

State Cuts Realty Stamp Duty Concession To 1 Year *Move May Curb Speculation, Says Govt*

ALARMED by the overheating of realty prices in Mumbai and other major cities of the state, the Maharashtra government has decided to curb speculation in the market.

In the state budget on Wednesday, Maharashtra finance minister Jayant Patil announced a reduction in the concession period for payment of stamp duty from the existing three years to one year in case of resale of property. This means that resale of a property within one year of buying it from a developer would result in the state collecting stamp duty only on the profit from the transaction. However, the benefit may not be much, since a sale within a year will entail higher capital gains tax. As of now, selling the property after three years will attract long-term capital gains tax, while if it is sold within that period, the tax can be as high as 33%.

At present, the stamp duty concession is applicable to resale of a property within three years of the first purchase. Thus, if the sale is after three years, stamp duty is applicable on the entire price quoted in the sale agreement. The proposed rule means that sale of a property after one year of buying it would invite stamp duty on the entire price shown in the sale agreement, not just on the quantum of profit.

For instance, as per existing norms, if a flat bought in March 2005 for Rs 20 lakh is resold in February 2008 for Rs 40 lakh, stamp duty is applicable only on the net profit of Rs 20 lakh. This concession was granted because the seller who purchased the property in March 2005 had already paid stamp duty on Rs 20 lakh just three years ago while buying it. The proposed rule change restricts this concession only for properties resold within one year of buying them, thus reducing the time-window for speculation.

"Basically, the move reduces the period of speculation from three years to one year for the seller. The concession of three years has led to a crazy trend to buy a property and sell it within three years to cash in on speculation," said an urban development official who did not want to speak on the record. Asked if the restriction on concession on stamp duty could lead to the possibility of more black money being pumped into property deals by undervaluation of properties in agreement to sale, the official pointed out that the state government had recently revised upwards the ready reckoner prices which determine the portion of stamp duty.

Duty concession likely to boost realty supply

"If value of a property is shown as less than what it actually should be according to the ready reckoner, the ready reckoner price will come into play," said the official. Sources in the state finance ministry said the reduction of adjustment period will discourage people from indulging in speculation. "This could also lead to more supply in the realty market as the tendency to avail stamp duty concession would encourage people selling properties within a year of purchasing them," an official said.

Given the steep appreciation in property prices, three years is a pretty long period for the owner of a new flat to claim concessions on stamp duty, the government feels. "Realty prices in Mumbai have almost doubled in the past 2-3 years. Several factors are driving the prices upwards and speculation is one of them," said a bureaucrat.

Three years back, the government introduced an adjustment period of three years to remove double-taxation of stamp duty from property deals. Before 2005, sale of property immediately after buying it would invite stamp duty on the entire cost quoted in the second agreement, thus effectively imposing double stamp duty on the same property. In order to remove this anomaly, the state introduced a concession period of 3 years which contributed to speculation in the property market.

Home Rule

- Move reduces the period of speculation from three years to a year for the seller
- Stamp duty applicable only on the profit if property is sold within a year of original purchase
- But reseller would have to shall out up to 33% in short-term capital gains tax
- State expects the move will lead to more supply in realty market

Source: - Economic Times 20th March 2008.