A Revenue Neutral Approach to Lower Stamp Duty and Registration Charges for Affordable Housing

September 2020

Government of India
Ministry of Housing and Urban Affairs

भारतीय प्रबंध संस्थान बेंगलूर
INDIAN INSTITUTE OF MANAGEMENT
BANGALORE

राष्ट्रीय आवास बैंक
NATIONAL HOUSING BANK
भारत सरकार के अंतर्गत सांविधिक निकाय
Statutory Body under the Government of India

A Revenue Neutral Approach to Lower Stamp Duty and Registration Charges for Affordable Housing

Prof. Venkatesh Panchapagesan
Associate Professor of Finance and Head,
IIMB Real Estate Research Initiative
Indian Institute of Management – Bangalore

N. Karthik
Adviser,
IIMB Real Estate Research Initiative
Indian Institute of Management – Bangalore

September 2020

Government of India
Ministry of Housing and Urban Affairs

भारतीय प्रबंध संस्थान बेंगलूर
INDIAN INSTITUTE OF MANAGEMENT
BANGALORE

राष्ट्रीय आवास बैंक
NATIONAL HOUSING BANK
भारत सरकार के अंतर्गत सांविधिक निकाय
Statutory Body under the Government of India

Acknowledgement

This report has been possible owing to the hard work and support of several individuals. We take this opportunity to thank Shri S. K. Hota, Managing Director, National Housing Bank (NHB) for providing this opportunity to us. We are greatly indebted to Shri V. Rajan, General Manager, NHB, for his thought leadership and guidance throughout the course of work. Also, we would like to thank Mr. Anuj Gupta, ex-Manager, NHB for logistic support and help throughout the project. We thank the Government of Karnataka for providing the data on registrations and stamp duty for the study. We are very thankful to Mr. Hemkumar Gopalakrishnan for his support in procuring the said data from the IGR, Karnataka.

We specially thank Dr. Ashwani Kumar Tripathi, Executive Director, National Housing Bank (NHB) for his valuable time and comments on our draft report. Also, we thank Mr. Kulasekhara Chakravarthy, General Manager, NHB, Mr. Vishal Goyal, Deputy General Manager and Mr. Niladri Bose, Regional Manager, NHB for their insights. We also express our sincere gratitude to Shri Sriram Kalyanaraman, ex-MD & CEO, National Housing Bank (NHB) for approving this project and providing valuable insights and feedback during the project.

No project can be taken up without financial support. We are grateful to Ministry of Housing and Urban Affairs (MoHUA), Government of India for funding this project through the NHB. Specifically, the Secretary to Government of India, MoHUA for according the approval for commencement of the study. We are also thankful to the Joint Secretary (HFA) to Government of India, MoHUA facilitating the study. We sincerely express our gratitude to the other officials of the Ministry for this grant.

Lastly, we would like to extend a big thanks to our former colleagues at IIMB-RERI, Ms. Madalasa Venkataraman, Senior Researcher and Ms. Dimple Mashru, Research Associate for their valuable support and assistance throughout the project.

Prof. Venkatesh Panchapagesan
N. Karthik
IIMB-Real Estate Research Initiative

September – 2020

भारतीय प्रबंध संस्थान बेंगलूर
INDIAN INSTITUTE OF MANAGEMENT
BANGALORE

September 07, 2020

Shri V. Rajan
General Manager
National Housing Bank
New Delhi 110003

Dear Sir:

Re: **Study on the impact of changes in Stamp Duty and Registration Charges on Residential Property, and suggest a revenue neutral model for enabling "Affordable Housing for All"**

Enclosed is our final report on the revenue neutral model that would allow States to lower stamp duty and registration charges for affordable housing. The model is built around the fact that any resultant loss of revenues for States would be more than adequately compensated by revenues generated through new constructions triggered by the Centre's policy of "Housing for All." Our proposal, therefore, suggests complete stamp duty waiver for low value housing.

The study focuses on the State of Karnataka to highlight the impact on revenues with and without the implementation of our proposed stamp duty change. Our analysis is conservative for reasons mentioned in the report and provides for a compelling reason for States to lower stamp duties, and thereby lower prices, to make houses affordable to low income households. Our approach is broad and can be easily replicated for other States provided data are made available. We also quantify the magnitude of a pro-rata reduction in stamp duty that States could offer on all housing if they choose not to grant full waiver to only affordable housing.

It was a pleasure to work with NHB on this project. We would be happy to answer any questions that you may have.

Regards,

Professor Venkatesh Panchapagesan
Associate Professor of Finance and Head,
IIMB Real Estate Research Initiative
Indian Institute of Management – Bangalore
Bannerghatta Road, Bangalore 560076
venky@iimb.ac.in / +91 80 2699 3349

N. Karthik
Adviser, IIMB Real Estate Research Initiative
Indian Institute of Management – Bangalore
Bannerghatta Road, Bangalore 560076
n.karthik@iimb.ac.in / +91 80 2699 3349

Abbreviations and Acronyms

Acronyms	**Abbreviations**
CLSS	Credit Linked Subsidy Scheme
CR	Circle Rates
DR	District Registrar
EWS	Economically Weaker Section
FY	Full Year
GDP	Gross Domestic Product
GOI	Government of India
GSDP	Gross State Domestic Product
HFA	Housing for All
IGR	Inspector-General of Registrar
KA	Karnataka
LIG	Lower Income Group
MHUPA	Ministry of Housing and Urban Poverty Alleviation
MIG	Middle Income Group
NIPFP	National Institute of Public Finance and Policy
PMAY	Pradhan Mantri Awas Yojana
RC	Registration Charges
REITs	Real Estate Investment Trusts
SD	Stamp Duty
SR	Sub Registrar
TN	Tamil Nadu
TOR	Terms of Reference

List of Tables and Charts

Addendum to the Report – I

Impact of the RBI's Recommendation on Housing Finance Securitisation[1]

***Note**: This chapter has been incorporated in Feb – 2020 as an addendum to help understand the Reserve Bank of India's (RBI) "Report of the Committee on the Development of Housing Finance Securitisation Market"[1].*

The Reserve Bank of India (RBI) in its report on Housing Finance Securitisation[1] has recommended the following changes with respect to stamp duty and registration:

1. "Stamp Duty
    a. The Central government can exempt a mortgage-backed securitisation transaction from Stamp Duty in the same manner that assignment stamp duty towards asset reconstruction companies (ARCs) and stamp duty for factoring transactions (which also entail assignment of receivables) have been exempt; or;
    b. Stamp duty on assignment of mortgage pools in a securitisation should be standardised and capped at a reasonable level across all states.
2. Registration Requirements:
    a. The Central Government can exempt the transfer of mortgage debt from compulsory registration under the Transfer of Property Act, 1882 and the Registration Act, 1908 based on the rationale that the mortgage loans are essentially movable assets unlike the underlying security and hence transferring them should not require registration as the underlying mortgages are, wherever mandatorily required, anyway registered.
    b. In order to ensure that public records are maintained for such exempt transactions, a requirement to register such transactions through a digital registry such as Central Registry of Securitisation Asset Reconstruction and Security Interest of India (CERSAI) with a nominal registration fee can be considered."

[1] Report of the Committee on the Development of Housing Finance Securitisation Market – Sep 2019; RBI

The Challenges and need for the Policy

The current real challenge is that the securitisation of the loan need not happen in the state of origination itself adds to the complexity of the problem. As highlighted in the RBI report, only a few states like Rajasthan, Punjab, Delhi, etc. cap the stamp duty for securitisation at reasonable levels. This leads to most securitisation transactions happening in these states and the SPV holding these loans having no right over the underlying security. Thus this step amplifies the servicer risk from the originator. Also, while 2(b) is a relatively straight forward recommendation, (1) and 2(a) may face some resistance from these few state governments stating it as "loss of revenues" to them. This is so because all the stamp duty and registration charge revenues accrue to the state exchequer. This is where our report helps in framing a clear and concise policy.

The Justifiable Solution[2]

In our report, we recommend ***all stamp duty and registrations charges (including those on mortgages)*** may be considered for waiver in the affordable housing segment. This further means that any securitised pool consisting of ***only*** affordable housing loans will also be exempt from stamp duty and registration charges. This would encourage the primary lenders to securitise the loan and sell it to SPVs in the state of domicile itself thus mitigating the servicer risk. The loss of revenue from such waiver is netted off by the additional taxes that the state government would generate out of the additional construction activities owing to the Pradhan Mantri Awas Yojana (PMAY) and Housing for All (HFA) impetus. As we showcase from our experience in Karnataka, in fact there would be some levels of surplus from the baseline projections (***ref sec 3.4 of this report for details***).

The other alternative as suggested in 1(b) above is capping and standardising the stamp duty and registration charges nationwide. This will enable all type of mortgages to be securitised without distinguishing between affordable housing loans vis-à-vis others. This will encourage more and more securitisation SPVs to be set up in all states to which loans can be fully sold. In this case, the underlying collateral is also transferred with the SPV. Thus, mitigating the service risk to the originator and also making the procedures less cumbersome.

---

[2] This solution incorporates some of the inputs based on our discussion with Dr. Harsh Vardhan, Chairman, Committee on the Development of Housing Finance Securitisation Market

The Excel utility supplied (***ref Appendix 4***) along with this report provides an easy way to compute the maximum cap on stamp duty (property transaction + mortgage) on the primary loan itself. Also, as we highlight throughout, our study examines only exogenous increases in stock through the HFA policy initiative. It is also possible that doing away or capping of stamp duty and registration charges on mortgages may also increase total revenue for the State through its effect on demand. For example, the volume of transactions (or registrations) may increase more than enough to compensate for the drop in tax revenue per transaction. We do not examine this possibility in this version though the net impact will only further strengthen our claim that States can reduce taxes for low value housing in a revenue neutral way.

Executive Summary

In most countries, the right to housing is a fundamental right enshrined in their constitutions. In India, the right to housing did not appear as an original fundamental right but was deemed as one by the Supreme Court under Article 21 of the Constitution.[3] Despite becoming a fundamental right, housing remains a distant dream for many.

Housing shortage in India ranges in millions, with most of them pertaining to the poor and economically weaker sections of the society. Moreover, the increasing urbanization coupled with heavily constrained land use regulations have practically ensured that the supply of land lags hugely behind its demand. Land prices have skyrocketed near urban centers as a result despite crumbling infrastructure. The need for housing closer to areas of economic livelihood, especially when transportation options are limited, is so strong that affordable houses built further away have no takers. Lower housing stock and high prices have effectively ensured that affordable houses remain outside the reach of the poor.

Governments, past and present, have tried to address this gap using a combination of both supply and demand side incentives with limited effect. Some have tried to increase stock directly by building houses while others have provided subsidies to developers and lenders to provide houses at affordable prices or to lend at reasonable rates. Many of these schemes have achieved limited success when compared to the existing demand.

The Government's "Housing for All," (HFA) policy aims to house all Indian citizens by the year 2022. Rather than build low value houses directly, the Government is trying to increase supply by incentivizing and nudging key private stakeholders, be it the buyers, lenders or the developers, to increase housing stock. The range and depth of options available to developers and home buyers under HFA underline the importance that this administration is giving to reduce housing shortage.[4] We present a detailed view of the progress made by PMAY under the MoHUA as of Dec 2019 in Appendix 5 of this report.

---

[3] SC ruling in the landmark case *Olga Tellis v. Bombay Municipal Corporation (1985)*

[4] Other recent policies to boost affordable housing include granting infrastructure status, tax exemption on profits for developers and lower GST on under construction affordable housing property.

