REPORT | Q4 2024

Post Union Budget 24-25 Analysis

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KEY IMPACTS ON REAL ESTATE AND INFRASTRUCTURE DEVELOPMENT

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SUMMARY

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INTRODUCTION

For more than 25 years, GRI Club's exclusive networking events have been providing unique opportunities for the industry's decision makers to exchange valuable insights and experiences, igniting deal flow and potential using the real estate market.

GRI Club reports provide the key takeaways from these events, including the most valuable insights, the most ardent discussions, and the most intriguing strategies.

This report presents key insights from the online meeting "**Post Budget Analysis: Union Budget 2024**" hosted by **GRI Club India**. The discussion explored amendments in the Union Budget that impact the real estate and infrastructure sectors, highlighting significant changes and their implications for developers, investors, and other key stakeholders.

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INDIA'S STRATEGIC PUSH FOR GROWTH AND FISCAL STABILITY

India has recently faced several global-scale challenges, including geopolitical tensions, trade fragmentation, and climate change issues. Despite these obstacles, the country has demonstrated remarkable resilience to achieve a strong GDP growth rate of 8.2% for the fiscal year 2024.

The fiscal deficit was contained at 5.6%, reflecting the government's commitment to its fiscal consolidation roadmap, which aims to reduce the deficit to 3% over the next six years. This achievement highlights not only India's economic resilience but also a clear focus on maintaining financial discipline while fostering growth.

Simultaneously, the Indian banking sector has shown solid performance. Despite a marginal increase in non-performing assets (NPAs), the top 20 Indian banks collectively reached a market capitalisation exceeding INR 49 trillion as of June 2024, driving stock market gains.

This surge underscores broader economic momentum and reinforces investor confidence in India's financial markets, reflecting both the resilience of the banking sector and the positive outlook for the country's economic future.

The government's Economic Survey outlined key priorities addressed in the Finance Minister's reforms, focusing on closing skill gaps, strengthening the Micro, Small and Medium Enterprises (MSME) sector, improving workforce productivity, and advancing the transition to green energy. These initiatives align with the government's broader strategy to promote sustainable, inclusive growth, supporting India's ambitious climate targets and drive towards energy independence.

In terms of tax collections, FY24 saw robust overall growth of 13.4%, with direct taxes contributing 17.9% and indirect taxes at 8.2%. However, the budget for FY25 anticipates a moderation in tax growth, with an expected decline to 10.8%. Direct tax collections are forecasted to rise, while indirect taxes are expected to stabilise.

The overall tax buoyancy, which measures the responsiveness of tax revenue growth to economic activity, is projected to decrease from 1.86 in FY24 to 1.22 in FY25, with indirect taxes dipping below 1%, largely due to weaker excise and customs duty collections.

Capital expenditure has risen to 23% of total government spending, up from 17.6% in FY23, reflecting a strategic shift towards long-term growth through infrastructure investments. This increase is expected to generate broader economic benefits, including job creation and improved productivity.

