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Tax Alert - Key announcements of  
Union Budget 2024



# Union Budget 2024-25

## Revitalizing Real estate | Unveiling strategic boost

Policy and tax reforms impacting the Real estate sector



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With a view to providing further impetus to the Indian real estate sector, Modi Government 3.0 announced several initiatives. The increased allocation to PM Aawas Yojana, rental housing for industrial workers, is a testament to the government's adherence to its objective of 'Housing for All'. Further, the announcement of industrial parks, transit-oriented development, land reforms and encouraging states to reduce stamp duty should further increase activity in the sector. At the same time, the budget has provided much-awaited parity between listed units of REITs and listed equity shares by reducing the holding period to 12 months, which has been the longstanding ask of the industry. Other provisions such as reduction in LTCG tax rate on immovable property without indexation benefit could potentially increase the effective tax outlay. Complementary measures such as the digitization of land records aim to bolster transactional transparency and market confidence.

- ▶ Revised Capital Gains tax framework for units of REITs: increased tax rates and reduced period of holding
  - ▶ Current provisions
    - ▶ For listed units of REITs, section 2(42A) provides for a period of holding to be 36 months, whereas the period of holding for listed equity shares is 12 months.
    - ▶ For unlisted units of REITs, the period of holding is 36 months, as against 24 months for unlisted equity shares.
    - ▶ According to section 112A, LTCG arising from transfer of listed units of REITs is to be taxed at the rate of 10%, as increased by applicable surcharge and cess.
    - ▶ According to section 112A, LTCG on listed units of REITs is exempted up to INR1,00,000.
    - ▶ Similarly, the LTCG tax rate applicable on transfer of unlisted units of REITs is 20%, with indexation benefit. For non-residents, such gains are taxable at the rate of 10%, without indexation benefit. All rates are to be increased by applicable surcharge and cess under section 112.
    - ▶ STCG tax rate applicable on transfer of listed units of REITs is 15% plus applicable surcharge and cess under section 111A.
  - ▶ Proposed amendments – with effect from 23 July 2024
    - ▶ Listed units of REITs, period of holding reduced to 12 months
    - ▶ Unlisted units of REITs, period of holding reduced to 24 months
    - ▶ The LTCG tax rate on listed units of REITs has been increased to 12.5% plus applicable surcharge and cess
    - ▶ Exemption limit increased to INR1,25,000 for LTCG on listed units of REITs
    - ▶ Now, for both residents and non-residents, the LTCG tax rate is 12.5% for all assets (including units of REITs whether listed or unlisted) without any indexation benefit
    - ▶ Similarly, STCG tax rate on listed units of REITs has been increased to 20% plus applicable surcharge and cess

## Highlights

### REITs



### Holding period

**Listed 12months/  
Unlisted 24months**

### LTCG tax rate

**10%/20% → 12.5%**

### STCG tax rate

**15% → 20%**

**Removal of  
indexation benefit  
on LTCG**

- ▶ Rationalization of Capital Gains on transfer of immovable property
  - ▶ According to section 112, LTCG on transfer of immovable property is to be taxed at the rate of 20% as increased by applicable surcharge and cess. This has now been reduced to 12.5%.
  - ▶ According to second proviso to section 48, indexation benefit is available in respect of the transfer of immovable property for computing LTCG tax. This benefit has now been removed.
  - ▶ These amendments will be effective from 23 July 2024.
  - ▶ However, fair market value in respect of immovable property acquired before 1 April 2001 shall be considered as the cost of acquisition of such properties while computing capital gains.
  
- ▶ TDS on payment of rent by certain individuals/ HUF
  - ▶ According to section 194-IB, TDS at the rate of 5% has to be deducted on rent paid or payable by an individual/HUF to a resident where the amount exceeds INR50,000 for a month or part of the month.
  - ▶ This rate has now been reduced to 2%, as increased by applicable surcharge and cess.
  - ▶ This amendment will be effective from 1 October 2024.
  
- ▶ TDS on transfer of immovable property
  - ▶ According to section 194-IA, TDS at the rate of 1% must be deducted on transfer of an immovable property where total consideration exceeds INR50,00,000.
  - ▶ There was ambiguity on whether the limit of INR50,00,000 is to be seen with respect to each individual transferor or transferee.
  - ▶ To remove the ambiguity, in respect of one or more transferor or transferee, aggregate limit of INR50,00,000 is to be considered for all transferors/transferees taken together.
  - ▶ This amendment will be effective from 1 October 2024.
  
- ▶ Rental income from letting out of residential house property to be taxed under 'Income from House Property'
  - ▶ Rental income from letting of house property is taxable either under 'Income from House Property' or under PGBP.
  - ▶ Under PGBP, higher deductions are allowable against the rental income as against the case where the same is taxed as Income from House Property.
  - ▶ Now, rental income from letting of residential property is to be taxed under Income from House Property only.
  - ▶ This amendment will be effective from 1 April 2025.

## Highlights

### Immovable property



### LTCG tax rate

20%  12.5%

Removal of  
indexation benefit  
on LTCG



### TDS on rent by individual/HUF

5%  2%

- ▶ Key policy announcements
  - ▶ Under PM Aawas Yojana Urban 2.0, housing need of 1 crore urban poor and middle-class families to be addressed with an investment of INR10 lakh crore
  - ▶ Under PM Aawas Yojana, 3 crores additional houses to be constructed
  - ▶ Development of investment ready “plug and play” industrial parks across 100 cities
  - ▶ Rental housing with dormitory type accommodation for industrial workers to be created through PPP mode
  - ▶ Transit oriented development plans for 14 cities with a population in excess of 30 lakh
  - ▶ State governments encouraged to reduce stamp duty, especially on women owned property
  - ▶ Land reforms to be accelerated through digitization of land records, unique land identification numbers for both urban and rural lands.
  - ▶ Phase IV of PM Gram Sadak Yojana to be launched
  - ▶ Government to devise a framework for the redevelopment of existing cities
  - ▶ Through collaboration with states, government to develop 'Cities as Growth Hubs' by streamlining economic, transit planning, and structured expansion of peri-urban zones through town planning schemes

## Highlights



- ▶ New houses under PM Aawas Yojana



- ▶ Development of industrial parks
- ▶ Rental housing with dormitory type accommodation
- ▶ Land reforms through digitization

## Impact analysis

- ▶ The significant investment in PM Aawas Yojana Urban 2.0 is expected to alleviate urban housing deficits, spurring construction activity and economic growth.
- ▶ Initiatives for Industrial Parks and PPP-driven rental housing for industrial workers align with the country’s manufacturing goals and addresses worker accommodation needs; likely to attract private investment.
- ▶ Parity of listed units of REITs from the tax rate and holding period with listed equity should attract more investment in REITs from new and diversified set of investors and provide greater liquidity.
- ▶ The reduction in LTCG tax on immovable property to 12.5% is offset by the removal of indexation benefits, which could potentially increase the effective tax burden depending on the property’s acquisition date.
- ▶ Overall, the budget's focus on development, transparency, and tax reforms is poised to invigorate the real estate sector, driving investment and contributing to the overall economy. The effectiveness of these policies will hinge on their implementation and the ongoing support of complementary reforms.
- ▶ In essence, the budget is geared towards stimulating growth and investment in the real estate sector, fostering a more transparent and investor-friendly environment, and contributing to the nation's economic progress.

# Glossary

PM - Pradhan Mantri

REITs - Real Estate Investment Trust

LTCG - Long-Term Capital Gains

STCG - Short-Term Capital Gains

TDS - Tax Deducted at Source

HUF - Hindu Undivided Family

PGBP - Profits and Gains from business and profession



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