



# INTERIM BUDGET

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POLICY COVERAGE

2019

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## Interim Budget 2019: High on Electoral Pitch But Affordable Segment Gains

The interim budget announced today more or less met our expectations of being a vote bank-facing exercise. It is largely an electoral pitch that draws attention to past achievements, which are always debatable. As anticipated, it announced direct benefits to 12 crore small farmers by announcing credit of INR 6,000/year directly into their bank accounts.

The standard deduction for the salaried class was increased from INR 40,000 to INR 50,000, thereby increasing the disposable income. Also, assesses earning up to INR 5 lakh p.a. are now eligible to get a full tax rebate.

Albeit, keeping in mind that a new Government after the upcoming general elections may overturn the provisions announced today, yet there were several direct and indirect positives for the real estate sector:

- **Affordable Housing Takes Centre Stage:** The government seems laser-focused to achieve its vision of Housing for All by 2022 and has further incentivized the affordable housing segment this time around. The developers were given a boost by extending the tax benefits for affordable housing developments under Section 80-IBA of the Income Tax Act for one more year i.e. to the housing projects approved till 31<sup>st</sup> March 2020.
- **Attempts to Woo Investors**
  - Exemption of notional rent on the second self-occupied house. This will provide additional savings in the hands of the second home buyers and may also boost the investor activity in the real estate sector.
  - TDS threshold for deduction of tax on rent is proposed to be increased from current INR 1.8 lakh to INR 2.4 lakh. This is a welcome move and will provide relief to small tax payers.
  - Rollover of capital gains tax on the sale of houses increased from one house to two houses for a tax payer having capital gains up to INR 2 crore. This is a good move to incentivize genuine home buyers and investors to buy new houses.
- **Ready Unsold Inventory Now Less Taxing:** The period for taxing unsold inventory has been extended up to two years. This is a welcome move and will boost the housing sector as currently there are around 85,000 ready units (of 6.73 lakh unsold units) which are unsold across the top 7 cities of India.
- **Digital Push:** The Government will make 1 lakh villages into Digital Villages over the next five years. This will bear a direct impact on further penetration of e-commerce in the villages as well as boost the support warehousing & logistics.

While the interim budget certainly attempts to keep all types of vote banks enticed, there are surely a few downsides where it failed to deliver:

- No announcements were made with regards to clearing the NBFC deadlock which continues to hold the real estate sector to ransom.
- Industry status for the real estate sector, while not really expected, was ignored again.
- Promises of reduction on GST burden on homebuyers, but no announcement of actual relief.

All in all, it is a tame budget clearly configured as a crowd-pleasing electoral pitch and a cursory nod towards the ongoing challenges in the economy. This is no more and no less than what was expected.

A short summary of major announcements that may bear some amount of impact on the real estate sector is covered below.

Announcements	Implications
<b>Infrastructure and Investment</b>	
<ul style="list-style-type: none"> <li>More than 100 operational airports across the country.</li> </ul>	<ul style="list-style-type: none"> <li>Developed infrastructure certainly has a favourable effect on the economy as it removes roadblocks and triggers demand in the rural and semi-urban areas.</li> <li>New project initiatives such as the Sikkim airport, Sagarmala, and inland waterways can catalyze the trade and commerce among the states and unearth newer areas for economic development.</li> <li>Enhanced road network in rural areas influence the economic development of the region and create new business opportunities, which in turn positively benefits the economy.</li> <li>Demand for WIL (Warehousing, Industrial and Logistics) is set to improve with a rampant focus on developing multi-modal transport infrastructure.</li> </ul>
<ul style="list-style-type: none"> <li>Container freight movement has commenced on inland waterways from Kolkata to Varanasi.</li> </ul>	
<ul style="list-style-type: none"> <li>INR 64,587 crore budgeted estimates for the Indian railways.</li> </ul>	
<ul style="list-style-type: none"> <li>Sagarmala project, plying along the along the coastal areas of the country, to develop ports for faster handling of import and export cargo.</li> </ul>	
<ul style="list-style-type: none"> <li>INR 19,000 crore allocated to Pradhan Mantri Gram Sadak Yojana.</li> </ul>	
<ul style="list-style-type: none"> <li>INR 58,166 crores allocated for the development of northeastern states.</li> </ul>	

