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PMAY rule change to Rs 5 lakh tax relief on home loan interest – Budget 2022 real estate expectations

Budget 2022: The real estate sector needs multiple measures from the government to bring it back on track of recovery and growth.

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Representative image

The real estate sector was already going through a consolidation phase before the pandemic had struck. In the last few quarters, the sector has shown signs of some recovery, owing to the low-interest regime, macro-economic revival and some policy support from the government. However, the sector needs multiple measures from the government to bring it back on track of recovery and growth.

The real estate sector is just too crucial for the overall economic growth of the country as it is one of the top contributors of GDP with almost 6% share coming from real estate. On top of that, a number of allied sectors such as steel and cement are directly impacted by the pace in real estate. This is also a massive employment generator specifically in semi-skilled and unskilled segments. In the forthcoming Union Budget, the sector looks forward to certain policy measures and provisions that can catalyze growth by supporting both the supply and demand sides in real estate.

Income tax relief for home buyers

Investible surplus in the hands of people has been shrinking. For the demand to pick up, the government can incentivize the home buyers by raising the tax relief on the home loan interest to Rs 5 lakh, which is presently set at Rs.2 Lakh. Related to this, the revision of income tax slabs can also be considered to provide a financial cushion to the middle class for purchasing homes. The demand-pull needs to be created for sustainable real estate growth.

Because of the pandemic, WHF culture has kicked off. This has pushed the need of homeowners to upgrade from 1BHK to 2BHK or, from 2BHK to 3BHK. To enable this, the up-gradation should be allowed in the CLSS scheme of PMAY. In the prevailing provisions, the homebuyers will lose the 2% interest exemption that they get under the scheme through the banks.

GST reforms

The industry also anticipates that the budget for 2021 will include GST adjustments, such as the reinstatement of the input tax credit. This will assist in lowering construction costs, hence lowering property prices. These measures will increase demand in the sector and help to alleviate the current financial crisis. The cost of the raw material is one of the major inputs in real estate.

Reducing the GST on raw materials like cement, steel, timber, finishing material etc. would be a great help to the sector. This will help in reducing the cost of the finished properties and attract more buyers to the sector. It is important that the raw material used in construction work should be treated as essential items because housing is the basic need of people. The GST on all such material must be fixed at flat 12%.

Support to Co-working spaces

Income from the co-working spaces currently attracts a TDS of around 10% percent. However, in case of the co-working spaces, the majority of receivables come from the services provided by the owner rather than the rent for space. Therefore, a reduction in the TDS would be a welcome move for the co-working spaces. Very recently the Hon'ble Prime Minister has declared 16th January as 'National Start-up Day' and called the start-ups as 'backbone of new India'. The new ventures will rely deeply on 'co-working space' for working on low operational costs. This segment needs all the boost that it can get from the government.

Insurance Coverage for Lease Property Business

An altogether new insurance scheme needs to be devised to cover business loss, caused due to change in law or force majeure. This will be highly crucial in securing the lease-business on the revenue-share basis in the realty sector. It covers a range of business domains including malls, offices, cinema halls, clubs etc. Such businesses are going through frequent disruptions that are way beyond their control and completely extrinsic to their business operations. An insurance scheme can mitigate such losses and help in sustaining business in this sector, for which the appropriate premium can be collected.

Extending Affordable Housing Coverage

The push on affordable housing and PMAY scheme has shown a great impact during the past few years. It is important now to further extend its coverage by changing classification both in terms of value of property and its permissible area. Specifically, in the metro area, affordable housing must cover properties at least up to Rs. 1 Crore. Corresponding changes can be done in the classified areas and similar corresponding treatment to the non-metro properties. Credit Linked Subsidy Scheme (CLSS) under PMAY also needs to be extended till the FY 2022-'23.

Industry status to real estate sector

Real Estate sector has been demanding industry status for a very long time now. This year too, it expects the budget to fulfil this demand. The sector has been persistently facing liquidity crunch. Industry status will ease the norms for accessing credits on better terms and longer period. New funding sources will route to real estate which will have multiplier effect on entire economy, beyond just the sector.

Nodal Agency for Central Clearance

Since a long time, the need of 'single-window clearance' is being felt by the real estate sector. A project needs various clearance from multiple authorities it results in delay and sometimes it also causes the projects to be held up in the middle of construction. This creates a huge irreversible loss both for the developer and the home buyers. This can be fixed to a large extent, if a nodal agency is appointed for all the necessary clearances and approvals.

Incentivizing Green Construction

India intends to become a carbon neutral economy by year 2070. The real estate industry can take lead in this regard. Use of green construction materials like fly ash bricks, precast concrete slabs, reclaimed plastic, reclaimed steel and other innovative materials can help the country fight the menace of climate change and achieve carbon neutrality. However, switching from conventional material to green construction material could be a costly choice and need government support in form of subsidies and tax exemption. The union budget 2022 can be the starting point for such encouragement to the real estate sector.

(By Pradeep Misra, CMD-REPL. Views expressed are personal)