Times Property

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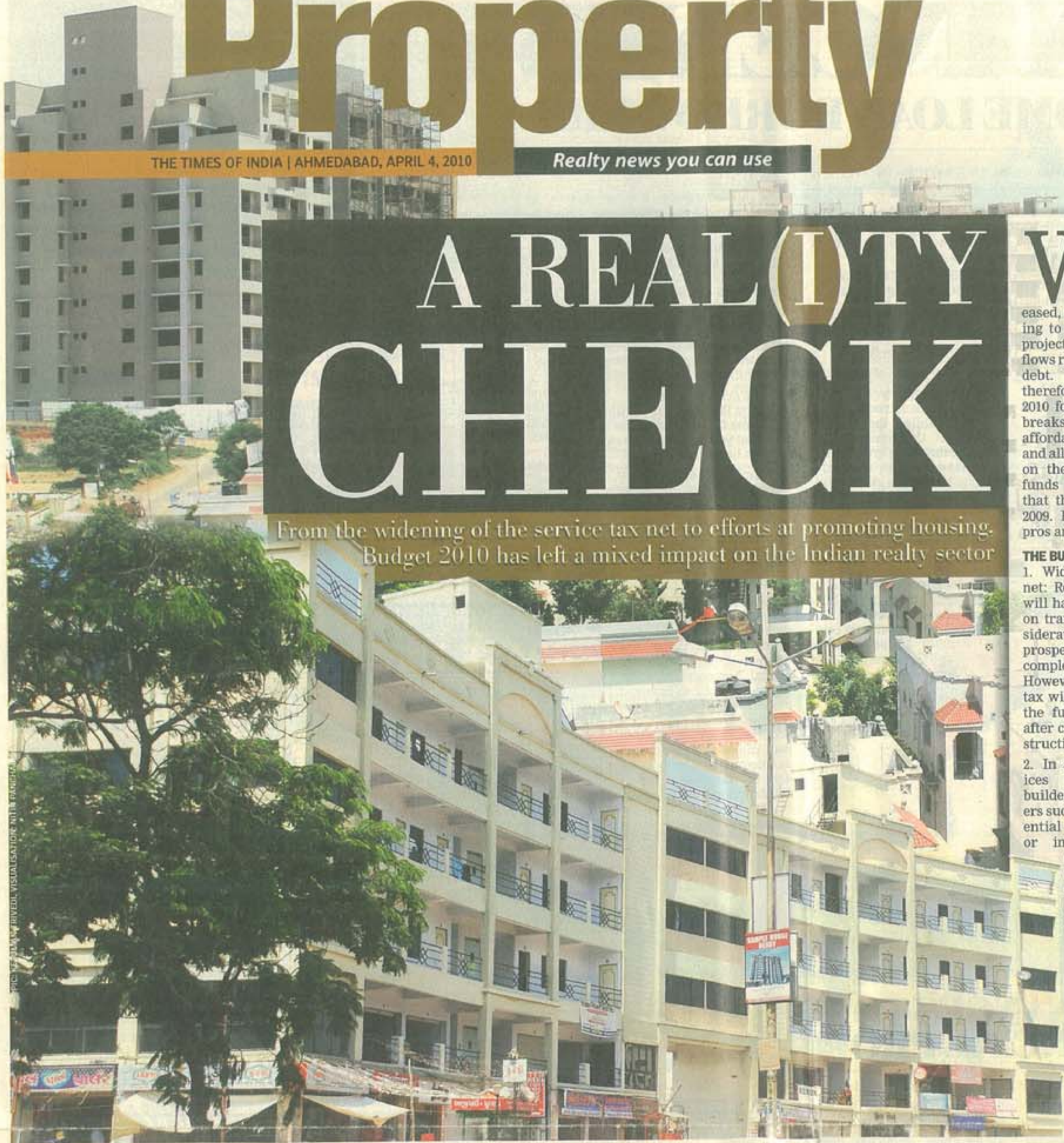

A REAL(I)TY CHECK

From the widening of the service tax net to efforts at promoting housing, Budget 2010 has left a mixed impact on the Indian realty sector

While concerns over liquidity and demand constraints had eased, developers were looking to execute the planned projects to maintain cash flows rather than raise more debt. The industry was therefore looking at Budget 2010 for "boosters" like tax breaks for townships / affordable housing sector, and allaying the ambiguities on the real estate mutual funds to heal the bruises that the sector suffered in 2009. Here's a look at the pros and cons...

THE BURDEN

1. Widening of Service Tax net: Real estate developers will have to pay service tax on transactions where consideration is collected from prospective buyers prior to completion of construction. However, it seems service tax will not be applicable if the full payment is made after completion of the construction.

2. In addition, other services provided by the builders to prospective buyers such as providing preferential location or external or internal development charges (excluding vehicle-parking space) etc shall also be covered.

3. Renting of immovable commercial properties is also under the service tax net and the definition of 'renting of immovable property service' has been clarified as well as widened to cover rent of vacant land under contract for undertaking construction of buildings or structures for business purposes. This may have negative effects onto the properties bought or to be bought solely for investment purpose.

4. Excise Duty on cement: The excise duty on cement has been increased which will increase the cost of construction, and, it is expected that per unit cost for prospective buyers will also increase.

THE BENEFITS

Emphasis has been given to promote housing in general.

1. Extension of deadline for completion of pending housing projects by one year without losing tax holiday u/s 80-IB. However, MAT (Minimum Alternate Tax) may affect the companies executing such projects.

2. Extension of 1% interest subsidy on housing loans upto Rs 10 lakhs and where the cost of the property is under Rs 20 Lakhs. This, along with increase in the tax slab rates for individuals, should provide the necessary demand boost for low-cost housing.

3. Relaxation in norms for built-up area of shops and other commercial establishments, and in such eligible housing projects

4. Increased budgetary allocations for urban development and rural housing schemes

5. Extension of investment linked deduction benefit to convention centres located in the NCR of Delhi extended from the present 31st March, 2010 to 31st July, 2010 (for purposes of deduction u/s Section 80-ID of the Income-tax Act).

Overall, this budget will have a mixed effect on the Indian real estate sector. But, it has failed to address some of the key demands of the real estate developers, including infrastructure status to the real estate sector, and relaxation of external commercial borrowings to fund projects.

Looking at the overall economic scenario, we also need to consider that the budget was presented against mutually conflicting objectives, where-in it is not possible to meet the demands of each individual sector. Another important aspect is that very clearly the Finance Minister took a practical approach instead of populist measures, which is a good sign of a growth orientated government.

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