Budget 2015 Highlights

The Hon'ble Finance Minister Shri Arun Jaitley's Budget 2015 has been very balanced, progressive and growth oriented thereby to benefit the economy in the long run. Creation of National Infrastructure Fund, tax-free bonds for infrastructure projects like road, rail and irrigation projects, plug and play for Ultra Mega Power Plants (of capacity 4000+ MW), corporatization of major ports, with similar push in rail and road projects, development of manufacturing zones along DMIC (Delhi-Mumbai Industrial Corridor), and the Public Contract Resolution of Dispute Bill will accelerate the infrastructure projects in the country. The combined focus of social security, impetus to manufacturing, push to infrastructure, goal of creating 6 Crore housing units together will help create more jobs in the economy, which in turn will greatly benefit the Real Estate Industry at the macro level.

KEY PROVISIONS OF BUDGET 2015 :

- Direct Tax
  - ✗ No proposed changes in the Personal Income Tax slabs, Tax Rates and Cess.
  - ✓ Income Tax – Corporate Tax rate proposed to be reduced to 25% over the next 4 years.
  - ✓ Rental income of an RIET through assets directly owned by it, to be *eligible for pass through status.*
  - ✓ At the time of disposal of REIT/Inv.IT units/shares, by way of an IPO, the sponsors of REIT/Inv.IT to be eligible for concessional STT-based capital gains tax regime on par with other investors.
- Wealth Tax – abolished
- Indirect Taxes
  - ✓ GST – Expected to arrive on April 1, 2016
  - ✓ Educational Cess removed from Secondary and Higher Education
  - ✓ Inverted duty structures corrected in select sectors for manufacturing

- × Service tax rate increased to 14%, from 12%
- × Negative List/exemption pruned, thereby increasing ambit of service tax.
- × Excise duty raised to 12.5% from 12% - Effective Customs duty rate increased to 26.43% (capital goods) and 29.44% (other goods)
- × Exemptions withdrawn from – Services by way of construction, erection, commissioning, or installation of original works pertaining to airports and ports.

➢ Other provisions for Real Estate Sector

A major push by the Government, in Budget 2015, to lay down the ground work for building infrastructure and make Indian cities more livable. After agriculture, Real Estate and Infrastructure sector is the largest employer and is expected to grow at 30%.

- ✓ Developer Companies to benefit from the proposed reduction in the corporate tax rate.
- ✓ "Housing for all by 2022" initiative
- ✓ "Swachch Bharat Abhiyan"
- ✓ 6 Crore housing units to be built for rural and urban India - Allocation of Rs 22,407 crore for housing development in the country. This would involve construction of 2 crore urban and 4 crore rural housing units across the country.
- ✓ Investment in infrastructure sector to go up by Rs. 70,000 crore in FY 2015-16 from the Center's funds and resources of CPSEs.
- ✓ Setting up of National Investment and Infrastructure Fund - Ensure annual flow of Rs. 20,000 Crore annually.
- ✓ Tax free bonds for infrastructure for roads, rail etc
- ✓ Rs 1200 Crore allocated for the development of the Ahmedabad-Mumbai industrial corridor.
- × 14% service tax adds to woes of the Mumbai and MMR's Real Estate sector, which is already facing difficulty in terms of sales.
- × Nothing concrete was offered for the urban infrastructure.
- × No clear structure on funding avenues for the developer fraternity.
- × Increase in excise duty adds to the input costs for the Developers.
- × The biggest dampener for the common man was no easing of income tax slabs, or rebates available under various sections of the IT Act; had the rebate available for

Home Loan Principal & Interest been increased, it would have boosted home buying and helped the industry from its current impasse.

TAX TREATMENT TO REITS PROPOSED :

Finance minister Arun Jaitley has proposed to make the path slightly easier for Real Estate Investment Trusts (REITs) to list, allowing pass-through on rental income and doing away with capital gains tax issue for the sponsors. However, the capital gains tax will be applicable for direct transfer of real estate to these trusts.

IMPACT:

- REITS are vehicles for real estate companies to sell down income-producing assets in the market to investors and use the cash to invest in other projects. If an asset is directly owned by the trust, its income will be taxed at the unit holders' hand and the trust need not pay tax.
- A domestic investor will be taxed at 10% for this while a foreign investor will pay tax as per India's tax treaty with that country.
- If the asset is held through a special purpose vehicle and not directly, dividend distribution tax (DDT) will be applicable. The industry was seeking removal of DDT, but the FM has not accepted this request.

The move may boost REIT listing in India, allowing faster and smoother exits to investors in a sector hit by funding constraints. REITs own properties, and their rental income is distributed among investors. In developed markets, REITs enjoy special tax considerations. For investors, they offer high dividend, along with a liquid option, to invest in real estate.

The government, in its Budget last year, had unveiled proposals to encourage REITs and Infrastructure Investments Trusts. While several developers have shown interest, no REIT is listed in India, partly because of lack of clarity on taxation.

HOUSING FOR ALL BY 2022

In the Budget 2015, Finance Minister Arun Jaitley proposed an allocation of Rs. 14,200 Crore to fund the Government's flagship program to provide Housing For All by 2022.

- ✓ Of this, Rs. 4175 Cr. allocated to building 2 Crore Urban houses and Rs. 10,025 Cr. allocated to building 4 Crore Rural houses.

- Under the aegis of Housing and Urban Poverty Alleviation Ministry, the Urban leg of this flagship program will focus on four categories of urban poor. These include, slum dwellers, urban poor not living in slums, prospective migrants and the homeless.
- Proposal is to rehabilitate slum dwellers in newly-constructed houses of upto 30 sq. meters. Private developers will be roped in building these houses.
- Of the Rs. 10,025 Cr. allocated to the rural leg of this flagship program, Rs. 1,003 Cr. has been earmarked for the North East Region and Sikkim.
- Under the rural leg of this flag ship program, assistance will be provided for the construction of dwelling units and for the upgradation of existing unserviceable kachcha houses for SC/STs and non-SC/ST rural families living below the poverty line.

INFRASTRUCTURE BOOSTER

- Rs. 6000 Cr. allocated for the smart cities project and to develop infrastructure in 500 cities.
- Budget 2014 allocated Rs. 7,040 to smart cities project.
- Rs. 16,832 allocated overall, to the Urban Development Ministry, down from last budget's allocation of Rs. 17,628 Cr.

LEAD INDICATORS POST BUDGET:

- Inflation has tapered, however needs to be monitored and kept under control.
- Increase in Petrol and Diesel prices by approximately Rs. 3/litre, within minutes of the FM's budget speech.
- Reduction in fiscal deficit, however, needs to be kept under check.
- Pick up in domestic demand
- Stabilization in the External value of Rupee
- Investments
  - Challenge of stalled projects
  - Stressed and restructured assets in banking system
  - Revival of Indian Manufacturing through "**Make in India**" campaign.
  - Relaxation of fiscal deficit target of 3% over a period of 3 years instead of 2 years.
  - Fiscal spending promised for funding infrastructure investments. With sharp increased outlays proposed for roads, railways and capital expenditure.