Yet, the HFA policy does not address the issue of high prices directly. A key component of prices remains the taxes that State Governments levy as stamp duty and registration charges (SD and RC) at the time of a transaction. These charges are paid by the buyers of land or built property and can range from 5 to 13 percent of the transaction value of the property. They generate a lot of revenues for State Governments. For example, the State of Maharashtra generates as high as 13 percent of its revenues from stamp duties alone. It is not surprising, therefore, that State Governments are reluctant to lower these taxes to lower the effective cost of buying a house.

This study aims to provide a rationale for the State Governments to lower SD and RC especially for low value housing (that cater to the poor and the economically disadvantaged) without compromising their overall revenues from SD and RC. Our intuition is simple: State Governments stand to generate tax revenues every time a house is built and transacted. Several lakhs of additional houses are expected to be built under HFA with direct or indirect Central subsidies. These houses will generate huge "incremental" tax revenues for the States that are over and beyond the normal growth in SD and RC revenues as determined by economic activity. States can share a part of these additional tax revenues with low value home buyers by lowering or eliminating their SD and RC. Lower prices may induce more people to seek such affordable houses. Along with increases in housing stock, lower prices are a must if HFA has to succeed.

While our study examines only exogenous increases in stock through the HFA policy initiative, it is possible that lower transaction taxes per se may also increase total revenue for the State through its effect on demand. For example, the volume of transactions (or registrations) may increase more than enough to compensate for the drop in tax revenue per transaction. We do not examine this possibility in this version though the net impact will only further strengthen our claim that States can reduce taxes for low value housing in a revenue neutral way.

Table of Contents

This page is intentionally left blank

Chapter 1: Introduction

Following the economic liberalization in the early 1990s, India has experienced a rapid increase in rural to urban migration, as people move in search of jobs and better livelihood (see Figure 1.1). United Nations has recently estimated that around 60 percent of the population in India will be living in urban areas by 2050.[5] This large inflow of people, along with the natural growth in population (estimated to be a little more than 1 percent each year), is set to throw unique challenges to the Government, one of which being housing.

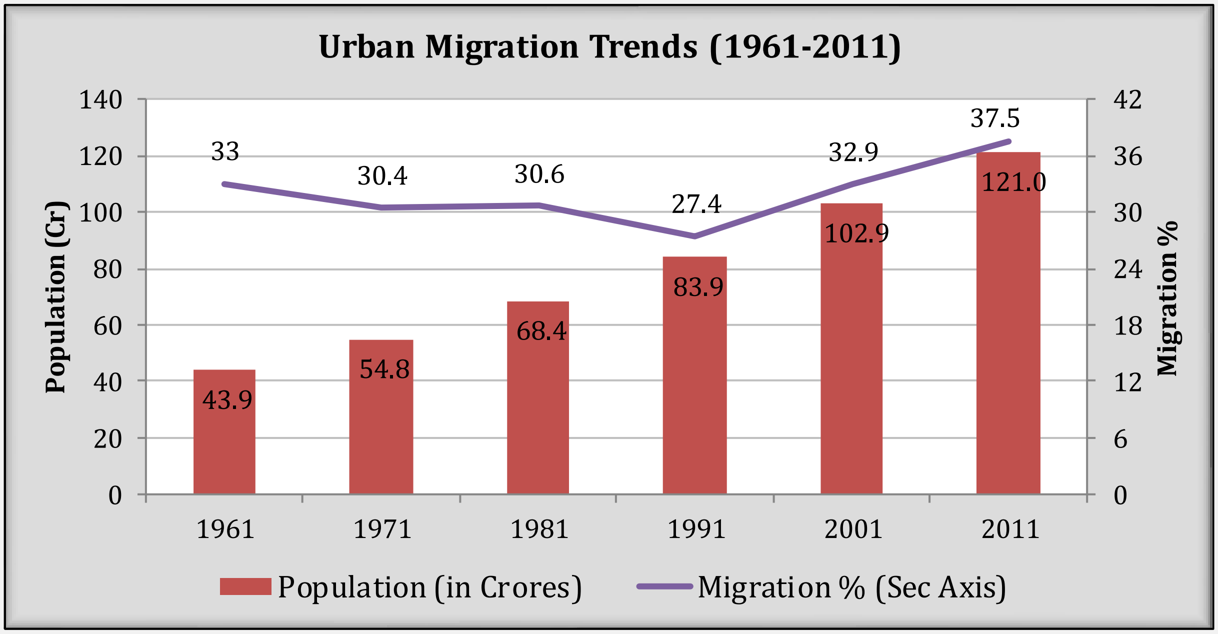


Figure 1.1: Migration Trends to Urban Centers in India[6]

Not only is there a need to have sufficient supply of houses to shelter this large urban population, the houses need to be affordable as well. A Government of India sponsored study in 2012 estimated that the total urban shortage was around 1.9 Crore houses.[7] Though this shortage was revised downwards recently by the Government to 1 crore houses in November 2017, they still present a daunting challenge to create that many houses in a short time.[8] Table 1.1 presents the

[5] http://wcr.unhabitat.org/wp-content/uploads/2017/02/WCR-2016-Full-Report.pdf a viewed on 17th Apr 2017
[6] Census of India 2011. Migration Data, Table D-1.
[7] Report of the Technical Group on Urban Housing Shortage; MHUPA, Government of India (2012).
[8] Press release (http://pib.nic.in/newsite/PrintRelease.aspx?relid=173513) as viewed on March 23, 2018

original and revised housing shortage by different economic categories.[9] Of the total shortage, 95 percent were those that cater to the poor, namely those that belong to economically weaker (EWS) and low income (LIG) categories. Figure 1.2 gives the distribution of housing shortage across States under the original estimate.

Economic Categories	Number of Houses (In Crore)		Percentage
	Original	Revised	
EWS	1.06	0.56	56.18
LIG	0.74	0.39	39.44
MIG and above	0.08	0.04	4.38
Total	**1.88**	**1.00**	**100**

Table 1.1: Distribution of Urban Housing Shortage by Different Economic Categories

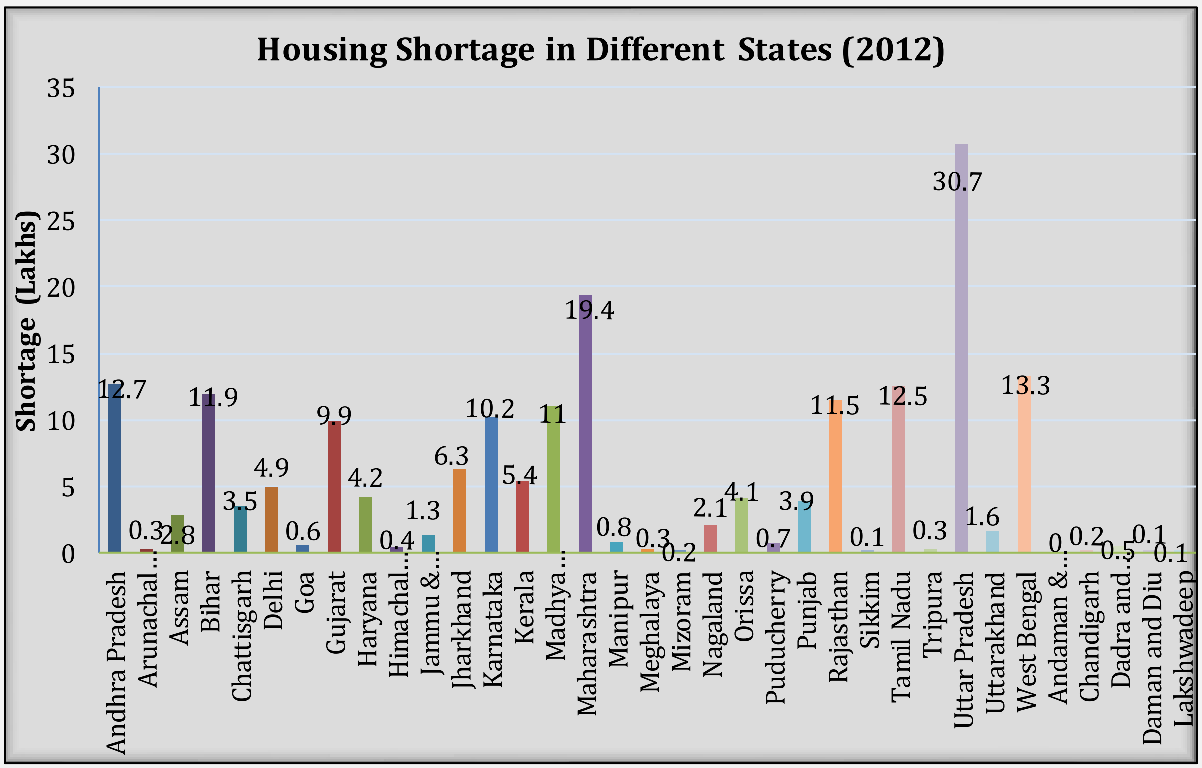


Figure 1.2: Urban Housing Shortage in Different Indian States

[9] We keep the distribution across categories the same as what was highlighted in the original estimate in 2012.

On housing affordability, Indian cities have experienced some of the highest price appreciation seen globally even on an inflation-adjusted basis. Figure 1.3 shows real residential price appreciation among selected countries as captured by the global banking research entity - the Bureau for International Settlements (BIS) – in August 2018.[10]

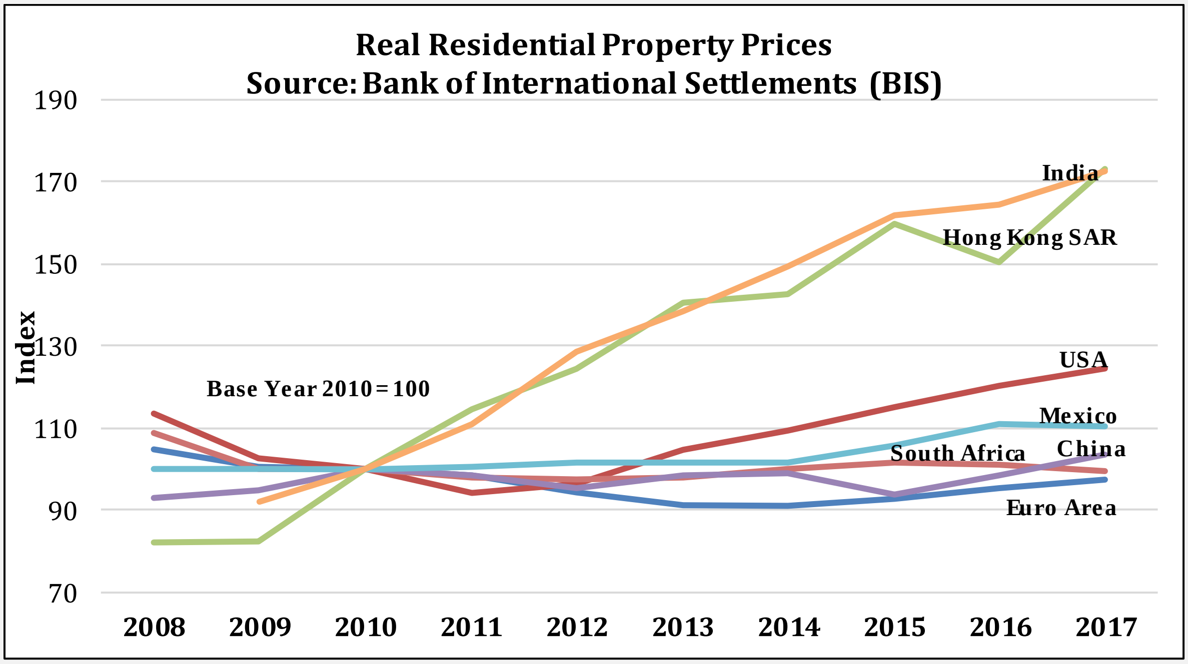


Figure 1.3: Trend in Global Real Residential Prices as on August 2018

Housing prices in many of the larger Indian cities represent several years of income for an average person. According to the global property data provider, Numbeo, there are five Indian cities among the top 50 most expensive cities, with price to income ratio ranging from 31 for Mumbai to 15 for Delhi in 2018.[11] Without affordable housing, it is difficult to imagine improvements in the quality of life despite high growth. The emergence and proliferation of slums in many urban areas is, therefore, inevitable as people try to optimize the distance to economic livelihood centers.

