

Pranab does a service to realty

OUR SPECIAL CORRESPONDENT

New Delhi, April 29

Home buyers could pay less for property following a partial rollback of a budget levy on realtors by finance minister Pranab Mukherjee today.

Mukherjee said realtors would pay a 10 per cent service tax on 25 per cent of the value of the built property, including the cost of land, against the budget announcement of the 10 per cent tax on 33 per cent of the value of the property.

"I propose to provide the tax relief to this (construction) sector by enhancing their rate of abatement from 67 per cent to 75 per cent of the gross value, where such value includes the value of the land constructed upon," Mukherjee said.

A service tax of 10 per cent had been slapped on real estate complexes for the first time in this year's budget. The abatement (tax rebate) has been increased to 75 per cent from 67 per cent of the gross value of a property that includes land value.

This means that on an apartment, which costs Rs 20 lakh, a buyer can get a service tax relief of Rs 16,000, or Rs 800 for every lakh paid. Buyers would earlier have ended up paying Rs 66,000 as service tax, but now they would pay Rs 50,000. Mukherjee said urban development minister Jaipal Reddy had urged him to scrap the levy.

Reddy had written to the finance minister earlier this month seeking a review, arguing that the new tax will hit home buyers rather than dip into the pockets of realtors. The housing market, hit by a slowdown in the Indian economy that saw prices coming down by up to 30 per cent last year, is now reviving.

However, realtors are not exactly celebrating the partial tax rollback. Kumar Gera, chairman of the Confederation of Real Estate Developers' Associations of India said, "The idea of service tax on real estate is unjust. When stamp duty is paid, why should the land value be added upon while calculating service tax. The land is not a service... construction could be."

Navin Raheja of Raheja Developers said, "This (the tax) would have marginal impact in deciding home purchase. It is unfortunate that land value is being added upon to calculate the service tax."

Mukherjee also exempted from service tax constructions under the Jawaharlal Nehru Urban Renewal Mission and Rajiv Awas Yojana.

The finance minister, however, did not roll back the hikes in excise and customs duties on petrol and diesel. He said the government had to look at ways of meeting the Rs 85,000 crore expected revenue losses from selling fuels at low prices. The 2010-11 general budget had provided considerable relief to income tax payers but hiked the central excise duty on non-petroleum products across the board to 10 per cent from 8 per cent and the basic duty on crude and petroleum products, besides effecting a one-rupee increase per litre on petrol and diesel.

The opposition NDA and the Left parties staged a walkout in protest against the government's decision not to roll back fuel duty hike before the Lok Sabha passed the Finance Bill 2010.

The government has set up an empowered group of ministers (eGom) to decide on the Kirit Parikh panel recommendation of freeing petrol and diesel prices from government control, and a decision is likely soon after the Parliament session ends on May 7. The eGoM will be headed by Mukherjee and its decisions would not be required to be approved by the cabinet.

Mukherjee also cut the basic customs duty on stainless steel to 2.5 per cent from 5 per cent and the excise duty on hand-rolled cigars to 10 per cent. He proposed investment-linked tax breaks for hospitals with at least 100-bed capacity.

Export duty on iron ore lumps is now 15 per cent against 10 per cent earlier, while the surcharge on raw cotton exports has gone up. Duty on paper made from waste is now down to 4 per cent against 8 per cent earlier.

The duty changes would cost the finance ministry Rs 400 crore, officials said. It's traditional for finance ministers to announce tax changes in reply to the debate on budget. This is done to address anomalies in taxes or on representation by industry or consumer bodies, which complain that high taxes would hurt them.

Mukherjee also announced a Rs 241 crore relief package for coffee growers by way of waiving three-fourth of loans taken prior to 2002, especially by small farmers, while restructuring repayments for the rest.

On the corporate front, Mukherjee announced tax exemption on the transfer of shares by shareholders in case a company converts itself to the limited liability partnership structure, the new kind of business entity introduced a year ago.

In education, the minister extended service tax exemption to vocational courses provided by the training institutes registered under the skill development scheme of the labour ministry.