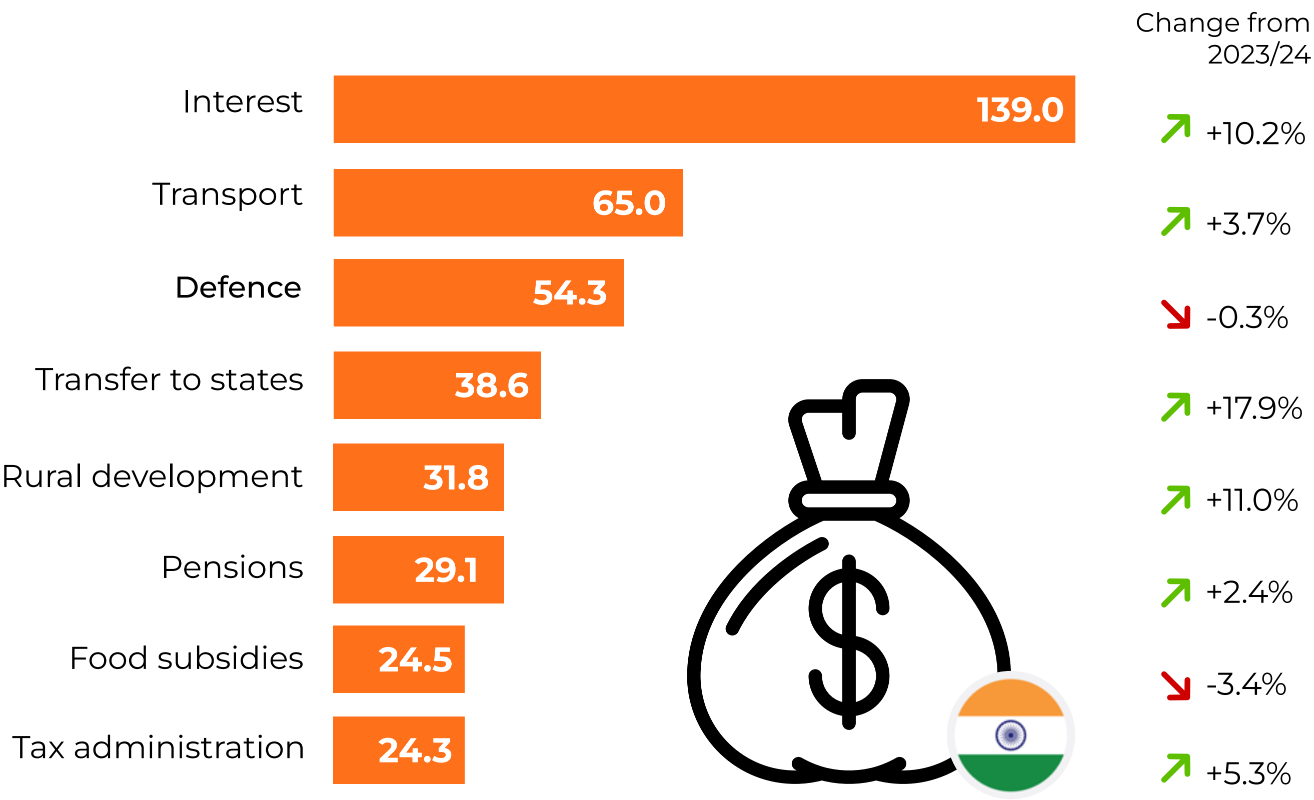
In line with broader tax reforms, the Finance Minister highlighted that 58% of corporations and over two-thirds of individual taxpayers have opted for the new corporate tax regime, which features lower tax rates without incentives. This shift reflects a move towards a more streamlined tax structure designed to reduce litigation and provide greater clarity for both businesses and individuals.

To further support the ease of doing business, the government has launched a comprehensive review of the Income Tax Act, expected to be completed within six months. This review aims to simplify the tax framework, making compliance easier while aligning with the government's overarching goal of enhancing business-friendly regulations and improving India's position as a key investment destination.

Under Prime Minister Narendra Modi's leadership, India has prioritised structural reforms, with the 2024 budget reflecting the government's balanced approach, driving growth while maintaining fiscal prudence. The focus on infrastructure, sustainability, and tax simplification signals a long-term vision to transform India into a global economic powerhouse.

THE INDIAN BUDGET 2024/25

Largest expenditure items in the Indian national budget for 2024/25 (in billion U.S. dollars)



Budget estimates
Source: Indian Ministry of Finance

TAX REFORMS AND REAL ESTATE SECTOR IMPACT

The recent budget emphasised continuity while introducing several key tax-related reforms across sectors, with notable increases in expenditure, particularly in rural development, urban infrastructure, and energy, where allocations saw a 25% rise in FY24. However, several significant reforms are poised to reshape the investment landscape, particularly in the real estate sector.

Key tax reforms include adjustments to capital gains taxation, rationalisation of the Tax Deduction at Source (TDS) structure, and a reduction in the reassessment period from ten years to five years and three months. This reduction simplifies the tax environment and provides greater clarity, facilitating long-term planning for investors.