Announcements	Implications
<b>Banking &amp; Financial Services</b>	
<ul style="list-style-type: none"> <li>INR 75,000 crore allocated towards Pradhan Mantri Kisan Samman Nidhi (PM-KISAN) - to provide direct support of INR 6,000 per year to farmer families with cultivable land under two hectares</li> </ul>	<ul style="list-style-type: none"> <li>Focus on ensuring funds availability to the agriculture sector and MSMEs may lead to the development of alternative financing options.</li> <li>The sustained growth of formal financial channels will continue and help in rapid financial inclusion.</li> <li>Major incentives on repayment of loans to enable reduced delinquencies and favourably impact the economic growth.</li> <li>Focus on the unorganized sector and initiatives to secure the future may lead to a rise in demand of EWS and MIG housing across the country.</li> </ul>
<ul style="list-style-type: none"> <li>2% interest subvention and 3% prompt repayment incentive for farmer loans who are affected by severe natural calamities, where assistance is provided by the National Disaster Relief Fund (NDRF)</li> </ul>	
<ul style="list-style-type: none"> <li>The Government contribution increased to 14% under the New Pension Scheme (NPS).</li> </ul>	
<ul style="list-style-type: none"> <li>INR 3,000 per month pension scheme for the workers of the unorganized sector through monthly deposit matching schemes.</li> </ul>	
<ul style="list-style-type: none"> <li>GST registered SME units to get 2% interest rebate on an incremental loan of INR 1 crore.</li> </ul>	
<ul style="list-style-type: none"> <li>INR 2.6 lakh crore worth recapitalization has been done to restore the health of public sector banks.</li> </ul>	

Announcements	Implications
<b>Housing and Real Estate</b>	
<ul style="list-style-type: none"> <li>Benefits under section 80- IBA of IT Act under affordable housing is extended till 31<sup>st</sup> March 2020.</li> </ul>	<ul style="list-style-type: none"> <li>Laser-focus to achieve the ambitious mission of housing for all by 2022 - increased demand for affordable housing.</li> </ul>
<ul style="list-style-type: none"> <li>No income tax on notional rent on the 2<sup>nd</sup> self-occupied house.</li> </ul>	<ul style="list-style-type: none"> <li>Second homes and/or weekend homes may become more attractive.</li> </ul>
<ul style="list-style-type: none"> <li>Tax on notional rent on unsold inventory to be paid after two years of completion.</li> </ul>	<ul style="list-style-type: none"> <li>A certain amount of relief on capital gains from real estate transactions is a welcome move. This may incentivize home buyers and long-term investors.</li> </ul>
<ul style="list-style-type: none"> <li>TDS threshold for deduction of tax on rent increased from INR 1.8 lakh to INR 2.4 lakh</li> </ul>	
<ul style="list-style-type: none"> <li>Benefits from the rollover of capital gains up to INR 2 crore can be invested into two properties once in a lifetime.</li> </ul>	

Announcements	Implications
<b>Taxation</b>	
<ul style="list-style-type: none"> <li>Individual taxpayers having annual taxable income up to INR 5 lakhs will get a full tax rebate.</li> </ul>	<ul style="list-style-type: none"> <li>Increase in disposable income might fuel investments in other assets, including real estate.</li> </ul>
<ul style="list-style-type: none"> <li>For salaried persons, standard deduction raised from the current INR 40,000 to INR 50,000.</li> </ul>	<ul style="list-style-type: none"> <li>While the scale of exemptions may not seem significant, it surely is a sentiment booster to the real estate sector that has been reeling under pressure for some time now.</li> </ul>
<ul style="list-style-type: none"> <li>Ceiling on payment of gratuity has been enhanced from INR 10 lakh to INR 20 lakh.</li> </ul>	
<ul style="list-style-type: none"> <li>TDS threshold on interest earned on bank/post office deposits raised from INR 10,000 to INR 40,000.</li> </ul>	

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