REAL ESTATE

Tax incentives for home buyers

The raising of deduction limit on principal and interest repayment will encourage home buying, while the green signal to REITs is a positive for investors.

SANJAY KUMAR SINGH

Union Budget came as a pleasant surprise for S Mukesh, 38. The corporate executive, who recently bought a flat in Greater Noida West, will now be able to avail of a deduction of ₹2 lakh on interest repayment under Section 24 of the Income Tax Act, instead of the earlier limit of ₹1.5 lakh.

The enhancement of the Section 80C limit is another positive for home loan borrowers like Mukesh, who will be able to use the increased limit—from ₹1 lakh to ₹1.5 lakh—to get deduction on principal repayment. Such borrowers earlier paid huge EMIs but were unable to take advantage of the deduction on principal repayment as their Section 80C limit would be used up by a number of other instruments: insurance premium, PPF, ELSS, and so on. Says Gaurav Karnik, tax partner, real estate practice, EY: "The increase in these two deduction limits by ₹50,000 each will act as an incentive for home buyers."

The exact benefit that borrowers avail of will depend on their tax bracket. According to calculations from EY, the total tax saving for home loan borrowers due to these two changes, if their gross total income ranges from ₹9-15 lakh, will be from ₹20,600-30,900 (*see table*). According to Vishal Dhawan, chief financial planner, Plan Ahead Wealth Advisors, "Couples can enhance their benefit by buying the house in joint names, taking the loan jointly, and making the down payment contribution and EMI repayments jointly."

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REITs to become a reality

Another benefit for retail investors was the granting of pass-through status to REITs. Says Anshuman Magazine, CMD, CBRE South Asia: "This is the single most consequential reform witnessed by the real estate sector in recent times." In October 2013, Sebi had issued draft norms for the introduction of REITs. Since then they had remained stuck due to the lack of pass-through status. In this Budget, the finance minister has assured that REITs will not be doubly taxed. REITs allow investors with only a small amount of money to invest in real estate. "Investing in REITs is less risky than in under-construction properties," says Sachin Sandhir, MD, RICS South Asia.

Fund flow to realty may improve

The economic slowdown has led to severe fund crunch within the realty sector, leading to stalled projects and delays in possession. The Budget has tried to facilitate the flow of funds to the sector. An important measure was the easing of FDI norms. The minimum built-up requirement for FDI in the real estate sector was reduced from 50,000 sq m to 20,000 sq m. "This lowering of the threshold size of development may encourage FDI investment in smaller inner city developments," says Tanaji Chakravorty, a New Delhi-based urban economist. The lowering of the threshold level of FDI from $10 million to $5 million may also lead to more investments.

Finally, REITs are set to emerge as an important new source of funding. Says Anshul Jain, CEO, DTZ India: "These will provide access to developers to a major source of funding and also offer them an avenue to exit from their investments in commercial offices."

How much do you stand to save now?

	IF YOUR GROSS INCOME IS ₹9 LAKH		IF YOUR GROSS INCOME IS ₹15 LAKH	
	BEFORE BUDGET	AFTER BUDGET	BEFORE BUDGET	AFTER BUDGET
GROSS TOTAL INCOME	**9,00,000**	**9,00,000**	**15,00,000**	**15,00,000**
LESS: INTEREST PAID ON HOME LOAN	1,50,000	2,00,000	1,50,000	2,00,000
GROSS TAXABLE INCOME	**7,50,000**	**7,00,000**	**13,50,000**	**13,00,000**
LESS: DEDUCTION UNDER SEC 80C	1,00,000	1,50,000	1,00,000	1,50,000
TOTAL TAXABLE INCOME	**6,50,000**	**5,50,000**	**12,50,000**	**11,50,000**
TAX PAYABLE	60,000	40,000	2,05,000	1,75,000
EDUCATION CESS @ 3%	**1,800**	**1,200**	**6,150**	**5,250**
TOTAL TAX PAYABLE	**61,800**	**41,200**	**2,11,150**	**1,80,250**
EFFECTIVE TAX	**9.51%**	**7.49%**	**16.89%**	**15.67%**
YOUR SAVINGS IN TAX		**20,600**		**30,900**

All figures in ₹. *Source: EY*