The Government's strategy, therefore, must not only create houses but also make them affordable to a large section of population.

---

[10] https://www.bis.org/statistics/pp_selected.htm

[11] https://www.numbeo.com/property-investment/rankings.jsp?title=2018-mid

1.1 Motivation

Multiple agencies of the State and Central Governments have been working at different levels to address the housing shortage for the economically backward segments (EWS and LIG). The Central Government on its part has launched various schemes in the past to address the issue of housing for the poor. Starting from the Subsidised Housing Programme in 1952 to the current Pradhan Mantri Awas Yojana in 2015, these programmes have focused on increasing new housing stock, improving existing stock and providing easy and cheaper financing to buy houses. There have been other programmes such as the Rajiv Awas Yojana in 2009 that were launched solely for the purpose of slum rehabilitation.[12] It envisaged better property rights for slum residents and greater access to institutional credit for creating affordable housing stock to replace informal slum structures.

Beside these Central programmes, there have been several State sponsored initiatives as well to address housing shortage with varying degrees of coverage. For example, in the State of Maharashtra, affordable housing schemes have been designed around incentivizing through higher Floor Space Index (FSI) and redevelopment of old buildings and slums. Similarly, the State of Karnataka provides for Transfer of Development Rights or TDRs to private developers for creating affordable housing stock. Some of its schemes such as Dr. Ambedkar Housing Scheme and Namma Mane have constructed houses over years using public funding. More recent schemes recognize the role of private builders and mandates reservation of a percentage of private development for affordable housing.

While these programmes have helped create reasonable housing stock across the country, the need still remains large as documented in the Government report of 2012. We present details of the most recent initiative, the "Housing for All by 2022," to tackle housing shortage in the next section.

1.1.1. Housing for All Under Pradhan Mantri Awas Yojana

More recently, the Union Government under the vision of inclusive growth has envisioned an ambitious project, 'Housing for all by 2022' (HFA). This envisages addressing the housing

[12] http://mhupa.gov.in/User_Panel/UserView.aspx?TypeID=1282 as viewed on April 17, 2017

shortage problem prevalent in India by 2022, the 75th year of India's independence. With this vision in mind, the Pradhan Mantri Awas Yojana (PMAY) was launched in 2015. A total of 4,534 statutory cities and towns, with focus on 500 cities, are covered under this ambitious scheme.[13] The scheme is implemented through four verticals, viz.:

- In Situ Slum Redevelopment: This model is applied on already existing slums using their land. Provision has been made for extra FSI/TDR/FAR for developers to make such projects financially viable. Furthermore, slum rehabilitation grant of Rs. 1 lakh would be provided for houses built for eligible slum dwellers.
- Affordable Housing through Credit Linked Subsidy Scheme (CLSS): An interest subvention subsidy is provided for EWS (Household income < Rs. 3 lakh p.a.), LIG (Household income between Rs. 3 and 6 lakh p.a.) and MIG (Household income between Rs. 6 and 18 lakhs p.a.) economic categories. Further the house sizes in the scheme have to be within 30 sq. metres for EWS, 60 sq. metres for LIG and 200 sq. metres for MIG.[14] The interest subsidy is highest (6.5%) for households earning less than Rs. 6 lakhs p.a. and investing in EWS/LIG houses.[15] For those investing in MIG houses, the interest subsidy varies by annual household income. It is 3 percent if the annual income is between Rs. 12 and 18 lakhs and 4 percent if the annual income is between Rs. 6 and 12 lakhs. The present value of the subsidy will be credited upfront thereby reducing the effective size of the loan. The scheme is to be administered through banking and housing financial institutions under the oversight of central nodal agencies – the National Housing Bank (NHB), State Bank of India (SBI) and Housing and Urban Development Corporation (HUDCO).
- Affordable housing in partnership with public and/or private sector: Builders/constructors building 35% of houses in the EWS category are eligible. Central assistance is provided in the form of subsidies.

---

13 http://pmaymis.gov.in/PDF/HFA_Guidelines/hfa_Guidelines.pdf as viewed on 13th Apr 2017

14 There are two CLSS schemes for MIG. MIG-1 is applicable for households earning between Rs. 6-12 lakhs for houses within 160 sq. metres and MIG-II is applicable for households earning between Rs. 12-18 lakhs for houses within 200 sq. metres.

15 http://mohua.gov.in/cms/credit-linked-subsidy-scheme.php as viewed on 28th Feb 2019.

- Subsidy for Beneficiary led Housing (BLC): Mainly a State driven scheme, where the State identifies the beneficiaries, passes on the list and Centre provides financial assistance.

While EWS category households are eligible for assistance under all four verticals, LIG and MIG households are eligible only under the CLSS category. The subsidy is provided for acquiring, new construction or enhancement (EWS/LIG only) of houses[16]. The scheme is available up to 31st Mar 2021 for the MIG segment and 31st Mar 2022 for the EWS/LIG segment. A graphic summary of the verticals under PMAY along with progress by the MoHUA until Jun 2020 is depicted in fig. 1.4[17].

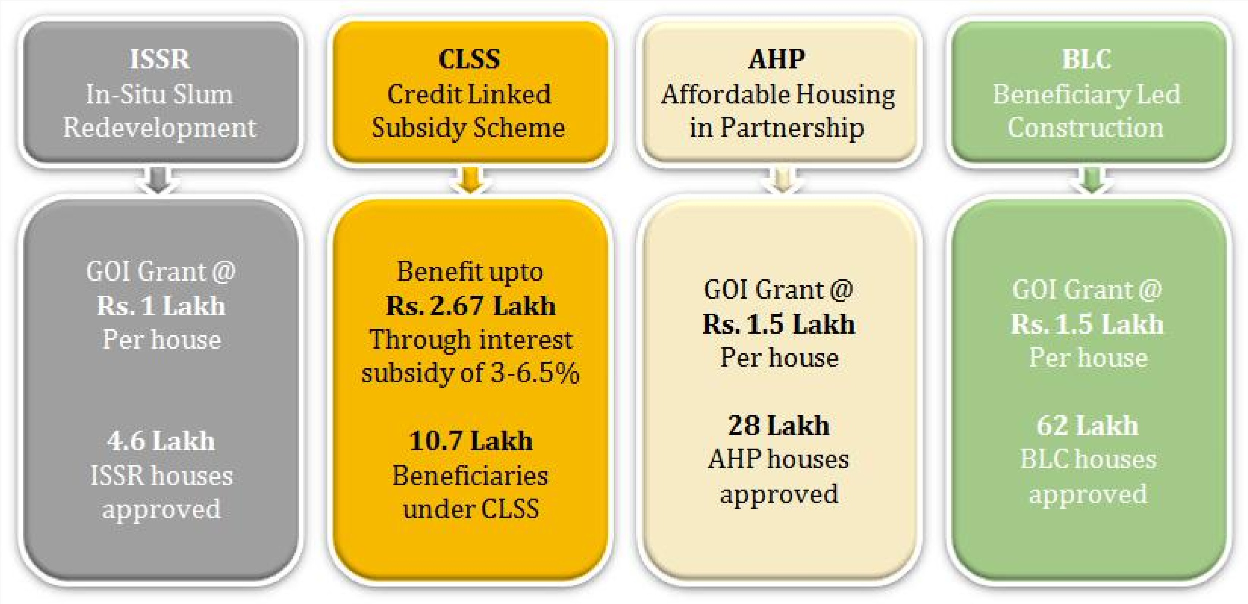


Fig 1.4: Summary of all verticals under PMAY[17] and progress as of Jun 2020

It's estimated that about half of this requirement comes from four States – Bihar, Uttar Pradesh, Madhya Pradesh and West Bengal. According to the recent estimate by the Government, about 1.05 Crore houses have been sanctioned under the four verticals of PMAY for construction as of Jun 2020[17]. Table 1.2 provides the total number of houses sanctioned and completed up to Jun

[16] http://mohua.gov.in/cms/about-pmay.php as viewed on 25th Jul 2020

[17] MoHUA data

2020. A detailed overview of the progress made by PMAY until Dec 2019 is presented in Appendix 5.

	CLSS Vertical	In-Situ Slum Re-Development	Affordable Housing in Partnership	Beneficiary Led Construction (BLC)	Total under PMAY
Houses Sanctioned	10,67,838	4,62,146	28,03,289	62,15,361	**1,05,48,634**
Houses Completed*	10,67,838	4,36,934	3,97,900	15,69,443	**34,72,115**
Houses Under Construction*	10,67,838	6,31,813	13,80,987	34,85,786	**65,66,424**
Amount Sanctioned (INR Cr)	24,121.25	6,808.94	42, 176.70	93,192.14	**1,66,299.03**

**Includes incomplete works of earlier JnNURM taken up and completed after 2014.*

Table 1.2: PMAY progress until Jun 2020[17]

However, all these measures mostly address the demand side of the problem with limited options to boost supply. Some of the measures involve giving out tax incentives and subsidies. Some try to bring down the effective cost of borrowing through interventions in the mortgage markets. In this context, it is of particular importance to study the impact that Stamp Duties (SD) and Registration Charges (RC) have on the residential properties so as to enable affordable housing.

SD and RC from property registrations are an important source of revenue for most States. However, a high SD and RC rates and a weak enforcement have resulted in a high degree of benami transactions, evasion and fraud in property dealings. Appropriate reforms can lead to realizing the potential of real estate wealth in cities which has traditionally been the foundation of municipal finance. Most municipal corporations rely on property taxes (based indirectly on underlying property values) as an important source of funding civic amenities. The overall objective of this study is to explore a revenue neutral method that can lower transaction taxes such as SD and RC, especially for low value housing, and yet, find favour with the States.

1.2 Overall Scope and Objective

The overall objective of this study as per the Terms of Reference issued by the National Housing Bank (NHB):

(1) Capture the background, rationale and evolution of SD and RC regime in India along with international evolutionary trends on SD, RC and Circle Rates (CR) with quantitative data and qualitative analysis;

(2) Analysing and presenting the revenue trend of select States, viz. Andhra Pradesh, Bihar, Gujarat, Jharkhand, Maharashtra, Odisha, Rajasthan, Tamil Nadu, Telangana, Uttar Pradesh and West Bengal and comparing the contribution of SD and RC from residential property on the same;

(3) Synthesizing the recent changes on SD, RC and CR and capturing the revenue impact with case studies on select States;

(4) Comparing the best practices and making scenario analyses to know their impact, if and when they have been implemented;

(5) Bringing out a trend analysis on select States, based on past data under four scenarios i.e.

    a. If the current trend continues, without change;
    b. If the proposed revenue neutral regime is accepted and implemented;
    c. If the slab-wise SD regime is implemented, with inclination of benefit to EWS and LIG categories; and
    d. If a uniform pan India SD and RC regime is proposed and implemented to simplify the management;

(6) Suggesting a data format for collection from authorized data points on CR and revenue from SD and RC from the State Governments, at periodic intervals along with the process for their validation, storage and retrieval;

(7) Suggesting the way forward and recommendations along with the time lines for action points.

These objectives are to be covered in **2 distinct phases**. The first one was to cover objectives 1 to 5 relating SD to other macro-variables like GDP and Gross State Domestic Product (GSDP). The second phase would involve micro-registrations' data analyses for all States where data are made available. It would cover objectives 6 and 7 above.

