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Economic Times , Delhi
Wed, 08 Feb 2017, Page 16
Width: 30.07 cms, Height: 42.66 cms, a3, Ref: 28.2017-02-08.108

BUDGET 2017

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M Venkaiah Naidu

Finance minister Arun Jaitley's announcement of providing 'infrastructure' status to affordable housing in his Union Budget speech last week has amplified the fact that the welfare of the common man lies at the core of this government's initiatives. Apart from increasing the allocation to ₹23,000 crore under the Pradhan Mantri Awas Yojana (PMAY), this move will spur growth.

It also comes at the right time when banks are flush with surplus liquidity in the wake of demonetisation. As higher investments flow into this sector at lower lending rates, the supply of housing will get a boost and the gap will increasingly get reduced.

The real estate sector is the second-largest employer after agriculture in India and accounts for 9% of the GDP. So, an overarching regulation to ensure the consumer is not at the wrong end of the stick is necessary. Among others, the Real Estate (Regulation and Development) Act has made it mandatory for projects of 500 sq m and above, or eight apartments and above, to be registered with the Real Estate Regulatory Authority (Rera) and deposit 70% of the amount realised from the project in escrow account.

The law was meant to ensure transparency and timely execution of projects, protect consumers, promote fair play, and curb black money and speculative investments in the sector. While an estimated 15 lakh houses were constructed in urban areas in 2016, with real estate developers accounting for nine lakh of them, according infrastructure status to housing gives a push to a sector that had slowed down after demonetisation.

Providing infrastructure status will open up new financial avenues for developers. It will also enable the financial institutions to look positively at the real estate sector as it reduces risk weightage for housing loans. It would also facilitate large public sector investors and insurance firms to invest in the housing sector.

With respect to 100% deductions of profits and gains from housing projects under Section 80-IBA of the Income-Tax Act, the concessions given in last year's Budget have been further liberalised for affordable housing. The benefit is now applicable for five years instead of three.

To ensure availability of larger affordable houses to buyers, the scheme would now be applicable to 30 sq m and 60 sq m carpet areas instead of built-up areas for both the categories. While the 30 sq m stipulation would be applicable to the four metros, the 60 sq m unit size would be applicable for the rest of the country, including metro suburbs.

Another major relief to developers has been the removal of tax on unoccupied housing stock under notional rental income for one year from the date of issue of completion certificate. This would provide time to developers to sell their inventory without the burden of additional tax.

A fillip is expected for home-buying with reduced lending rates for home loans. A major step taken in this direction is the mandate given to the National Housing Bank to refinance individual housing loans to the extent of ₹20,000 crore in 2017-18.

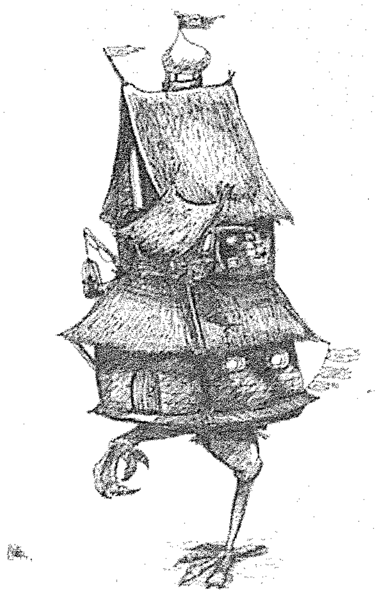
The reduction in the holding period under 'long-term capital gains' from three to two years, and changing the base year for the determination of cost inflation index from 1981 to 2001 would go a long way in reducing the tax burden of homeowners. Another major concession has been to make the Joint Development Agreement liable to capital gains tax only on completion of the project. It would lead to the avoidance of the burden of double taxation and help reduce prices across all segments.

Similarly, for increasing the flow of investments into the housing sector, external commercial borrowings have been made more attractive. This has been done by increasing the period for withholding of 5% interest up to June 30, 2020, instead of June 30, 2017.

The interest subvention scheme for middle-income groups (MIG) announced by the prime minster on December 31, 2016, will also promote home purchases. The interest subsidy would be 4% for loans up to ₹9 lakh for those having a household income up to ₹12 lakh. It would be 3% for ₹12 lakh loans for incomes up to ₹18 lakh. A 6.5% subsidy exists under the PMAY for loans up to ₹6 lakh for economically weaker sections (EWS)/low-income groups (LIG).

Additionally, GoI is providing assistance of ₹1-2.3 lakh per beneficiary belonging to EWS, LIG and MIG with incomes up to ₹18 lakh a year under PMAY. Also, under PMAY (urban), 15.61 lakh houses have already been sanctioned with an investment of ₹84,150 crore and central assistance of ₹24,670 crore. Of these, the construction of 4.32 lakh houses has begun and tenders have been called for over 8.5 lakh houses.

In the final analysis, the housing sector would see a rebound in the coming months as both the developers and consumers will benefit.



FILE PHOTO

Finally, the housing sector moves

The writer is Union minister of urban development