Union Budget 2026-2027 Impact Analysis: Real Estate & Infrastructure Sector

Key Highlights on Taxation, Policy, and Urban Development in India.

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Executive Summary: Compliance Ease & Urban Expansion

1

Ease of Living

Significant reduction in compliance burden for resident individuals buying property from non-residents, streamlining transactions.

2

Tax Rationalisation

Clarifications on interest deductions for self-occupied property and annual value of stock-in-trade, enhancing financial transparency.

3

Asset Monetisation

Major push for Public Sector Enterprise (CPSE) asset recycling via REITs, unlocking value and encouraging investment.

4

Urban Growth

Strategic focus on Tier II/III cities through "City Economic Regions" and "University Townships," driving balanced regional development.

Direct Tax – Ease of Compliance (TDS)

Simplifying Property Transactions with Non-Residents

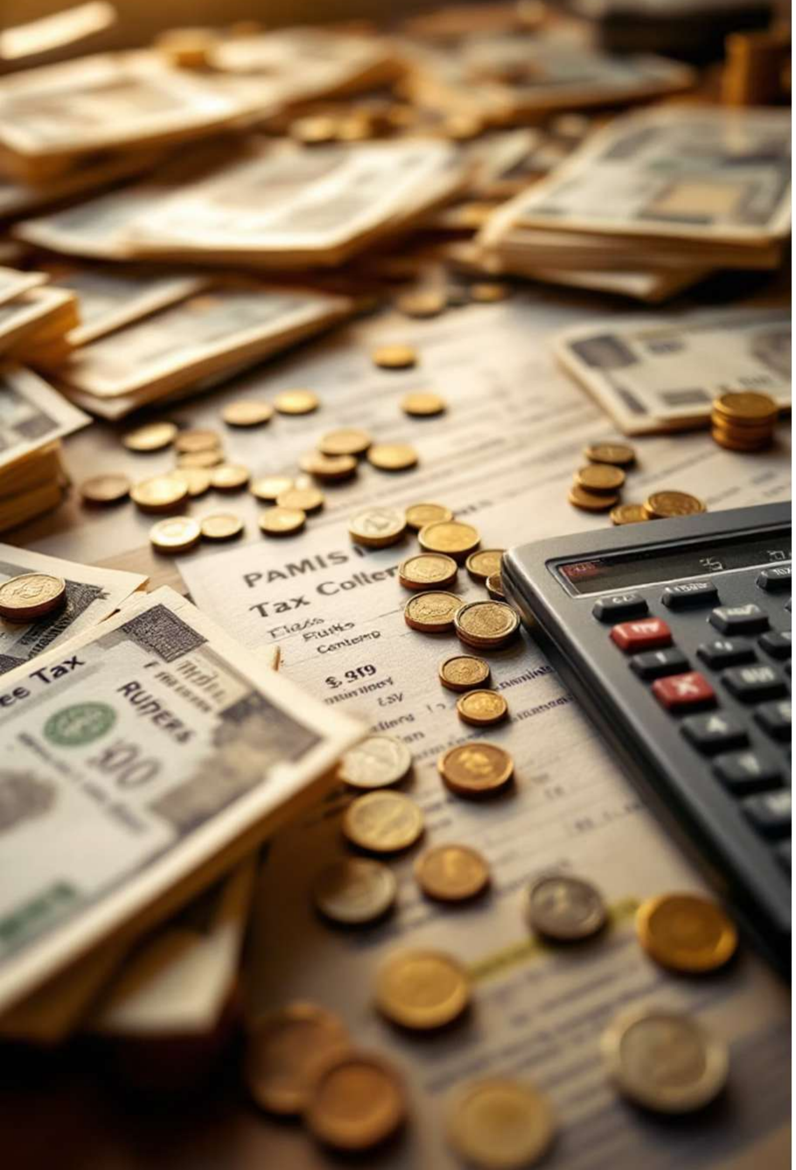
- **Current Challenge:** Resident buyers currently need to obtain a Tax Deduction and Collection Account Number (TAN) to deduct TDS when purchasing immovable property from a non-resident.

- **Proposed Change:** Residents will no longer be required to obtain a TAN for such transactions.

- **New Mechanism:** TDS on the sale of immovable property by a non-resident can be deducted and deposited using the resident buyer's PAN-based challan.

- **Impact:** Reduces the compliance burden for single-transaction buyers, promoting easier property acquisition.

- **Effective Date:** This critical change will be effective from October 1, 2026.



Direct Tax – Deductions & Valuation

1

Housing Deductions & Inventory Valuation

Interest on Borrowed Capital (Section 22): The aggregate deduction limit of ₹2 lakh for interest on borrowed capital for self-occupied property will now explicitly include prior-period interest payable, aligning the new Act with previous provisions for clarity on acquisition/construction interest claims.