As it is with any empirical analysis of policies, availability of data is crucial for meaningful inferences. Given that the work revolved around SD revenues, especially from low value housing registrations, it was important to have detailed registrations data from States to be covered under the TOR. Registrations data allow us to determine the share of low value housing to total transactions in that State. Aside of market share of low value housing, we use other inputs like baseline growth in revenues from stamp duties and registration charges as well as other revenues that States would generate from new housing constructions generated by PMAY to estimate the impact of our revenue neutral policy proposal.

However, despite best efforts, detailed registrations data were available only for the State of Karnataka. This meant that we needed to make assumptions on the market share of low value housing for all other States. We present, therefore, the detailed estimation of our revenue neutral model for the State of Karnataka but provide empirical estimates of the net impact for other States based on reasonable assumptions.

1.3 Report Overview

This report presents the results of our revised first phase of work. We start of by laying the history and background for SD and RC in chapter 2. Then we look at the SD rates and its overall contribution to the State's tax revenues. Then we look at how the SD and RC rates are in different regions of the world and best practices that we could borrow from them. Finally we argue the domestic issue of under-reporting of property values during transactions for tax evasion and hiding real income sources. The various measures taken by the Government to curb this practice like circle rates or guidance values, tax collection at source (TCS) during registration are highlighted at the end of the chapter.

In the next chapter, we model the SD revenues as a function of State's contribution to the national GDP. We use this model to estimate SD revenues over time up to 2022. As mentioned before, we focus only on the State of Karnataka for this exercise. We use this estimate of SD to draw up various revenue neutral strategies for the Government to implement. Finally, we conclude by extending this methodology to other States under reasonable assumptions. Also, we document the progress made by PMAY as of Dec 2019 in Appendix 5.

Chapter 2: Document Registration and Stamp Duty

Executive Summary

Registering a document, including transfer of land and property, is a mechanism to establish the legal standing of a transaction. In case of properties, it does not, however, guarantee conclusive title. SD revenues are one of the largest sources of revenues to a State and contribute around 7 percent of its annual revenues. Some countries around the world use SD as a lever to disincentivize people from owning too many houses. We trace the history and evolution of stamp duties in India and present evidence on the scale of these duties across countries and in India. Owing to high level of these duties, transacting parties often under-report the true value of their transactions, resulting in heavy loss of revenues for the State. We present evidence on the magnitude of this under-reporting.

2.1 History and Evolution of Document Registrations and Stamp Duty

2.1.1 Document Registration: Origin and Evolution

The system of Document Registrations in India was instituted by the British. The system was first introduced in 1793 in Bengal by the Bengal Regulation XXXVI. This was followed up with similar regulations in the Bombay and Madras by Regulations IV & XVII of 1802 respectively. As per this regulation, a Registrar was appointed for each Zilla or district and the registrar was authorized and required to register the documents which broadly took the form of deeds of sale, mortgage, lease or gifts of land and other real property.[18] These measures were initially instituted to keep track of all transactions taking place in the system. These first measures provided for the standing that every deed of sale or gift registered under the regulation would invalidate any unregistered deed. This system was subjected to numerous modifications under the Act I of 1843 and continued to be in prevalence till the Registration Act XVI of 1864 was enacted. This particular Act provided the basis and the idea of legal validity of certain documents that are eligible for acknowledgement in courts or public offices only if the documents have been registered. However, at this stage of the evolution of the Act, it was not

[18] http://lawcommissionofindia.nic.in/1-50/report6.pdf

yet mandated that the document be compulsorily registered. The Act XX of 1866 eventually established it as a compulsory system. Over the next course of half a century this Act was amended multiple times to evolve into the Indian Registrations Act, 1908 with the British Indian Provinces coming under its purview. This was extended to all Indian States excluding Jammu and Kashmir by Act III of 1951. The current form of the Act has the same coverage with J&K excluded from its purview, where the legislative powers of Indian parliament do not extend.

2.1.2 Stamp Duty: History and Evolution

A stamp duty is a charge that is levied on legal documents such as cheques, receipts, military commissions, marriage licenses and land transactions. The origin of the concepts of stamp duty can be traced back to Europe in the 1600s. Very often such duties were levied to fund war expenses in 17th and 18th century Europe like the UK using it to fund its war against France in 1694. There was an unsuccessful attempt to impose it in US in 1765 by the then imperialist Britain, the resistance to which led to the formation of the famous Boston Tea Party. SD revenue is "easily raised, widely diffused, pressing little on any particular class, especially the lower orders of society, and producing revenue safely and expeditiously collected at a small expense."[19] The UK brought in the first Stamps Act in 1815 on a number of documents thus yielding a GBP 3.25 million of revenue. This Act was further strengthened by the Stamp Act of 1891. Most of the Stamps' (Management) Acts round the world today are variants of this Act.

In India the first SD was introduced by British as the Stamp Act, 1869 as a fiscal measure to raise revenues. This was replaced by the Indian Stamp Act, 1879. Since then the Act has undergone several enactments and amendments. In its current form, this is known as the Indian Stamp Act, 1899 (last amendment 2006). Transactions on property and related mortgage deeds mandate the use of stamp duties. Duties are determined "ad-valorem" i.e., mandated to be paid as a percentage of the value of the property. The SD rates vary across various States in India. This was characteristically high pre-2003-04 rates to the effect of 12-14 percent.[20] Such a high burden of SD would naturally entail evasion through underreporting and thus perpetuating the growth of a shadow economy. Over the recent years this has been streamlined to a stable 5

[19] Attributed to William Pitt in 1797, as cited in Dowell (1873).
[20] Alm, Annez and Modi (2004).

percent under the suggestions from Jawaharlal Nehru National Urban Renewal Mission (JNNURM).

2.1.3 SD Rates

Most Indian States apply a uniform rate of SD irrespective of property value while some States like Tamil Nadu have recently changed this to incentivize affordable housing. As stated earlier, this rate was a high 12–14 percent until 2003-04. The World Bank made a recommendation in 2004 that SD reduction will reduce the size of the shadow economy in real estate.[21] Morris and Pandey (2009) and, more recently, Duranton, Ghani, Goswami and Kerr (2015) suggest that high SD rates impose high compliance costs on taxpayers and lead to widespread avoidance through under-reporting. Evidence from State audits by Controller and Audit General of India also seem to indicate severe loss of revenues to the States because of under-reporting.[22]

Following the JNNURM initiative of requiring lower SD rates as a condition for Central Government funding, many States brought their rates down from 8-10 percent range to around 5 percent over a period of time. SD, however, continues to be the third highest source of revenues to State Governments. The details of SD rates, revenue generated from SDs and contribution of stamp and registration charges to tax revenue are given in the following figures.

Figure 2.1 shows the prevailing SD rates for the last decade in Karnataka and Maharashtra. Over the last 5 years there has been a decrease in SD rates both for Karnataka and Maharashtra. While it was as high as 8 percent in 2007, it has gradually reduced to 5 percent in the recent years. Though the trend has been to lower stamp duties across States, the resultant effect is not clear. Duranton, Ghani, Goswami and Kerr (2016) show that lowering stamp duties lowers factor misallocation in the manufacturing sector but increases misallocation in the services sector. Mukherjee (2012) shows that lowering stamp duties has negligible effect on revenue collection efforts for States though other variables such as per-capita income and lowering of capital gains tax rates have greater impact on revenue generation.

---

[21] Alm, Annez and Modi (2004).

[22] See, for example, https://indianexpress.com/article/india/maharashtra-suffers-loss-due-to-undervaluation-of-property-cag-4796063/, and http://paggujarat.nic.in/Reports/Revenue_Sector_2016-17_English.pdf.

High SD rates in the country have entailed numerous administrative issues. The problems take multiple forms ranging from undervaluing a transaction to finding ways of evading taxes legally or illegally. These means of underreporting to avoid tax burden on an ad-valorem tax regime resulted in the development of a shadow economy. The phenomenon was investigated by the Wanchoo Committee (1971) and they recommended adequate mechanisms to curb under-reporting. They introduced the concept of Circle Rates or Guidance Values which is the minimum value of a transaction for which SD needs to be paid.

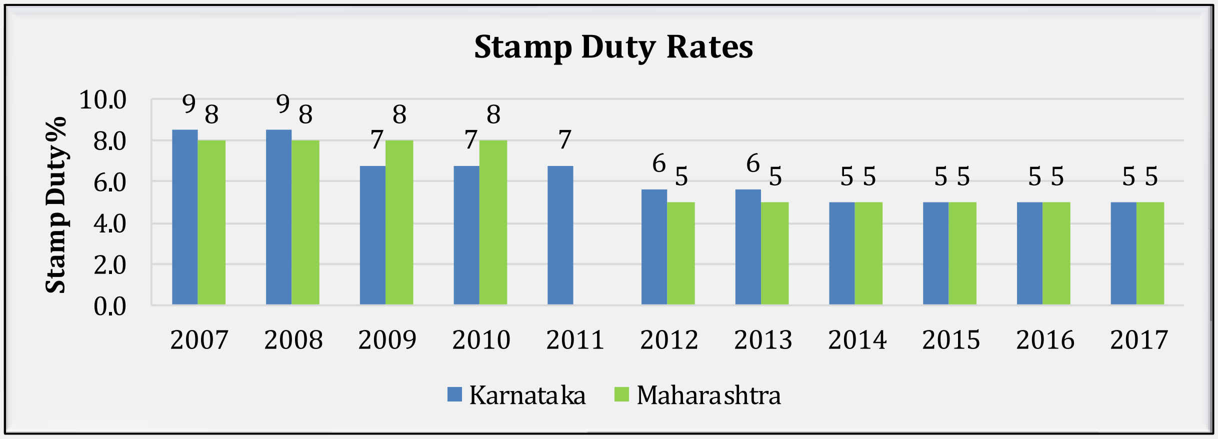


Figure 2.1: SD Rates in Karnataka and Maharashtra during 2007- 2017 (Source: Mukherjee (2012), Reserve Bank of India, State Revenue Department websites)

2.2 SD Rates – International Evidence

In comparison to the regimes in a number of countries the Indian SD rate is rather high. The Table below gives a comparison of the SD policy of different countries and different SD policy practices found in these countries depending on social needs. Low SD rates are not limited to industrial countries. Countries like Vietnam and Philippines have stamp duties between 1-2%. High SD rates as evidenced in India have been counterproductive as they have incentivized corruption and fraud through tax evasion resulting from a weak administration.

As highlighted in Table 2.1, very few countries have a SD regime that is in excess of 5%. Only in case of a handful, very high value transactions are charged a rate greater than 5 or close to 8 or 9 %. This is still low in comparison to high rates 12-14 % that prevailed in India pre 2003-04 (pre- World Bank Report). In the recent years however the Indian stamp duties have been reduced considerably to around 5%, which put in perspective of other countries is still high.