One of the most impactful reforms concerns capital gains tax, where the holding period for various asset classes has been adjusted. For listed shares and Real Estate Investment Trusts (REITs), the holding period has been reduced from 36 months to 12 months, aligning with global standards. Unlisted assets, such as slum properties, continue to have a 36-month holding period.

The short-term capital gains tax rate on listed equity shares and units of REITs has been increased from 15% to 20%. However, for other asset classes, including debentures and bonds, the applicable tax rates remain unchanged and will continue to follow the taxpayer's specific rate. In terms of long-term capital gains, the tax rate has been revised from 10% to 12.5% in most scenarios.

The budget has also clarified that lease income from residential properties will now be taxed under the 'house property' category rather than as business income. This shift could limit deductions available to real estate developers with unsold inventory on lease, as the house property tax framework offers fewer deductions than business income.

It also raises questions about how rental income from employee housing or residential services, such as guest houses and serviced apartments, will be taxed, requiring a detailed case-by-case evaluation.

The abolition of the angel tax, which previously scrutinised startup valuations and their funding sources, marks a major win for the startup ecosystem. Before the change, only a limited group of entities, including venture capital funds and DPIIT-registered companies, were exempt from this tax. With its elimination from FY24, startups can now expect significant regulatory relief, though some uncertainty remains regarding how past tax notices will be handled.

In contrast, changes to the buyback tax could present challenges. Beginning in October 2024, the buyback tax will be replaced with deemed dividend taxability, requiring shareholders to pay taxes on the entire buyback amount. This new regime effectively taxes the initial capital infusion, complicating profit repatriation strategies for companies. Many firms have already accelerated buybacks ahead of the deadline, while others may need to explore alternative methods such as dividend distribution or capital reduction.

◆ Indexation Removal vs. Stamp Duty Reductions: A Mixed Impact

The removal of the indexation benefit, which adjusts the purchase price for inflation when calculating capital gains, has also raised concerns. Historically, indexation provided a buffer against inflation, helping to minimise tax liabilities. Without it, taxpayers with long-term investments may face higher capital gains taxes, creating uncertainty for future returns.

This complexity is particularly evident in the real estate sector, where price appreciation varies significantly. For example, a property purchased in 2013 that doubled in value by 2024 would have benefited from the old regime with indexation.

On the other hand, properties that have seen a 10x increase in value may benefit more from the new regime, despite the loss of indexation. As a result, investors must carefully evaluate their individual circumstances to determine which regime offers the most favourable tax outcome.

The moderation of stamp duty rates in high-paying states, particularly for women homebuyers, is a positive step towards increasing housing affordability. However, when combined with the removal of indexation for capital gains, it presents a mixed impact for investors. On one hand, lower stamp duty reduces upfront purchasing costs, but the absence of indexation creates potential tax burdens in the long run.

Investor sentiment, a critical driver of the real estate market, could be dampened by the perceived complexity and reduced benefits of the new capital gains tax regime. While the stamp duty cuts provide immediate financial relief, the removal of indexation may cause investors to reassess their long-term property investments.

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KEY CHANGES ACROSS MULTIPLE SECTORS

Challenges and Solutions in India's Residential Sector

The Pradhan Mantri Awas Yojana-Urban (PMAY-U) 2.0 and the broader aim of affordable housing have been central to India's policy agenda for over a decade. The government has announced the construction of 3 crore additional houses for rural and urban areas across the country, with the necessary budgetary allocations being made to support this initiative.

Under PMAY-U 2.0, housing needs for 1 crore urban poor and middle-class families will be addressed through an investment of INR 10 lakh crore, including central assistance of INR 2.2 lakh crore over the next five years. Additionally, the scheme will offer interest subsidies to facilitate affordable loans, ensuring greater access to housing finance for eligible beneficiaries.

However, aligning the real estate sector with these goals, particularly in terms of practical implementation and incentives, demands reevaluation. While the market has shifted towards higher-end developments, the affordable housing segment, comprising homes priced in the INR 30-50 lakh range or lower, remains significantly underserved. This raises a pressing question: who will cater to the growing demand in this crucial segment?

