# **Budget 2021 -** Key Tax Proposals For Housing Sector (Part 5)

*04 March 2021*

***This update covers:***



The Finance Bill, 2021 (**Bill**) was a fully digital budget in the backdrop of COVID-19. With an aim to help recover the housing market, the Bill proposes several measures with a focus on affordable housing such as extension of sunset clause for obtaining approval to develop affordable housing projects and extension of date for sanction of loan undertaken for affordable housing. Additionally, the Bill also proposes to increase safe harbor limits of certain deeming tax provisions. We discuss some of these developments below.

> To provide an impetus to the housing sector, the Finance Bill, 2021 introduces some amendments aimed at boosting real estate demand and incentivising affordable rental housing.

## 1 Incentives for affordable rental housing

Section 80IBA of the Income Tax Act (**ITA**) provides for a deduction equal to 100% of profits and gains derived from the business of developing and building affordable housing projects. One of the conditions to be fulfilled to claim the deduction is that the project must have been approved by the competent authority on or before 31 March 2021. The Bill proposes to extend the sunset clause for obtaining the approval of the competent authority to 31 March 2022.

The Bill also proposes to allow deduction under section 80IBA for rental housing projects notified by the Central Government in the official gazette.

## 2 Extension of date of sanction of loan for affordable housing

At present, Section 80EEA of the ITA provides deduction of INR 150,000 in respect of interest on loan taken for a residential property from any financial institution. This provision was inserted to provide impetus to first-time buyers buying house property with stamp duty value less than INR 45,00,000. To avail the deduction, the loan must have been sanctioned on or prior to 31 March 2021.

The Bill proposes to extend this period to 31 March 2022.

## 3 Increase in safe harbor limits of deeming tax provisions

Section 43CA of the ITA is a deeming provision with respect to transfer of land or building or both held otherwise than as a capital asset. According to this provision, where such land or building is transferred at a value less than the fair market value computed in the specified manner, then for the purposes of computation of capital gains, fair market value will be calculated with reference to the stamp duty value of such land or building (**Tax FMV**). This Tax FMV will be treated as the consideration receivable by the transferor for the purposes of computation of capital gains. At present, there is a 10% safe harbour for substituting Tax FMV instead of actual consideration (i.e. where the Tax FMV does not exceed 110% of the consideration for the transfer, the consideration receivable is not substituted by the Tax FMV). However, in order to boost demand in the real-estate sector, the Bill proposes to increase the safe harbour limit to 20% provided that certain conditions are satisfied.

Similarly, in terms of Section 56(2)(x) of the ITA, where immovable property is received for inadequate consideration (i.e. at a value less than the Tax FMV computed in the prescribed manner), the difference between the Tax FMV and consideration may be subject to tax in the hands of the recipient as 'other income'. Similar to Section 43CA (above), the Bill proposes to increase the existing safe harbour limit under this section from 10% to 20% provided specified conditions are satisfied.

These amendments will take effect from 1 April 2021.

Our detailed updates on key tax proposals across different areas can be accessed through the links below:

- Implications for InvITs and REITs
- Rationalisation of Equalisation Levy provisions
- Impact on mergers and acquisitions
- Tax incentives for International Financial Services Centre
- Key tax proposals for housing sector
- Key tax proposals for employees
- Other key proposals
- Key indirect tax proposals