Country	Differential Rates	Seller-side SD	SD Range	Comments	SD (% of GDP)	Guarantee of Title
UK	Yes	No	0% - 12%	Median of ~3.5%	0.61%	Yes
Singapore	Yes	Yes	1% - 3% (Buyer) 0 %- 16% (Seller)	Seller SD applicable depending on age of the property and holding period	0.9%	Yes
Japan	Yes	No	1% - 2%		2.15%	NA
Brazil	No	No	~2%		NA	No
France[23]	Yes	No	0.7%-5.8%	Differential stamp duties for off-plan property, new property and building land	NA	No
Germany[24]	Yes	No	3.5%-6.5%		0.37%	No
Hong Kong[25]	Yes		1.5%-8.5%	Differential rates based on the value of the property.	2.34%	Yes
South Korea[26]	Yes		0.15%-0.5%		2.44%	No
China[27]	Yes	Yes	0.01%-0.2%	Both parties entering the contract pays SD.		No
Mexico	NA	NA	NA	No stamp taxes in Mexico	NA	Yes

Table 2.1: SD Rates in Different Countries

[23] https://www.french-property.com/guides/france/purchase-real-estate/legal/fees/taxes/

[24] http://www.globalpropertyguide.com/Europe/germany/Buying-Guide

[25] http://www.gov.hk/en/residents/taxes/stamp/stamp_duty_rates.htm

[26] Young Lee and Kim (2013)

[27] http://taxsummaries.pwc.com/ID/Mexico-Corporate-Other-taxes

2.3 Under-reporting to Avoid SD and its Impact

It has been variously documented that the high SD rate in the Indian real estate market incentivizes under-reporting and evasion. The buyer is liable to pay SD and in case of property exchange both the buyer and the seller share the burden of SD. Thus there are debates in various circles to lower the SD to dissuade evasion and development of a shadow economy. Policymakers are also exploring schemes to promote affordable housing to address the problem of housing shortages by incentivizing the demand side with SD exemptions. We discuss the implications and possible scenarios for these in the latter half of the report.

Under-reporting has numerous consequences. Some of these being:

- At a micro level these include inability to fully collateralize land and property.
- At a macro-level it has implications of a loss in Government revenue, harmful impact of black money and other spill-over effects in the economy.
- GOI whitepaper identifies real estate as one of the primary sectors for generating and storing black money.
- Sellers can recycle their black money to buy more property. This has wider implications in terms of spill-over effects on the economy as the reported values are used as benchmarks by other agencies such as courts for property disputes, income tax, land acquisition etc.
- The market could also be susceptible to speculative price bubbles with minimal ability of the Government to stop them through tax policies.

Circle rates or Guidance Values were instituted to curb under-reporting. However, the mechanism adopted to estimate these values were more heuristic than scientific, and hence had limited ability to eradicate the problem fully.

2.3.1 Evidence of Under-reporting

Various studies documented the extent of under-reporting of stamp duties over the years.

- Gopalakrishnan and Das-Gupta (1986) from National Institute of Public Finance and Policy (NIPFP) have documented under-reporting between the years 1978 and 1983 to be far in excess of 50 percent, especially in Delhi and Bombay. Their results are shown in Table 2.2.

Year	Delhi	Bombay	Madras
1978-79	50	35	-
1979-80	60	55	11
1980-81	66	48	23
1981-82	73	114	32
1982-83	91	65	48

Table 2.2: Under-reporting as a Percentage of Declared Value (from Gopalakrishnan and Das-Gupta (1986))

- Tandon (1987) estimated under-reporting to be in the range of 40 to 60 percent for a sample of properties across cities in India.
- A follow-on study by the NIPFP (1995) for the years 1986 to 1991 for five cities (Delhi, Bombay, Calcutta, Bangalore and Madras) pegged the estimate of under-reporting to be in the range of 32 to 60 percent.
- Recent estimates based on data are not available even though anecdotal evidence suggests under-reported component to be around 40 to 60 percent of market values (see Kumar, 2017). Following the Whitepaper on Black Money in 2012, the Government of India had constituted three Institutes to study black money in detail, including real estate transactions, but their reports have yet to be made public.

2.3.2 Magnitude of Under-reporting: A Simple Estimate

To give an idea of the implications of under-reporting, in the following steps we present a simple estimate to measure the magnitude of the problem.

- In 2014, total revenue computed from SD and RC on property transactions across all States was Rs. 86,600 crore. ($13B)
- Average transaction tax rate calculated as (SD + RC + surcharges) stands at 7%
- Total declared value: Rs. 12,37,100 crore
- Tentative under-reporting as percent of declared value: 50%

- Unreported value (black money): Rs. 6,185,000 crore ($94B, roughly 5% of India's GDP)
- Lost revenue/year: Rs. 43,300 crore ($6.5B)

This estimate gives an idea of the magnitude of the problem. Due to such high losses in potential revenue, it is particularly important to device a policy in terms of SD and RC that will dissuade under-reporting and evasion and also be capable of providing a demand-side stimulus for States to generate increased revenue.

2.3.3 Circle Rates (CR) or Guidance Value[28]

To solve the problem of undervaluation of properties across States the Wanchoo Committee had recommended adequate mechanisms through provisions in the Stamp Act for valuation of properties brought for registration, as a counter measure to black money generation in the real estate sector. The Indian Stamp Act provides for impounding of instruments not duly stamped. But the SD is determined with reference to the terms of the document, and not on the basis of an extraneous value like the guidelines on prevailing prices of lands given to the Sub-Registrar. Hence, a number of States enacted amendments to the respective State Stamp Acts to empower the district registrar or other competent authority to evaluate and levy SD on market values as assessed by them. This has led to the evolution of the concept of Circle Rates (CR) or Ready Reckoner Rates or Guidance Values in various States.

Acquiring legal ownership is as important as the possession of the house. To create a legal ownership in immovable property (of value more than Rs. 100), it is mandated that the property is registered in the purchaser's name and SD and RC are paid according to the prevailing rates. The amount of SD payable is based on the value of the property. As per the current norm, SD on instruments comprising immovable property is generally paid on the basis of the Circle Rate (CR) fixed by the State Government. The CR is determined based on a combination of inputs ranging from an expert Valuation Committee recommendation to ground level data from sub-registrars. CR varies by location and by characteristics of the property and is updated from time to time by committees appointed by the State machinery. These committees usually comprise of

[28] http://www.nipfp.org.in/media/medialibrary/2014/10/ECONOMIC_REFORMS_AND_THE_STAMP_ACT.pdf

officials of the office of the Inspector General of Revenues and Stamps, empaneled valuers, brokers, etc.

SD and RC also differ from State to State and even between urban and rural areas. However under-reporting continues to be high due to no scientific mechanism of determining circle rates. There have been various steps to curb under-reporting including World Bank advocating lower SD rates, JNNURM incentivizing low SD rates for States in 2009 as well as measures like property transactions of Rupees 50 lakhs or above having to pay a mandatory transaction charge of 1 percent.

2.4 Stamp Duty: A Major Contributor to State Tax Revenues

SD and RC have traditionally contributed significantly to total State tax revenues. Figures 2.2 and 2.3 highlight SD revenues and their share as a percent of total State tax revenues respectively from 1990-91 to 2017-18. As can be seen, on an average, about 10 percent of all State tax revenues in India come from SD.[29] States like Maharashtra earn as high as 11.4% in 2017-18 while smaller States like Odisha and Jharkhand earn only about 2% of their total tax revenues as SD and RC. In absolute terms, SD revenues can range from Rupees ~2,30,000 crore annually for Maharashtra to ~10,000 crore for Odisha and Jharkhand.

Part of the decline in SD's share of tax revenues comes from lowering of SD rates initiated by Government policies such as JNNURM. However, any further reduction in SD and RC rates may not be easy to achieve as these revenues still remain an important source of revenue. Any debate concerning a reduction or exemption of SD will be particularly important in light of the new GST regime. Thus, it is particularly important to device a proper revenue neutral strategy to balance all stakes involved.

[29] Though stamp duty is collected also on capital transactions other than property transactions, they represent less than 10 percent of total revenues in most States.

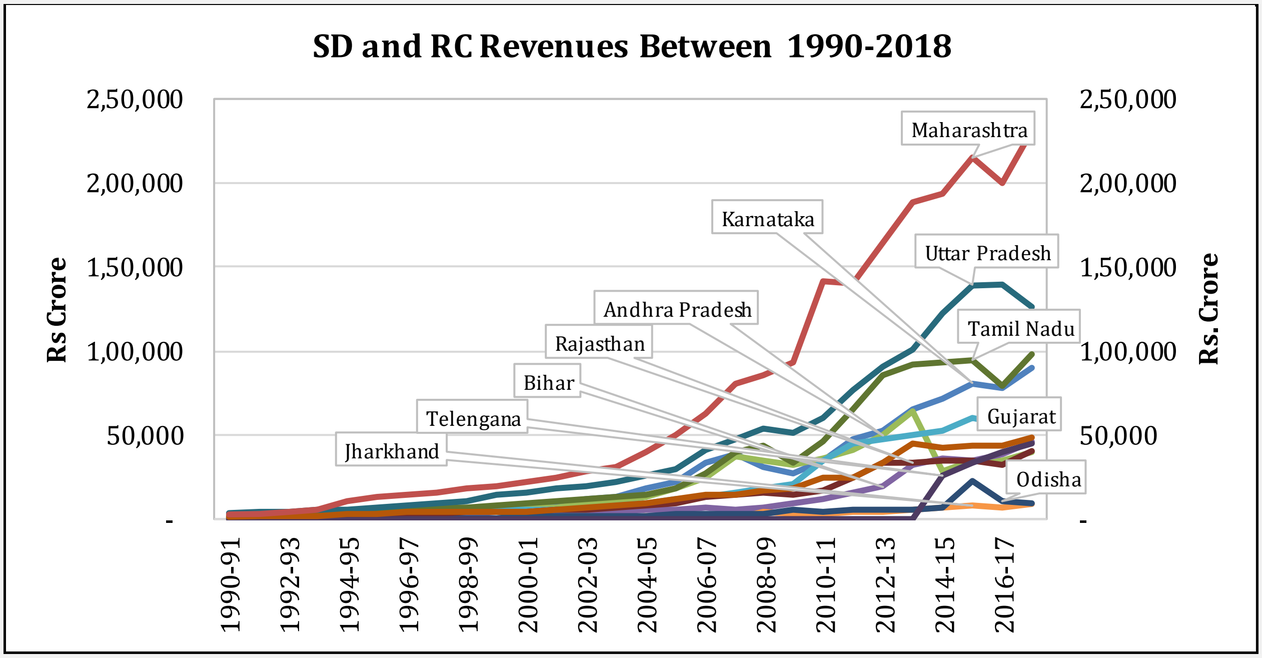


Figure 2.2: SD and RC Revenues from 1990-2018

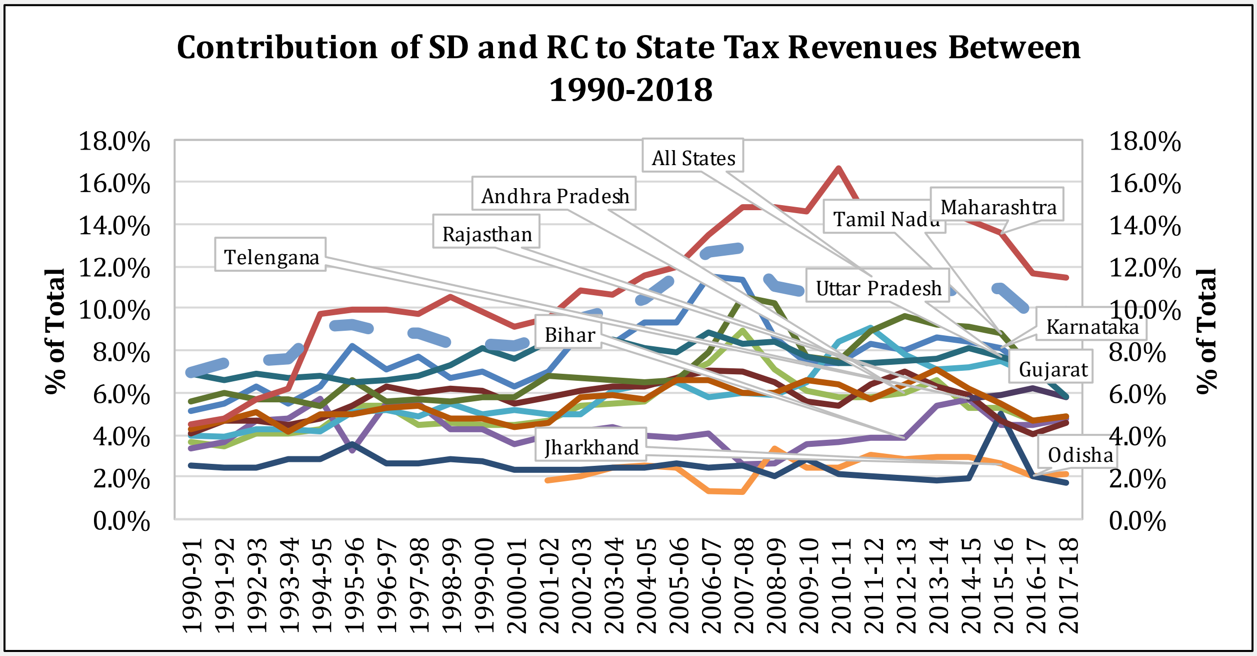


Figure 2.3: SD and RC as % of States Tax Revenues from 1990-2018

2.5 Conclusion

Thus, summing up the discussion laid out above, India has traditionally followed a high transaction tax regime which applies to the real estate sector as well. Putting the cases of some of the industrialized countries like Germany and France, as well developing countries like Vietnam or Philippines into perspective show that these countries have all followed relatively conservative policies in comparison to India. High rates have induced the Indian sector to a tendency to evade taxes which has contributed to excessive under-reporting of the actual value. These factors of under-reporting and tax evasion play an impediment as the Government sets out to solve the housing shortage problem. Government schemes like HFA are making greater housing stock available by increasing the supply of housing. However high transaction taxes will hinder demand side solutions and thus not provide the desired results.