Unlike many developed countries where rental housing is a mainstream option, homeownership in India is deeply ingrained in the culture, with emotional and social significance attached to owning a home. Nonetheless, rental housing offers a viable alternative for developers, providing steady annuity income through successful models such as student housing, retirement homes, and general rental markets seen abroad.

A particularly promising avenue within this space is the development of dormitory-style accommodations in industrial complexes, addressing the housing needs of migrant workers, who are vital to India's workforce.

The pandemic underscored the critical importance of stable, affordable housing for these workers, as their mass exodus from cities due to poor living conditions led to a shortage of skilled labour. Developing rental accommodations within industrial parks could help attract and retain these workers, providing a solution to this long-standing issue.

However, such projects resemble infrastructure investments more than typical real estate ventures. They involve long gestation periods, extended return of investment (ROI) timelines, and require detailed feasibility studies, making them better suited to infrastructure players who can manage capital-intensive, large-scale developments.

While these projects may succeed in established industrial hubs, new locations with plug-and-play infrastructure will require a thorough, case-by-case evaluation of their feasibility and sustainability.

As India advances towards its affordable housing goals, the focus must remain on aligning incentives and engaging the right stakeholders, both real estate and infrastructure, to deliver much-needed housing solutions across the country.

The Future of Land Record Digitisation in India

The digitisation of land records is a complex and critical initiative requiring the integration of technology, governance, and legal considerations. Given the importance of land as an asset, this process must be handled with precision. Engaging a consortium of private players with expertise in technology infrastructure, surveying, mapping, record standardisation, and legislative support will be essential.

Challenges include accurate surveying, creating standardised records, and aligning legal frameworks. Additionally, public awareness and education are vital for acceptance. The project requires careful coordination, possibly overseen by a government committee within a dedicated ministry, following the successful model of the Goods and Services Tax (GST) implementation.

Like GST, which unified India's tax system through coordination between states, central and state governments, and private sector partners, land digitisation would benefit from a centralised governance model. This would ensure effective coordination across states, legal systems, and stakeholders, addressing regional complexities.

Private sector involvement offers advantages like monitoring, transparency, and accountability, critical for a project of this scale. The government would ensure public interest, while private partners contribute advanced technology and best practices, in a comprehensive strategy ready to address challenges such as state-level consistency, legacy land ownership issues, and the legal robustness of digital records.

Much like GST, which involves integrating technology platforms like GSTN (Goods and Services Tax Network) for smoother tax filing and compliance, a similar digital infrastructure will be necessary for land records, ensuring data accuracy and accessibility across the country.

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Infrastructure Development Prioritised in Budget

The budget announced major infrastructure development initiatives, particularly targeting the states of Bihar and Andhra Pradesh. Bihar is set to receive road connectivity projects valued at INR 26,000 crore, alongside investments in new airports, medical colleges, sports facilities, power plants, and river-linking projects.

Andhra Pradesh will also see significant financial support, with INR 50,475 crore allocated for FY25, including INR 15,000 crore specifically for the construction of the capital city, Amaravati, as well as significant investments in water and irrigation infrastructure.

However, clarity is still needed on several key areas:

◆ **Privatisation:** While the government has expressed intent to continue with the privatisation of public sector undertakings (PSUs), the timing remains uncertain. The focus appears to be on maintaining dividends from these entities while deciding on the appropriate time for further privatisation efforts.

◆ **Electric Vehicles (EVs):** The budget has maintained funding for existing programmes like the Faster Adoption and Manufacturing of Electric Vehicles (FAME) and the Production Linked Incentive (PLI) for auto components. Yet, the industry had expected increased allocations, particularly for the FAME 3 scheme, which has yet to materialise. While additional support may be announced later, the EV sector had been hoping for more significant financial backing at this stage.

◆ **Railways:** While there has been an increase in the allocation for the railways sector, there was no clarity provided on Public-Private Partnerships (PPP) for railways, a long-standing demand from the industry.

◆ **Agriculture:** Despite several announcements aimed at improving agricultural productivity and crop output, there were no major announcements for critical infrastructure like cold storage, grain silos, or agri-residue management through PPP initiatives.