2

Property Held as Stock-in-Trade (Section 21):

For properties held as stock-in-trade and not let out, the annual value is treated as "nil." An amendment changes the language from "for two years" to "up to two years" from the end of the financial year in which the completion certificate is obtained.

3

TDS Threshold Correction:

A referencing error regarding the ₹50 lakh threshold for TDS on the sale of immovable property (Section 393) has been corrected to ensure proper legal interpretation, strengthening regulatory frameworks.

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Infrastructure & Asset Monetisation

Unlocking Value & Strengthening Construction

- **REITs for Public Assets:** The government proposes to accelerate the recycling of significant real estate assets of Central Public Sector Enterprises (CPSEs) through dedicated Real Estate Investment Trusts (REITs).

- **Construction Equipment Manufacturing:** Introduction of a "Scheme for Enhancement of Construction and Infrastructure Equipment (CIE)," focusing on domestic manufacturing of high-value equipment like lifts and tunnel-boring machines.

- **Infrastructure Risk Guarantee:** Establishment of an Infrastructure Risk Guarantee Fund to provide partial credit guarantees to lenders, boosting confidence and investment in private development projects.

Urban Development Initiatives

Expanding the Real Estate Footprint

1

City Economic Regions (CER)

Focus is shifting to **Tier II and Tier III cities**. The plan involves mapping CERs based on growth drivers with a reform-based financing mechanism. An allocation of **₹5,000 crore per region over 5 years** is proposed to spur economic activity and urbanisation.

2

University Townships

Support for States to create **5 University Townships** near major industrial and logistic corridors. These zones will host residential complexes alongside universities, colleges, and research institutions, fostering innovation and attracting talent.

Unaddressed Income Tax Demands

Several key expectations from homebuyers remained unmet in the Union Budget 2026-2027.

Stagnant Home Loan Interest Cap

The Section 24(b) deduction limit of ₹2 lakh for home loan interest was not raised, despite industry demands to increase it to ₹5 lakh, impacting affordability for homebuyers.

New Tax Regime Exclusions

Home loan interest deductions were not extended to the New Tax Regime, compelling many homeowners to continue with the Old Regime to avail existing tax benefits.

Missed First-Time Buyer Boost

The anticipated reintroduction of Section 80EEA, which previously offered an additional ₹1.5 lakh deduction, did not materialise, leaving a void for first-time purchasers.

Unaddressed GST Demands: Real Estate & Housing

The affordable housing segment, facing a market share plummet from 38% in 2019 to just 18% in 2025, sought critical support that did not materialise in the budget:

Outdated Price Cap

The ₹45 lakh limit to qualify as "affordable" remains unchanged. This cap is impractical in major larger cities effectively barring most urban buyers from accessing associated tax subsidies.

No GST Rationalisation

Strong demands for lowering GST on under-construction affordable housing or providing Input Tax Credit (ITC) to developers to reduce overall prices were not met. Rates remain constant, impacting affordability.

Industry Status & Rental Housing

The real estate sector had significant structural requests for the Union Budget 2026-2027 that unfortunately remained unaddressed:

Industry Status Denied

The long-standing request to grant "Industry Status" to the entire real estate sector was once again ignored. This would have provided developers with access to more affordable, long-term credit from banking institutions, crucial for large-scale projects.

Rental Housing Overlooked

Despite rapid urban migration leading to increased demand for rental accommodation, no National Rental Housing Mission or specific tax incentives for "Build-to-Rent" projects were announced, missing an opportunity to formalise and boost this critical segment.

Senior Living Status Missed

Developers of senior living communities had hoped for "Infrastructure Status" to facilitate the creation of specialized housing and services for India's growing elderly population. This key support was not extended, impacting the development of this niche but essential sector.

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Our Offices

Ahmedabad:
803-804, Interstellar, Opp. Bagban Party Plot, Sindhu Bhavan Road, Thaltej, Ahmedabad – 380059

201, Devashish Complex, Chimanlal Girdharlal Rd, nr. Regenta Central Antarim hotel, Vasant Vihar, Navrangpura, Ahmedabad, Gujarat 380006

803, Mauryansh Elanza, B/s. Parekhs Hospital, Shyamal Cross Roads, Satellite, Ahmedabad-380015.

Bengaluru:
104/2, Above Foam Products, Opp. Gem Plaza, Infantry Road, Bengaluru - 560001

Rajkot:
Twin Star, South - 701, 150 Ft Ring Road, Nr. Nana Mauva Circle, Rajkot - 360005

Raichur:
Anagha Complex, #12-10-89/1, 2nd Floor, Sath Kacheri Road, Raichur - 584101

Contact Details

Website: www.bnpsca.com

Email: info@bnpsca.com

Socials: Linkedin

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