Keeping in mind that SD and RC contribute a significant proportion to the State's tax revenue, a high percentage reduction will deplete the States of their usual revenue stream. Thus the challenge is to maintain a revenue neutral stance when making any policy prescription. In order to address this trade-off, through this research we make suggestions on the best strategy to implement which can stimulate demand effectively into the economically weaker target segments through the right stamp-duty breaks while at the same time remain revenue neutral so that be able to compensate the States from any loss of valuable revenue share.

Chapter 3: A Revenue-Neutral Approach to Lower SD and RC Rates for Low Value Housing

Executive Summary

Any proposal to lower SD and RC rates, even for affordable housing, would not appeal to State Governments as these revenues constitute an important component of their annual budget. We propose a simple revenue neutral proposal that highlights additional revenues that would accrue to the States following the Central Government's Housing for All Policy which would more than compensate for the loss of SD revenues on low value housing. We show, using data from the State of Karnataka, that our proposal provides a compelling argument for States to lower stamp duties to make Housing for All a reality.

3.1 Introduction

In our earlier chapters we elaborated on the incidence of high SD rates in India and the entailing impact of tax evasion and illegal transactions on the economy. High stamp duties directly translate to high prices for buyers. Buyers of low value housing are likely to be more price sensitive given their limited savings and borrowing ability than buyers of high value housing such as villas and gated community apartments. Though some States mitigate this by having a progressive SD structure, many don't and the duties are uniformly applied across houses of all different values. It is fair to say, therefore, that the tax burden on buyers of low value housing is usually higher than their ability to bear them.

Basic economic principles would suggest that lowering taxes will spur demand especially when such demand is price elastic. In this case, reducing the effective cost of buying a house for low income households will increase their ability to actually purchase a house. It should be noted that there is already a very high latent demand for a house among such households as noted in Government estimates. These households are either currently living in cramped housing or living in informal structures that do not qualify to be a house. The reason that they are not able to move into a better house is simply because there are not enough houses available that they can afford in areas they want. While increasing the stock of such houses is an absolute priority, a low hanging fruit solution for Governments would be to increase affordability through prudent policies and incentives.

The easiest and the most effective policy intervention for lowering the cost of buying houses is through taxes. Direct and indirect taxes account for around 30-35 percent of a property's cost.[30] While some taxes are indirectly paid by buyers as they are levied on the input materials, the most significant tax that they pay is the SD and RC that they directly pay at the time of their house purchase. State Governments can lower, or remove altogether, stamp duties and registration charges for buyers of low value housing. However, given that tax revenues from registrations account for a large part of State budget, this intervention will not find much Governmental support without an external carrot that can help mitigate these losses. The last time State Governments accepted a proposal to reduce stamp duties was when it was tied up with access to Central Governmental aid under the JNNURM.

Fully cognizant of the fiscal implications, we show that States could remain "revenue neutral" (or maybe even increase revenues) even if they lower stamp duties for low value housing. This is because any revenue lost through lowering taxes is more than compensated by additional tax revenues that new housing stock created under HFA would yield. While increase in houses created by HFA is an exogenous onetime increase in supply, it is likely that lowering taxes will spur demand that would bring additional supply even without the HFA. We do not address such an increase though clearly that would only further strengthen our claim that States can remain revenue neutral despite lowering, or removing stamp duties for low value housing buyers.

We propose a simple duty structure wherein stamp duties for low value housing are either reduced or removed altogether, while duties for higher value housing remain as before.[31] We argue that this proposal would not reduce overall revenues for the States as they will benefit from additional tax revenues generated by increase in housing stock (and hence, transactions) under the HFA policy of the Central Government. In short, we believe that this **revenue neutral** approach will be a win-win for all: low income home buyers will benefit from lower cost,

[30] KPMG-NAREDCO (2014)

[31] Some States like Madhya Pradesh, Chhattisgarh and Gujarat already provide rebates on stamp duty for low value housing (see RBI Bulletin, January 2018)

developers of low value housing will benefit from increased demand, States will be able to get more of their citizens to live in proper houses without losing revenue and finally the Centre will be able to achieve its "Housing for All" goal. We describe our approach in detail below.

3.2 Empirical Model

We use a simple empirical approach to determine the extent to which HFA policy impacts revenue for the State Governments. We use **Karnataka** as the model State to showcase our proposal as we have good data for that State to empirically estimate our model-based approach. We believe that we can extend our sample to other States easily once we get data for them.

Our model involves estimating three different inputs:

Input 1: Projecting future economic output for Karnataka;

Input 2: Projecting future SD and RC revenues, and

Input 3: Determining the magnitude of such revenues that come from housing that are likely to be impacted by HFA, namely affordable housing,

We describe how we estimate these three inputs below.

While there are models that provide forecasts for economic output (GDP) for the country as a whole, we do not have similar forecasts for economic output for a State (GSDP, or Gross State Domestic Product). We, therefore, must estimate this output using forecasts for the country's GDP. We do that using a simple linear model that is robust and provides excellent out-of-sample forecasts. Specifically, we forecast Karnataka's future economic output as follows:

$$E(Karnataka\ GSDP) = \alpha + \beta * India\ GDP \quad \text{------------------------------ (1)}$$

As we show in the later section using data, this model, though simple, provides an excellent forecast for a State's economic output. We use Government of India's Economic Survey projections for India's GDP forecasts.

To determine projections for SD and RC revenues for the State, we use the past 10-year average of the ratio of these revenues to Karnataka's GSDP and apply them on our GSDP forecasts from

(1). Our simple average measure is as effective as a predictive model that forecasts SD revenues from GSDP using a linear model (similar forecast errors). Moreover, we believe that this estimate would be conservative (i.e., higher) for future projections in the sense that SD and RC have been declining secularly as seen in Figure 2.1. In other words, we are expecting a much higher loss in revenues (than what is more likely to be) that our revenue neutral policy needs to compensate for the State.

To determine what percentage of SD and RC revenues comes from low value housing, we use past data again to determine the percentage contribution. The percentage contribution is given as:

$$\%\ SD\ and\ RC\ Revenues\ from\ Low\ Value\ Housing =$$

$$[(SD\ and\ RC\ Rate\ for\ Low\ Value\ Housing) * (Number\ of\ Low\ Value\ Housing\ Transactions)]\ /\ [(SD\ and\ RC\ Rate\ for\ All\ Housing) * (Number\ of\ All\ Housing\ Transactions)]$$

--------------------- (2)

Fortunately, the State of Karnataka does not distinguish between low value and other value housing categories when it comes to SD and RC rates during our sample period. Hence, we need to know only the ratio of low value housing transactions to all housing transactions to estimate (2). We use State registrations data to estimate this ratio.

Once we have forecasts for revenues that are likely to be impacted if SD and RC for low value housing are to be removed (base case scenario), we can then proceed to show how HFA policy helps generate revenues elsewhere that more than adequately compensate for these lost revenues (proposed scenario). We describe these scenarios in detail in our next section.

3.3 Forecasts of State's SD Revenues <u>without</u> Active Policy Intervention for Low Value Housing (Base Case Scenario)

We begin with a projection of SD and RC revenues for a period of six years into the future for the States. We use six years since it will coincide with the end of year 2022, the final year for the policy Housing for All. As discussed above, we use Karnataka as our sample State to demonstrate how our proposal would work. Our proposal can be easily extended for other States as well once we have the following key input variables: percentage of revenues for the State that comes from SD and RC revenues, percentage contribution of low value housing related transactions (that are likely to be impacted by HFA) to total transactions in that State, and finally the SD and RC rates for regular and low value housing in that State.

Our **base case scenario** for revenue forecasts for the State represents a stream of revenues that would accrue to the State over the next 6 years in the absence of no explicit government intervention in property markets. Our projection is based on the empirical model that is described in the earlier section. In order for any intervention proposal to be truly revenue neutral, we need to ensure that States are able to generate at least the revenues under the base case scenario.

The base case scenario is built under two simplifying, but reasonable, assumptions:

(a) The economic activity of a State will change in proportion to changes in the nation's GDP, and

(b) SD revenues will increase with increase in the State's economic activity.

We validate these assumptions by testing them out of sample and find that they, indeed, are not unreasonable for short to medium term forecasts. We describe below our estimation of the base case scenario for the State of Karnataka.

3.3.1 Estimation of Future Economic Output for Karnataka (Input 1)

Using data between 2011 and 2017, we model first the relationship between Karnataka's Gross State Domestic Product or GSDP (a proxy for economic activity) and India's Gross Domestic Product (GDP).[32] We use a simple linear regression model and find that it captures most of the variability in the State's economic output (the R-squared, a measure of the model's fit, was close to 1).

[32] Ideally, we would have liked to use a longer time series data for the input variables but given the explosion of growth from sectors such as IT in recent years, we were unsure how combining data from two different structural regimes would influence our forecasts.

Table 3.1 gives the annual economic output for Karnataka and for the country as a whole from 2011-12 to 2016-17 at constant prices (2011-12):

Year	GSDP of Karnataka (Rs. Cr)	Growth Rate of Karnataka GSDP (%)	GDP (Rs. Cr)	Growth Rate of GDP (%)
2011-12	606,010	-	8,736,329	-
2012-13	643,292	6.2%	9,213,017	5.5%
2013-14	704,849	9.6%	9,801,370	6.4%
2014-15	751,908	6.7%	10,527,674	7.4%
2015-16	813,497	8.2%	11,386,145	8.2%
2016-17	874,395	7.5%	12,196,006	7.1%

Table 3.1: Karnataka's GSDP and India's GDP at constant 2011-12 prices (Source: Economic Survey of Karnataka 2017-18)

Using the data given above, we estimate the simple linear regression model laid out in equation (1). As seen from the figure 3.1, this simple model is able to capture most of the variability in Karnataka's GSDP as evident from the high R-squared. The linear model will allow us now to forecast what the State's GSDP would be for the next five years under the assumption that there would be no structural disruption to this relationship.

