1% TDS could push realty prices up, delay transactions

The Budget proposal to levy one per cent tax deducted at source (TDS) on the value of transfer of immovable properties priced above Rs 50 lakh could push up property prices in cities and delay realty transactions.

In order to improve reporting of high-value property transactions, the Finance Minister proposed that buyers should deduct the one per cent TDS during the time of making such payments to sellers.

Consultants say sellers will add this component in the overall price.

"In municipal limits of the top 10 cities, where supply is limited and demand is huge, overnight sellers will increase the price to include this element in all secondary market deals," said Sanjay Dutt, executive managing director, Cushman and Wakefield, a global property consultant. Dutt added that in primary transactions, developers could either absorb the cost as an incentive or pass it on to buyers.

Developers say they will increase property prices so that their profit margins are protected.

"There is no question of developers absorbing this cost. We will increase the value by one per cent and tell buyers to deduct the TDS," said Sandeep Runwal, director of a Mumbai-based developer. Apart from increasing prices, the proposal is also likely to delay property transactions due to the procedures and process involved in TDS deduction, experts said.

"You cannot deduct unless you have a TAN number. To get a TAN number, you need between 15 days and three weeks. In property markets, you can lose a deal if you delay by three weeks," said Pranay Vakil, former chairman of property consultancy, Knight Frank. Added Dutt of Cushman & Wakefield: "This proposal would mean an additional incremental challenge for buyers. It is highly unreasonable for people in cities who are short of time."

Dutt says developers have to create cells in their offices to handle this work which includes deduction of TDS, submitting it to the government and so on, as buyers might lack knowledge on these issues.

(Business Standard)