#KPMGjosh

India Union Budget 2021-22

Point of view

Building, Construction and Real Estate

#Budget2021 #KPMGBudgetLive

Key announcements for the sector

- In order to augment funding requirement of REITs and InvITs, it has been proposed that foreign portfolio investors will be permitted to invest in debt instruments of REITs and InvITs, for which suitable amendments will be made in the relevant legislations.
- Development Financial Institution ('DFI') funding introduced for infrastructure sector.
- Unlocking the value of public lands has been recognised as a potentially significant source of finance for upgrading urban and social infrastructure projects. Monetising these land assets could pave the way for redevelopment or better usage of the land parcel
- Key core infrastructure assets that will be rolled out under the Asset Monetization Programme are:
  - National Highways Authority of India (NHAI) operational toll roads
  - Transmission assets of Power Grid Corporation of India Limited (PGCIL)
  - Oil and gas pipelines of Gas Authority of India Limited (GAIL), Indian Oil Corporation Limited (IOCL) and Hindustan Petroleum Corporation Limited (HPCL)
  - Airport Authority of India (AAI) airports in Tier II and III cities
  - Railway infrastructure assets
  - Warehousing assets of Central Public Sector Enterprises (CPSEs) such as Central Warehousing Corporation and National Agricultural Cooperative Marketing Federation of India (NAFED) among others and
  - Sports stadiums.
- In order to position India as a fully integrated, globally competitive manufacturing and exporting hub for the textile sector, the government has proposed setting up of seven Mega Integrated Textile Region and Apparel (MITRA) parks over the next three years. The parks would be set up over 1,000 acres of land with world class infrastructure and plug-and-play facilities. Production Linked Incentive (PLI) of INR10,683 crore for technical textiles and manmade fibre segment is also proposed in the Budget 2021-22.

Tax

- In the previous budget, the government provided an additional deduction of interest, amounting to INR1.5 lakh for loan taken to purchase an affordable house. The deduction has been extended by one more year until 31 March 2022.
- To keep up the supply of affordable houses, it is proposed that affordable housing projects can continue to avail a tax holiday for one more year until 31 March 2022. Further, to promote supply of affordable rental

housing for migrant workers, the FM has proposed to expand the scope of tax holiday/ deduction to cover notified rental housing projects until 31 March 2022.

- For applying provisions of deemed taxation, the safe harbor limit in form of variation between the transaction value and the stamp duty value of land or building or both, increased to 20 per cent from the erstwhile limit of 10 per cent for transfer of residential units during the period 12 November 2020 to 30 June 2021, subject to specified conditions.
- Removal of withholding tax of 10% on the dividends to be paid by the SPVs to REITs and InVITs;
- Sovereign Wealth Funds ('SWF') and Pension Funds ('PF') will now be permitted to make investment into Category I and Category II AIFs which in turn are permitted to make investment in InvITs . Also, it is proposed to relax the condition of 100% to 50% for investment in eligible infrastructure companies. Further, SWF/PF are now also allowed to invest through holding company subject to fulfilment of specified conditions.
- The time limit for providing exemption of capital gain which arises from the transfer of a residential property, owned by the eligible assessee is proposed to be extended from exiting 31 March 2021 to 31 March 2022 if the net consideration is utilised for subscription of equity shares of an eligible start-up. Similarly, outer date for incorporation of eligible start-up is also proposed to be extended to 31 March 2022 from 31 March 2021.
- Provision of slump sale proposed to be rationalised to include all types of transfer as defined under the Act.
- Provision of transfer of capital asset to partner on dissolution or reconstitution of Partnership Firm proposed to be rationalised to compute capital gains without taking into account increase in capital account due to revaluation of any asset or due to self-generated goodwill or any other self-generated asset.
- Tax audit threshold further increased to INR10 crore from existing INR5 crore, subject to certain conditions.
- Goodwill of business or profession will not be eligible for depreciation going forward
- Rationalisation of equalisation levy provisions to bring more transactions under the purview
- Due date for filing of Belated Return and Revised Return has been now been further reduced by three months. Effectively, the belated return or revised return could now be filed three months before the end of the relevant assessment year or before the completion of the assessment, whichever is earlier.
- Late deposit of Employee Contribution by the Employer to the relevant fund will be disallowed as deduction in the hands of the employer.
- The time limit for issuance of notice for reassessment and search cases has been proposed to be reduced to 3 years from the earlier time period of 6 years. Further, income escaping assessment, represented in the form of asset, in case amounts to or is likely to amount to INR50 lakh or more, notice can be issued beyond the period of three years but not beyond the period of ten years from the end of the relevant assessment year. Also, the assessment for search cases is also proposed to be revamped.
- Faceless scheme to be launched for ITAT proceedings on the same lines as faceless appeal scheme.
- Income-tax Settlement Commission (ITSC) proposed to be discontinued with immediate effect. Interim Board of settlement to be constituted for cases pending before ITSC.

Implications for the sector

- Increasing the safe harbor limit from 10 per cent to 20 per cent would boost demand in the real-estate sector and would enable the real-estate developers to liquidate their unsold inventory at a rate substantially lower than the circle rate and giving benefit to the home buyers.
- Extensions in the additional tax benefit of INR1.5 lakh for loan taken to acquire affordable homes would not only benefit the salaried income group but also sustain the existing demand for affordable housing and in turn, reviving the residential real estate industry as a whole.

- Looking to boost the sluggish housing sector, the government proposed to extend tax sops given to real estate firms for developing affordable housing/ affordable rental housing until next fiscal (31 March 2022). This will encourage developers to invest more into affordable housing/ rental housing considering the underlying demand occupying bulk of the sales within top metropolitan cities.
- Removal of withholding tax on dividends to be paid by SPV to business trusts i.e. to REITs and InvITs, will streamline and align the taxability of dividend income in the hands of business trust and will provide additional liquidity in the hands of business trust. However, similar relaxation under the holding company structure has not been provided, which could block the funds and also increase the tax cost in case of Hold Co structures.
- As urban land grows scarce, additional land is required to cater to the housing and commercial needs of the growing population. Unlocking the value of public lands available with AAI, railways, warehousing and sports related projects has been recognised as potentially significant source of finance for the government for upgrading urban and social infrastructure projects. Various estimates outline the extent of land held by various government agencies in excess of 5 lakh hectare, of which, over 160,000 hectares is held across various airports, seaports and railways. Land parcels like these can provide the much-needed relief to occupiers/ end users by controlling the real estate prices and can also bring around significant alteration in the residential or commercial landscape of major cities.
- Providing PLI for technical textiles and manmade fibre would help in driving investments into these segments and shall thereby help doubling the textile industry size to USD300 bn by 2025-26. Such an initiative would assist in creating textile parks which are fully integrated, globally competitive manufacturing and exporting hubs.
- Non availability of depreciation on goodwill on business or profession and changes in slump sale taxability could impact the real estate and infrastructure transaction structuring and can also impact the IRR of the already concluded deals.
- Equalisation levy could be levied on all cross-border transactions by foreign entities except income which is chargeable to tax as royalty or fees for technical services in India.

KPMG in India contact

Chintan Patel
Partner and Head
Building, Construction and Real Estate
E: chintanpatel@kpmg.com

https://bit.ly/39nSSY6
Access Budget microsite

#KPMG josh

home.kpmg/in/socialmedia

KPMG Assurance and Consulting Services LLP, Lodha Excelus, Apollo Mills Compound, NM Joshi Marg, Mahalaxmi, Mumbai - 400 011
Phone: +91 22 3989 6000, Fax: +91 22 3983 6000.