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Implications of Budget 2007-08 on Real Estate Funds

In the past, VC funds registered with SEBI had enjoyed pass through benefits (exemption from income tax) for investments in any sector. However, the Union Budget 2007-08 has restricted this to only a few sectors such as biotechnology, nanotechnology, IT hardware /software, R&D for new chemical entities, seed research, and dairy and poultry sectors. Now, that the budget denies tax benefits to all the venture capital funds other than certain industries, there is going to be fewer reasons in investing in the real estate sector and the benefits of registering the fund with SEBI is, at this instant, entirely gone astray. This is a serious issue for the real estate sector, reflecting on the fact that REITs and REMFs have still a long way to cover before they touch the Indian shores and AIMS is a market which is feasible for a select few.

On the other hand, the five-year tax holiday given to Delhi, Gurgaon, Ghaziabad, Faridabad and Gautam in context with the upcoming Commonwealth Games will benefit those areas. This move will pump in demand for property in these areas and therefore push prices up. The Government's willingness to turn Mumbai into a world-class financial hub has put forward some major positive changes in Mumbai's real estate market. Moreover, the fact that the budget aims to exceed the yardstick of 15 lakh houses under Bharat Nirman Programme is extremely good news for the low-cost housing sector. Funds would now be encouraged to invest in this sector, and it will provide very healthy profit margins after this new development.

On the whole this Budget has very moderate implications on the real estate sector.

Source: IVCI

Website: www.vcindia.com