NEW REGIME MAY TAKE EFFECT FROM FY26

Govt may soften LTCG tax blow on real estate

Cut-off date for removal of indexation benefit likely to be advanced

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THE GOVERNMENT MAY address the concerns over the Budget proposal to revise the taxation of long-term capital gains (LTCG) from real estate transactions, by offering a few reliefs.

According to sources familiar with deliberations on the matter, the government may make the new LTCG regime effective from April 1 next year, instead of July 23, 2024, as proposed in the Budget. The government may also retain an option of indexation benefit in the new regime or shift the cut-off date for its removal from April 1, 2001, to a later date.

The changes could be done through an amendment to the Finance Bill 2024 when it is taken up by the Lok Sabha this week. The government would, however, stick to the new LTCG tax rate of 12.5%.

Indexation is meant for adjusting the gains from property sales by factoring in inflation during the period of ownership, and the cost price index is used to compute this.

In the Budget 2024-25, finance minister Nirmala Sitharaman proposed to bring down the LTCG tax rate to 12.5% from 20% for property and other unlisted assets. However, the benefit of indexation is to be scrapped for properties that were purchased on or after April 1, 2001. This has led to a widespread perception that the post-tax gains from property sales could come down, causing lower demand for real estate units and fewer transactions.

BALANCING ACT

- Many believe the LTCG tax regime proposed in the Budget will have a negative impact on the real estate sector

- **Government, however, says it will benefit a vast majority of real estate sellers**
- Experts say whether it will benefit a real estate seller or not depends on property value appreciation

Continued on Page 17

Centre may soften LTCG tax blow

GOVERNMENT OFFICIALS AND independent experts have, however, pointed out that the new regime may not result in higher tax outgo for the sellers of property in all cases. If the property values appreciate at very high rates, as in many locations in metro cities, then the new regime could be more beneficial to the taxpayers, for instance.

In a post on X on July 24, the income tax department has said that nominal real estate returns are generally in the region of 12-16% per annum, much higher than inflation. The indexation for inflation is in the region of 4-5%, depending on the period of holding. Therefore, substantial tax savings are expected for a vast majority of such taxpayers.

"Now, there is an appreciation of the fact that nominal real estate returns are not in the range of 12-16% in general and in all places. Factoring in this, some relief may be given," an official said.

"While considering some relief, a fine balance has to be worked out so that the government does not lose substantially and taxpayers also benefit. It is being examined if indexation can be offered as an option and if so, how it could be structured," the official said.

The analyst community too has made several suggestions on how the new regime could be fine-tuned.

"Where long-term capital gain is limited vis-à-vis inflation, the taxpayer may be given the option to choose between the old regime of 20% LTCG tax rate with indexation benefit or the new regime of 12.5% LTCG rate without indexation," said Shalini Mathur, director, Tax and Economic Policy Group, EY India.

Yogesh Kale, executive director, Nangia Andersen LLP, said "While as per the department's analysis, the proposed new long-term capital gain tax regime (12.5% tax without indexation) is likely to be beneficial in many cases, the government may, after a robust analysis, consider providing the taxpayers with an option to go for either 20% tax with indexation or 12.5% tax without indexation, whichever is beneficial, for all the properties, including the ones acquired before April 1, 2001."