**Budget Highlights’19 – Affordable Housing Impact**

**Government Yojana/Mission to build houses/affordable houses:**

* Under the ‘House for All by 2022’ mission, the government aims to build 1.95 crore houses under the Pradhan Mantri Awaas Yojana (Gramin) scheme. “A total of 1.54 crore rural homes have been completed in the last five years."

**Government shall be utilizing land parcels held by Central government in building Affordable Housing:**

* The FM also proposed building large public infrastructure on several land parcels held by central government and public sector enterprises
* “Large public infrastructure can be built on land parcels held by central ministries and central public sector enterprises. Through an innovative instrument such as joint development and concession, public infrastructure and affordable housing would be taken up,"

**Co-Living Spaces, a new concept, Arvind shall try in to:**

* “Laying down a roadmap for Rental Housing is a step in the right direction to align with global trends of co-living spaces, given the changing demographics in the country. The increased thrust on education is likely to boost the student housing asset class,"

**Income Tax deduction addition:**

* Finance Minister Nirmala Sitharaman, in her budget speech, said the loan should be on a property with a stamp duty value, or circle rate, of not more than Rs 45 lakh. The benefit will be available on loans taken this financial year.
* An additional deduction of up to ₹1.5 lakh for interest paid will be allowed on a loan borrowed up to 31st March, 2020, for purchase of an affordable house valued at up to ₹45 lakh. What needs to be noted here is that this deduction will be over and above the deduction of ₹2 lakh allowed on a home loan interest payment. If one avails an home loan for purchase or construction of a house, the capital repayment and interest paid on the home loan qualifies for deduction under separate income tax sections. While principal repayment qualifies for deduction under section 80C of the Income-tax Act, 1961 and has an overall limit of ₹1.5 lakh a year, the interest payment on home loan qualifies for deduction under section 24(b) of the Act, with an overall limit of ₹2 lakh a year. Another important point is that this scheme is only limited for loans sanctioned in the ongoing financial year, ending on 31 March, 2020. Moreover, if the purchase cost of the home being bought is over ₹45 lakh, the scheme will not cover home loans for such properties. Accordingly, while the new additional deduction will benefit home buyers in smaller towns or tier-2 and 3 cities, its benefit in tier-1 and metro cities will be limited due to higher real estate prices.

**Definition of Affordable Housing:**

The Ministry of Housing and Urban Poverty Alleviation defines affordable housing on the basis of size, price, affordable and income.

* For the EWS, for instance, an affordable house would mean a unit measuring between 300 and 500 sqft, prices below Rs 5 lakh for which a household has to pay Rs 4,000-5,000 in EMI (equated monthly installment). The income ratios, in this case, should be of 2:3.
* For low-income groups or LIG, an affordable house would mean a unit measuring between 500 and 600 sq ft, priced between Rs 7 lakh and Rs 12 lakh for which a household has to pay Rs 5,000-10,000 in EMI. The income ratios, in this case, should be of 3:4.
* For mid-income groups, an affordable house would mean a unit measuring between 600 and 1,200 sq ft, priced between Rs 12 lakh and Rs 50 lakh for which a household has to pay Rs 10,000-30,000 in EMI. The income ratios, in this case, should be of 4:5.

On the other hand, according to the Reserve Bank of India (RBI), the cost of affordable residential property should be less than Rs 65 lakh in metro cities and Rs 50 lakh in non-metros. Prior to 2014, the limit was up to Rs 25 lakh for metros and Rs 15 lakh for non-metros. The central bank's definition is based on the loans given by banks to people for building a house and buying flats.

* CREDAI has sought an amendment in Section 80-IBA to facilitate a uniform definition of affordable housing. Multiple definitions and schemes of affordable housing are being operated by the Centre and state government and the provisions/definitions under such schemes are not consistent.
* This is thus causing confusion and benefit is not being passed to assessees as intended by the government and the necessary boost to affordable housing is lagging

## Deduction on the principal repayment of housing loans (Section 80 C)

* In the Indian context, the ownership of a house is a lifetime goal. At present, Section 80 C of the Income Tax Act does not give a singular focus on housing because of numerous competing investment alternatives.
* To augment the house purchase decision and provide some fillip to real estate sales, it is suggested to carve out a separate annual deduction of Rs 1,50,000 for the principal repayment.
* Considering that in the later years of the home loan tenure, while the buyer is still paying a significant component of his income in the form of principal, he isn’t getting any [tax benefit](https://roofandfloor.thehindu.com/real-estate-blog/tax-benefits-avail-on-home-loan/) as the interest component in that period is insignificant.
* To address this dilemma of the homebuyer, a separate deduction of Rs 150,000 for principal repayment will help the cause of his house purchase for the entire loan tenure that extends to as many as 20 years.

**Sources:**

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