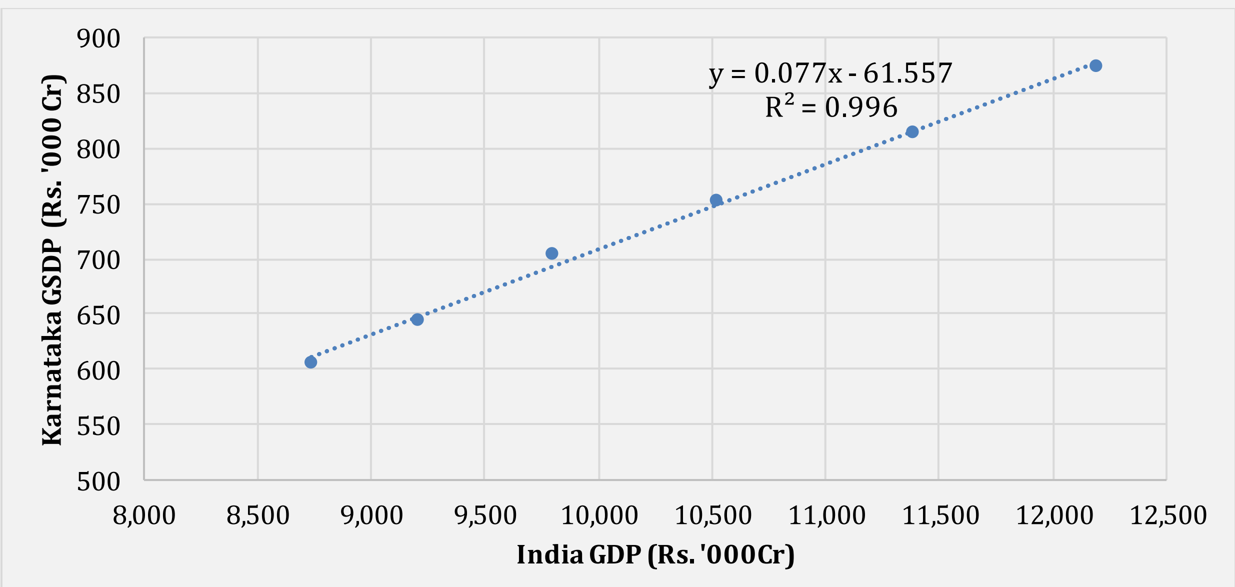


Figure 3.1: Regression Model of Karnataka GSDP on Indian GDP

Using long-term projections for India's GDP from World Bank and IMF, we estimate Karnataka's GSDP to be as follows for the periods 2017-18 to 2021-22 (see Table 3.2). We deliberately estimate GSDP also for 2017-18, a period that has already happened, to test the accuracy of our forecasting model. The predicted GSDP of Karnataka for 2017-18 is Rupees 940,000 crore which is just within 0.9 percent (forecast error) of the actual GSDP of Rupees 949,111 crore as reported by the Economic Survey of Karnataka.[33] The low forecast error of our model gives us confidence that this simple linear model is working well.

Forecasts of GDP and GSDP of Karnataka (Rs. '000 Cr)					
Fiscal Year ->	**2017-18**	**2018-19**	**2019-20**	**2020-21**	**2021-22**
India (GDP)	13,012	13,962	15,005	16,149	17,379
Karnataka (GSDP)	940	1,014	1,094	1,182	1,277

Table 3.2: Forecasts for Karnataka GSDP from 2017-18 to 2021-22

3.3.2 Estimation of Future SD and RC Revenues from Property Transactions for Karnataka (Input 2)

Given that our goal is to ensure that States do not lose the natural accretion to the SD and RC revenues (from property transactions) because of our proposal, we need to estimate what those revenues would be in the future. Since we do not have data on the likely demand and supply of housing (across all value categories) in the future, we use the relationship between aggregate revenues from these property related transactions and the State's GSDP in the past.

It is not unreasonable to assume that higher economic output will lead to greater number of property registrations. Hence we use the past 10-year average of the ratio between these revenues and State GSDP and apply it on our GSDP forecasts from the previous section. We have used a simple linear model to predict SD revenues from GSDP as well but our simple average estimate appears parsimonious but equally effective in capturing the relationship. Figure 3.2 presents how the 10-year average of this ratio (= 1.05%) for Karnataka compares with the rest of the States.

[33] See the link for the Survey: https://drive.google.com/file/d/1afH6KZUPX0WklckshR8he6Bd7HeEhFqg/view

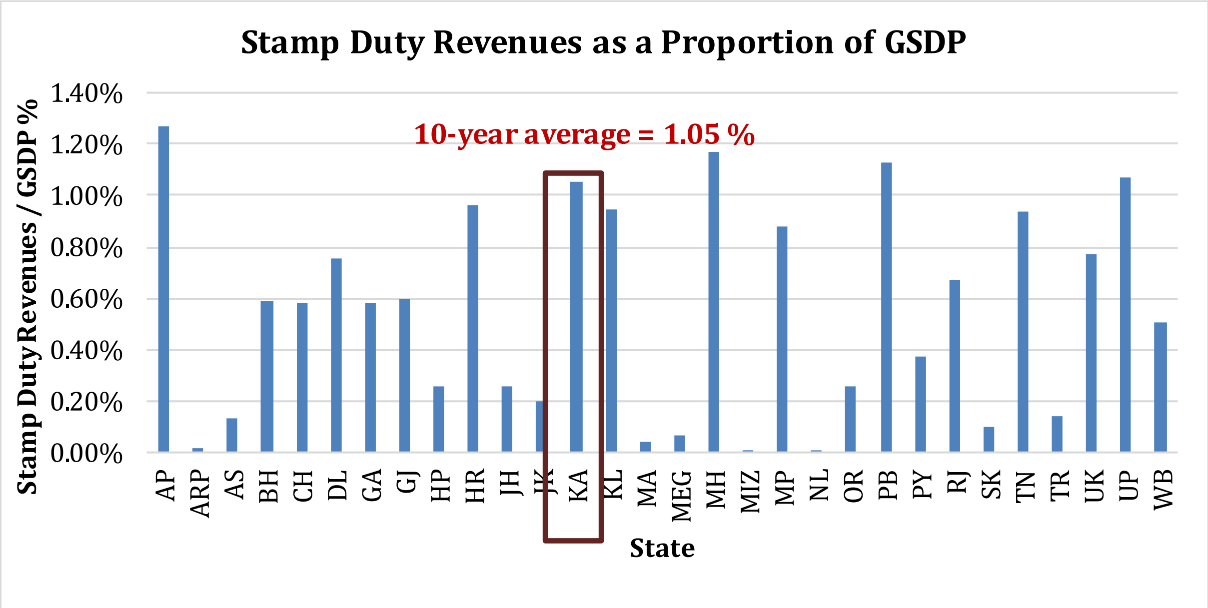


Figure 3.2 – 10-year Average Ratio of SD and RC Revenues over GSDP

Using our GSDP forecasts and the proportion of SD and RC revenues (on property transactions only) to GSDP, we can now estimate these revenues for the period of 5 years from 2017-18 to 2021-22. Table 3.3 presents these forecasts. As you can observe, our forecasts assumes a constant ratio for SD revenues' contribution to the State's economic output over the next 5 years.

SD Revenue Projections for Karnataka (Rs. '000 Cr)					
Fiscal Year ->	**2017-18**	**2018-19**	**2019-20**	**2020-21**	**2021-22**
State GSDP	940	1,014	1,094	1,182	1,277
SD Revenues @1.05%	9.90	10.67	11.51	12.44	13.44

Table 3.3 – SD Revenue Forecasts for Karnataka from 2017-18 to 2021-22

3.3.3 Estimation of SD and RC Revenues Pertaining to Low Value Housing Transactions (Input 3)

Until now, we have not differentiated between the contributions of different categories of housing to SD revenues for the State. This differentiation is important because our proposal is focused on providing SD subsidies only for buyers of low value housing and not for others. To put it differently, the State will not lose any revenues from transactions in housing that are not of low value because of our proposal. For low value housing transactions, there will be a loss of revenue if the State accepts our proposal. In order to estimate what that loss would be for the next 5 years, we need to know what percentage of the State's SD revenues typically comes from such low value housing transactions.

Two factors go into determining the percentage – the relative difference in SD and RC and in the quantum of transactions between low value and other value housing categories. Fortunately, the State of Karnataka does not distinguish between low value and other value housing categories when it comes to SD and RC rates during our sample period. Based on the registration data, we estimate that about **14 percent** of the number of transactions, but with only **6 percent** of their value, can be viewed as low value property transactions. We use a sample of registrations data from the city of Bengaluru between 2012 and 2017 to compute these percentages.[34] We believe that these percentages will remain stable over our forecast period.

Using this estimate, we can now estimate the SD revenues that would be generated from transactions in low value housing. These transactions represent baseline transactions – transactions that would have happened independent of active government intervention through HFA. Table 3.4 provides the forecasts of these revenues.

SD and RC Revenue From Low Value Housing for Karnataka (Rs. '000 Cr)					
Fiscal Year ->	**2017-18**	**2018-19**	**2019-20**	**2020-21**	**2021-22**
All SD and RC Revenues	9.90	10.67	11.51	12.44	13.44
SD and RC Revenues From Low Value Housing @6%	0.5938	0.6399	0.6906	0.7463	0.8061

Table 3.4 – Forecasts of SD and RC Revenues from Low Value Housing for Karnataka from 2017-18 to 2021-22

[34] We thank the Inspector General of Revenues and Stamps for the State of Karnataka and the National Housing Bank for getting access to this data. We assume that the ratio for the State is similar to the ratio seen in the city of Bengaluru. Bengaluru by far contributes the largest share to the States' revenues among cities.

In other words, any revenue neutral proposal requiring waiving of SD and RC for low value housing should ensure that the State Government is compensated for this annual revenue loss ranging from **Rs. 590 crore** in 2017-18 to **Rs. 810 crore** by 2021-22.[35] While these numbers appear small in absolute terms when compared with the size of a State's budget, we believe there could still be resistance in giving up these revenues. Hence our proposal is built around being revenue neutral so that States feel incentivized to accept and push it forward.

3.4 Forecasts of State's SD and RC Revenues with Active Policy Intervention for Low Value Housing (Proposed Scenario)

In this section, we discuss the intuition and the mechanics behind our revenue neutral proposal. Our proposal is built around the concept of positive externalities that accrue to the States from the Central Government's Housing for All initiative (HFA).

The current version of the HFA initiative provides for a large exogenous creation of low value housing stock by way of incentives that are targeted towards key stakeholders such as the buyers and developers of such houses. The policy is likely to benefit yet another key stakeholder – the State Government – albeit in an indirect way. It will generate large additional tax revenues for the States outside of the SD and RC. These revenues come from indirect taxes levied on materials used as well as on other services rendered during construction. In addition, transactions in houses that do not qualify as low value but are still generated by HFA's credit subsidizing schemes would also provide revenues through SD and RC. In short, the States would be significant passive beneficiaries of this Central-sponsored scheme.

It is our proposal that some of these financial benefits should be passed back to the poorer citizens of these States through a tax subsidy for buying low value houses. In particular, we propose that States can waive fully or partially the SD and RC burden for buyers of only low value housing. This would lower the cost of buying for these buyers and, when combined with other credit subsidy schemes, could make home ownership a reality for the poor. In addition, it could promote a new approach for the Centre to get States' buy-in with revenue neutral options that incorporate externalities such as indirect tax receipts.

[35] It is possible that the State may want to provide only a rebate and not waive the entire transaction tax (stamp duty and registration charges) for low value housing transactions. In that case, our estimate of the revenue loss that needs to be compensated would be less than these numbers.

