

Fillip to housing

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NAREDCO calls for giving boost to rental housing; seeks incentives for housing finance

In view of the continued shortage of housing and inability of one and all to own a house, the National Real Estate Development Council (NAREDCO) has urged the Union Government to take steps to give boost to rental housing by doling out some incentives for individuals and companies. It has also sought incentives on housing finance to give a fillip to housing.

In its pre-budget memorandum submitted to Finance Minister, Pranab Mukherjee, NAREDCO has suggested that income from renting of properties should be taxed at a flat rate of 10 per cent.

Provision of rental housing on a large scale will require the services of property management firms. In order to make property management a viable activity, income of firms which are wholly engaged in maintenance/ repair and other specified management services for rental housing blocks may be brought within the ambit of Section 80 IB (10) and Section 10 (23G).

Explaining it further, NAREDCO president, Naveen Raheja said the high cost of houses and high property taxes lead to a low rate of return (ROR) from rental housing making renting out an unremunerative proposition. To improve the effective ROR from renting, it is suggested that the deduction from rental income under Section 24(a) be increased from 30 per cent to 50 per cent.

This will help in promoting rental housing. For women and senior citizens, the deduction could be 100 per cent, keeping social requirements and empowerment of women in view.

Mr. Raheja said tax at source from rental income is deducted at 15 per cent in the case of individuals and HUFs and 20 per cent in other cases out of the gross rental income. It is suggested that deduction of 15 per cent in case of individuals and HUFs and 20 per cent in other cases out of gross rental income should be reduced to 7.5 per cent in case of individuals and HUFs and 10 per cent in other cases. This will also reduce the workload of the income tax department in processing the refund applications.

Talking about incentives for housing finance, Mr. Raheja explained that at present section 36 (1) (viii) allows deduction of amount not exceeding 20 per cent of the profits derived from the business of providing long term finance (computed before making any deduction under this clause) for residential houses and carried to Special Reserve. This deduction used to be 40 per cent before 2007.

It is suggested that deduction of 40 per cent of profit, derived from business of providing long term housing finance, as applicable before 2007 budget, should be re-introduced. This will improve the thin margins of Housing Finance Companies (HFCs) and increase their lending resources. Section 36 (1) (viiia) provides for bad and doubtful debts. The present section allows deduction to only banks equivalent of 10 per cent of the value of the assets, that too for doubtful and loss assets.

Therefore, it is suggested that the provision of this section should be extended to HFCs like banks and all the bad debts should be considered for deduction on provisions made and interest de-recognised as per the regulators' directions. This will go a long way for the sustained growth of the housing sector, he added.

NAREDCO felt that Government should also consider setting up a dedicated Affordable Housing Fund in line with the infrastructure Fund exclusively for construction of economically weaker sections and lower income group housing and lend it to developers at low rate of interest. It should also consider providing access to pension, insurance and provident funds.

In addition to this, it suggested that external commercial borrowings be allowed in all spheres of housing and real estate development, as also in SEZ projects.