed to take over even those developer loans that have a land component as part of the existing loan structure;
3) Provide minimum three years extension to consumer housing loans.

4) To relook at the NPA recognition norm for NBFCs/HFCs and to make the same liberal by pushing recognition from 90 Days Past Due (DPD) to 180 DPD;
5) Immediate liquidity in the industry, either to the NBFC's or direction to banks to support real estate and housing funding by increasing their exposure norms, whereby the banks can re-start funding developers and home loans;
6) Allowing banks to fund land acquisitions; and
7) Urging Banks/ NBFC's to reduce the overnight increase in cost of borrowing effected by them.
8) Subsume Stamp Duty & Registration charges into GST to justify the objectives of "One Nation-One Tax"
9) Bring all Real Estate to an 8% GST slab with Input Tax Credit being made available

IMPROVING BUSINESS VIABILITY FOR REAL-ESTATE:

To give a further boost to affordable housing, extend provisions of section 80IBA to housing units upto 150 sq mtr carpet area, to cover MIG categories, who are already covered in PMAY for mortgage interest subvention. It is also suggested that the benefits of the provisions of this section should be made available to the full potential of the plot and not just to the part thereof that may have got approval before the expiry date of validity of this section. It is further suggested that the validity of above provisions should be extended to projects sanctioned on or before 31st March, 2024.

Joint Development Agreement (JDA) has evolved as effective model for the real estate sector, however there exists uncertainty with respect to point of accrual of capital gains. It has been laid down by Tribunal / Courts that Capital Gain accrues at the time of entering into JDA, issuing the General Power of Attorney to the developer and giving the possession. Provisions of Section 45(5A) of the Act should be made applicable to all the assessees owning land and should not be restricted to only individuals and HUFs. The amended provisions should be applied irrespective of whether the land owner owns the land as capital asset or business asset and the amended provisions should be applicable to all types of JDA arrangement including areas share or revenue share. It will contribute in achieving the Government's vision of 'Housing for All by 2022'.

The exemption for investment of sale proceeds in one additional residential property (other than the existing limit of one property) should be provided and necessary amendment should be made in the Act under section 54 F. The amendment will encourage the home-buyers to invest in and would lead to improved affordability on account of both rental housing and improved supplies of housing stock.

Rationalization of Mergers and Acquisition provisions to rescue stalled projects requested by way of allowing tax neutral consolidation of businesses by way of merger/amalgamations subject to fulfillment of other specific conditions of the Act. It is suggested to extend the provisions of section 72A to cases of amalgamations across businesses, and do away with the conditions of section 72A (2); so as to have it in line with the corresponding provisions of demerger.

Section 43CA, inserted by the Finance Act, 2013 (on lines as Section 50C) deeming stamp duty value as full value of consideration for transfer of immoveable asset, other than a capital asset is one draconian section which has affected both the supply and the demand side. It is recommended that the applicability of provisions of section 43CA should be done away with in case of real estate developers. Alternatively, section 43CA should not be made applicable in certain situations like distress sale arising on sale by bank to recover its dues or for any other reason.

There have been court orders very clearly stating that stamp duty valuations should be for fiscal purposes and not applied for the purpose of Capital Gains. Similarly, provisions of section 50C should be done away with. Alternatively, similar amendments should be made to section 50C of the Act as well.

Besides, on populist grounds and as tax compliance has gone up post demonetization, CREDAI – MCHI, the apex developers' body humbly requests the Hon'ble FM to now truly hour the honest tax payer by increasing the taxable income limit to at least Rs. 5 Lakhs per annum and to keep the highest tax bracket capped at 25%. This budget should go down in history as the budget that brought with it the dawn of a new era, the day of reckoning for both the industry and the common man.

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