

## **Impact of Union Budget 2015 on the Real Estate Sector**

The Union Budget of 2015 rolled out by Finance Minister Arun Jaitley has brought many surprises and disappointments across a spectrum of various industries. Focussing on the 'mango' people, this year's budget ensures a GDP growth of 8 to 8.5% every year, double digit economic growth, more investments, provides a clarification on taxation issues and enhances job creation. As far as the real estate sector is concerned, the budget has come out with some interesting announcements that have elicited mixed reactions from the realty fraternity.

Rewinding to a year back, the Union Budget of 2014 had made considerable emphasis on the realty segment by allowing the formation of Real Estate Investment Trusts (REITs) and encouraging Infrastructure Investment Trusts (INViTs), thus giving a positive ray of hope to the sector.

### **The Benefits of the New Budget:**

The budget of this year was not entirely bad news for realty players. It provided clarity on taxation issues in terms of initial listing and also cleared all the confusion of how to trade REIT units. This has encouraged various top-notch realty players to go for REIT listings. What pleased several players was the fact that this year's budget announced relieving sponsors of REIT from capital gains tax. Also the step to provide pass through benefit to the rental income of REITs is set to affect the industry positively. Through this step, REITs can buy various assets and the income which is derived from these assets will be eligible for taxation not at the business level but at the unit-holder level. Before the declaration by this year's budget, the pass-through benefit was allocated only to those assets that pertained to SPVs.

REIT has become the new buzzword in the real estate segment. The tax benefits being provided for REITs will enable companies to clock an investment of more than \$ 1 billion this year. This way, REITs that can be listed on stock exchanges have become a lucrative way for real estate players to attract more funds from domestic as well as foreign companies.

Also, allotting Rs. 1200 crore for the development of the Delhi Mumbai Industrial Corridor and the step to introduce the Goods and Services Tax (GST) in 2016 will benefit the industry tremendously. The announcement to form an expert committee to rev up the approval and clearance process, has given way to the single-window clearance system. Exempting the wealth tax and introducing a 2% surcharge on the upper class segment earning an income of Rs 1 crore and more is a major step that will relieve people from paying tax on property except for those who own luxurious homes. Also, it will be an income saviour for the middle class.

### **The Other Side of the Coin:**

Despite the aforementioned steps, the budget disappointed many players as they believed that the steps taken in the budget were for the benefit of the industry in the long run, but no immediate benefit was given to the buyers to bolster and enhance the demand graph or to take

the sector in the upward direction. Also, no focus was given to affordable housing and smart cities which again proved to become a matter of concern. Although no details regarding the identifying characteristics of smart cities were provided in the budget, the enormous allocation for education and railroad development and the Digital India initiative are set to boost the creation of various smart cities in the country.

Another downside of the budget was that it just provided a broad outlook on the housing requirements and the development needs of the sector by the year 2022, but stone-hard measures for implementation of the same were missing. Besides this, the rise in service tax from 12% to 14% and increase in excise duty will escalate the construction cost and companies will have no other option than to pass the pressure of the increasing cost on buyers. This will result in a hike in the prices as the sales of houses will dip further.

The Union Budget for this year has thus spurred debate and charged opinion from all quarters as to the relevance and practicality of it. It is definitely set to impact business as it exists. While how much of it translates into action is something only the coming future will indicate, the real estate sector can take solace in the fact that it has brought about impressive measures that are clairvoyantly pegged at infrastructural growth and sustaining economic stability.