

RELAX! YOUR SECOND HOME IS NOW TAX-FREE

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Public Finance, Taxation & Black Money incl. Government Budgeting

The interim Budget has announced several incentives for homebuyers, owners and real estate developers, designed to give a boost the real estate sector.

Union Minister Piyush Goyal proposed to exempt the notional rent from a second self-occupied house from tax. Earlier, the second home, even if it was occupied by the owner, was considered to be on rent and tax was levied on this notional rent.

For middle class

Mr. Goyal explained that this was keeping in mind the “difficulty of the middle class having to maintain families at two locations on account of their job, children’s education, care of parents, etc”.

Further, the Minister proposed to increase the roll-over of capital gains under Section 54 of the Income Tax Act from investment in one residential house to two for a taxpayer with capital gains up to Rs. 2 crore. This benefit can be availed only once in a lifetime.

“Eliminating tax on the notional income of the second self-occupied house and allowing capital gain exemption on investment in a second house were much-needed rationalisations and should rejuvenate interest in real estate,” Rahul Garg, senior partner, tax & regulatory, PwC India, said.

In another move that should provide an impetus to the real estate sector, the Finance Minister proposed to extend the period of exemption from levy of tax on notional rent on unsold inventories from a year to two, effective from the end of the year in which the project is completed. An estimated 6.7 lakh units are lying unsold across key cities and this move will substantially benefit builders in the election year as well as the year after.

Earlier, developers with unsold properties had to pay tax on notional rent on those properties after one year of their completion.

‘Will boost sales’

“The benefit of roll-over of capital gains has been increased from one house to two houses, up to Rs. 2 crore (once in lifetime), is a tremendous step by the government that will boost sales in both primary and secondary markets,” Shishir Bajjal, chairman & managing director, Knight Frank India, said.

The roll-over of capital gains tax on the sale of houses is expected to benefit people living in big cities such as Mumbai where property prices are very high. By another proposal, there will now be no tax on house rents up to Rs. 2.4 lakh from the previous limit of Rs. 1.8 lakh, aimed at boosting investment in second homes.

(With inputs from

Lalatendu Mishra and

Ashish Rukhaiyar)

Capital gains up to Rs. 2 crore can now be invested in two houses instead of the one at present

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