◆ **Smart Cities:** The allocation for smart cities has been reduced, raising questions about the government's future plans for the initiative. Further clarity is needed on the direction of this program.

The government's announcement of the National Infrastructure Pipeline (NIP) was a groundbreaking move, marking India's first long-term infrastructure planning framework. Launched in 2020, it's set to be implemented between FY20 and FY25 by central and state governments, as well as the private sector.

National Infrastructure Pipeline (NIP)

9876	USD 2041.03 bn	1986	62
PROJECTS	TOTAL PROJECT COST	PROJECTS UNDER DEVELOPMENT	SUB-SECTORS

Source: Invest in India, September 2024.

The primary hurdle for the NIP is financing. Before its launch, India invested roughly INR 10 lakh crore annually in infrastructure. To meet the pipeline's goals, however, this investment needs to double. Unfortunately, the government stopped collecting comprehensive infrastructure investment data after FY18, leaving the stakeholders dependent on estimates from agencies like CRISIL.

Their report indicates that total infrastructure investment in FY23 was INR 12.5 lakh crore (USD 150 billion), far below the NIP's target of INR 20.5 lakh crore (USD 250 billion) annually. Implementation has been slower than expected, in part due to the COVID-19 pandemic, which shrank the economy by 6% in 2021.

Post-COVID, the government has prioritised infrastructure spending as a recovery tool, with INR 11.1 lakh crore allocated in the FY25 budget, representing 3.4% of GDP. However, not all of this qualifies as infrastructure investment according to the Harmonised Master List of Infrastructure.

For instance, INR 1.72 lakh crore in defence capital expenditure is included but does not count as infrastructure spending. Additionally, some allocations merely substitute funding that organisations like the National Highways Authority of India (NHAI) previously raised independently. NHAI, now burdened with INR 3.4 lakh crore in debt, used to raise INR 70,000 crore annually for road projects but now depends on direct government support, which does not constitute fresh capital.

Two key reforms are crucial to NIP's success:

◆ **Data transparency:** Accurate data on total infrastructure investment from the private sector, state governments, and the central government is essential. Current estimates suggest that infrastructure investment is only 4.6% of GDP, well below the target of 7-8%. The government must release accurate figures to enable evidence-based policymaking, better planning, and greater accountability.

◆ **Focus on implementation:** Rather than announcing new initiatives each year, such as the INR 100 lakh crore PM Gati Shakti initiative, the government must prioritise the execution of existing plans like the NIP. Transparency around the progress of these projects is critical to ensure effective use of funds and to avoid resource diversion.

Regarding the development of industrial parks, plug-and-play models offer significant benefits, particularly for Small and Medium-sized Enterprises (SMEs) and startups. These models reduce capital expenditure and setup costs, lower entry barriers, and allow businesses to start operations more quickly. However, it is important to clearly define what "plug-and-play" entails, as industrial parks require a variety of services, from basic infrastructure to advanced logistics and utilities.

To ensure these parks meet the needs of businesses and are implemented effectively, a PPP model is essential. This approach helps align development with user requirements, ensures commercial viability, and keeps projects on track - key areas where public sector initiatives often face delays.

In conclusion, while the government's budget announcements and long-term infrastructure initiatives hold significant promise for India's growth, their success hinges on addressing key challenges. Transparent data collection and prioritisation of implementation over new announcements are essential to unlocking the full potential of these projects.

Additionally, focusing on the development of industrial parks, public-private partnerships, and comprehensive support for critical sectors such as agriculture, EVs, and railways will be crucial in driving sustainable progress. With the right measures in place, India can build the robust infrastructure necessary for future economic expansion and global competitiveness.

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REAL ESTATE

Founded in 1998 in London, GRI Club currently brings together more than 18,000 senior executives spread across 100+ countries, operating in both real estate and infrastructure markets.

GRI Club's innovative discussion model allows free participation of all executives, encouraging the exchange of experiences and knowledge, networking, and business generation.

GRI Club Members also have access to our exclusive online platform to learn more about other members and their companies, correspond, schedule meetings, and receive unrestricted access to all GRI Club content.

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