To financially estimate the benefits accruing to the State owing to HFA, we need to know the following:

a. Number of new houses that could be attributed solely to HFA
b. Estimate of non-SD revenues that these houses will generate (from development) to the States (includes taxes levied by the States and taxes levied by the Centre but later shared with the States)
c. Estimate of SD and RC revenues to the States from housing transactions generated by HFA

We discuss how we estimate each of the above variables in the following sections.

3.4.1 Increase in Low Value Housing Stock under HFA

We begin by estimating the number of houses that will owe their creation solely to the incentives provided by HFA. Though the HFA initiative would cover around 96 percent of the total housing shortage in Karnataka (based on overall housing shortage that would be considered low value housing, namely EWS and LIG, as reported in Table 1.1), we believe that some part of them would be built anyway irrespective of the policy stimulus. Revenues generated from this increase of stock would accrue to the State independent of the HFA. To evaluate our revenue neutral policy, we need to not consider these revenues. Similarly, the State's ability to raise tax revenues is muted in cases where the shortage is met by expansion of existing structures (to provide better quality of living to its residents) rather than through building new structures.

We assume that all housing stock created by the Credit Linked Subsidy Scheme (CLSS) and half of the housing stock created by the other 3 schemes of HFA – beneficiary led construction, in-situ slum development and public-private partnership – represent the incremental housing stock created because of HFA. CLSS is a buyer oriented scheme that is one of the key components of PMAY, the flagship policy of HFA. Housing stock that would be created under this scheme is likely to be created only because of the incentives that have been provided by HFA. As regards other verticals, we assume that some part of the housing stock would have been created anyway because of existing incentives in place and not necessarily because of new incentives rolled out by HFA. In the absence of clear information on how many houses would have been created anyway without HFA, we use a conservative assumption of 50 percent, i.e., half of new houses created in the 3 other verticals other than CLSS can be attributed to be solely because of new incentives of HFA.

To determine the distribution of number of new houses created in each of the vertical, we use the *actual distribution* of sanctions for new construction that the government reported as of the end of Jun 2020. According to this data released by the Ministry of Housing and Urban Affairs[17], of the 105 lakh houses that have been sanctioned under PMAY-Urban, 10.6 lakh houses, or roughly 10 percent, are under CLSS.[36] We present results later in the report that allows for variation in these assumptions.[37]

Table 3.5 provides details on incremental housing stock that can be attributed solely to HFA in Karnataka. Though the initial estimate of housing shortage for Karnataka was 10.2 lakh houses based on Government estimates, this needs to be revised downward following the Government's decision to revise the national estimates down from 187 lakh houses to 100 lakh houses. Our revised estimate for shortage in Karnataka is 5.1 lakh houses, which is 50 percent lower than the earlier estimate. This is slightly more than the 54 percent reduction envisaged by the Government for shortage across the country. Given that Karnataka has always attracted sufficient capital and interest among developers even in low value housing, we think a lower estimate for housing shortage in the State as compared to the rest of the country is justified.

Of the 5.1 lakh housing shortage, the HFA is expected to address roughly 4.9 lakhs through its four schemes until 2022, the year when there would be no housing shortage across the country. This would mean, roughly 0.98 lakh houses that are expected to be added to the housing stock every year for the next 5 years (starting from the fiscal year 2017-18) would benefit from HFA incentives in one form or the other. From the MoHUA data, we observe that so far ~53,000 are sanctioned through CLSS in Karnataka as of Jun 2020[36]. As per original estimates, 5.1 Lakhs

[36] MoHUA data. The data is reproduced in our excel utility provided along with this report (Worksheet: CLSSStateWiseJun2020-MoHUA)

[37] Our excel utility, provided along with this report, allows users to change this percentage and compute the benefits of the revenue neutral strategy as proposed in the study.

was the total shortage of which 96%[38] or 4.89 Lakhs were to be HFA beneficiaries. Hence, the ~53,000 translates to ~10.8% (53,000/4,89,600) of the total housing shortage for Karnataka in the affordable segment. Hence, on an average ~13,200[39] houses have been sanctioned under CLSS every year since HFA was rolled out. Extrapolating this trend up to 31st Mar 2021 for MIG (68%)[36,37] and up to 31st Mar 2022 for EWS/LIG (32%)[36,37] , we can conservatively estimate that an additional ~14,200[39] houses will get added. This takes the total housing stock from CLSS up to ~67,000 or ~13.5%[39] of the total housing shortage in Karnataka by 2022. Further, we abstract from the incentives for developers to create housing stock that would avail of CLSS in the first place. We assume that pent up demand for these houses is sufficient for developers to create such housing stock. This is not an unreasonable assumption given that, of all the PMAY schemes, CLSS seems to have had the greatest traction towards achieving its target.

	Revised Government Estimate in 2017-18	**Annual Creation of Housing Stock Needed to Achieve HFA by 2021-22**
	(# houses)	**(# houses)**
Total Housing Shortage (A)	510,000	102,000
Houses to be Constructed under HFA (B) - (96% of A)	489,600	97,920
Houses to be Covered by CLSS Programme of HFA (C) (13.5% of B)	66,096	13,219
Houses to be Covered by Other Programmes of HFA (D) - (B-C)	4,23,504	84,701
Houses Created Solely by HFA - 100% of Houses constructed under CLSS - 50% of Houses constructed under Other Verticals	2,77,848	55,570

Table 3.5: Incremental Housing Stock Created by HFA in Karnataka

[38] As per the original study of the technical committee on Housing, 2012 [7], 96% of the total shortage was under the affordable segment. We have consistently maintained this throughout our report starting table 1.1. Also, the numbers are rounded off to the nearest upper 500.

[39] Please refer to the sheet "CLSSStateWiseJun2020-MoHUA" – Cells T8 – U21 in the Excel Utility provided with this Report for this computation

The remaining 3 verticals are likely to contribute ~0.85 lakh houses each year, or 86.5% of the total housing stock created under PMAY schemes. The number of new houses that can be solely attributed to HFA will be 100% of all houses created under CLSS and 50% of houses created by other verticals. For Karnataka, about 0.56 lakh new houses are likely to be created each year because of HFA. As discussed before, our analysis will only consider this number for evaluating our revenue-neutral proposal as the rest of houses are expected to be created by existing incentives outside of PMAY schemes.

Before we discuss the non-SD revenues from this newly created housing stock, it is important to recognize that the State Government would have to waive SD and RC for these houses as well under our proposal. This is because they would be classified as low value housing as well. However, we believe that only housing stock created by CLSS would be liable for SD and RC since others like in-situ development or beneficiary led constructions may either be exempt or would not trigger the levy given there would be no change in ownership.

To determine the revenue loss from SD and RC waiver for the State, we need to estimate the value of the houses created by CLSS. While the interest subsidy is available on a principle component of INR 6 – 18 lakh, we infer from the MoHUA data that the actual cost of the house itself ranges from ~13 lakhs in the LIG segment to ~26 lakhs in the MIG segment[36]. However, a majority of these houses (national average of ~67%) are in the LIG segment. So, we take a conservative approach here to say that the cost of an affordable house ranges from 10 lakhs at the lower end to 20 lakhs at the higher end[40]. Table 3.6 presents estimates for SD and RC revenues that would arise from housing stock created by CLSS. Using the current rate of 7.6 percent for the SD and RC in Karnataka, we estimate that value of revenue loss to be either Rs. 100 crore or Rs. 201 crore depending on the value estimate used. To simplify, we use the average estimate of **Rs. 151 crores** as the additional revenue loss for the State that needs to be covered by our revenue neutral proposal.

[40] This is a reasonable assumption given that the Karnataka government recently reduced the stamp duty rates by 3% for houses registered up to 20 lakhs (https://www.thehindu.com/news/national/karnataka/registration-fee-cut-for-flats-costing-less-than-35-lakh/article31683901.ece).

	Number of Houses Created Each Year by HFA (CLSS only)	Value of Each House (*in ₹ lakh*)	Annual SD and RC Revenues (*in ₹ crore*)*
Conservative Estimate	13,219	10	100
Standard Estimate	13,219	20	201
Average Estimate	13,219	15	151

Table 3.6 – Forecasts of Revenues from SD and RC from New Houses Created by HFA in Karnataka

***** We assume that the current SD and RC rate (conservative estimate) will be applied over the next 5 years on transactions related to the incremental housing stock. The State's total revenues (7.6% on house value) include: SD of 5.6% and RC of 1% on conveyance + SD of 0.5% and RC of 0.5% on mortgages.

The total potential revenue loss from waiver of SD and RC for all low value housing, both for existing and for new housing stock, for the State of Karnataka is given in Table 3.7. This is the loss that needs to be compensated by other revenues that the State can generate from HFA in order for our proposal to be truly revenue neutral.

(*in ₹ crore*)	2017-18	2018-19	2019-20	2020-21	2021-22
Revenue Loss from Transactions Independent of HFA (from Table 3.4)	594	640	691	746	806
Revenue Loss from Transactions Created by HFA (from Table 3.6)	151	151	151	151	151
Total Revenue Loss	745	791	841	897	957

Table 3.7 – Forecasts of Total Revenue Loss from SD and RC Waiver for Low Value Housing in Karnataka

Next we look at revenue potential that housing stock created by HFA could generate for the State Government to balance these losses.

3.4.2 Non-SD Revenue from Housing Activity

Housing development activity generates revenues for the State Government outside of the transactional taxes such as SD and RC that we have seen so far. We present them graphically in Figure 3.3.

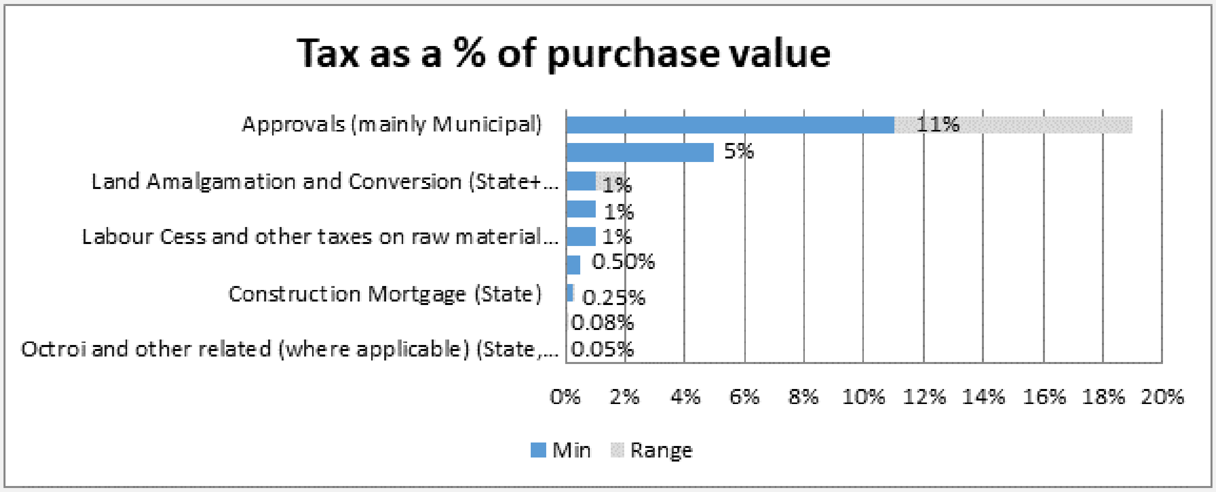


Figure 3.3: Non-SD Revenue from Housing Development (pre-GST)

The blue bars show the minimum for each category across the country while the grey bar shows the range. As you can see, many of these charges are levied by the State and do not form part of the overall rationalization under GST. Octroi, excise duty and a few other Central charges like service tax are covered by GST and accrue to the State through the broader tax revenue sharing arrangement. However, a range of fees and taxes are levied by the States across the housing development value chain that represents a significant source of revenue for them. Our proposal attempts to quantify all of them and use them to neutralize revenue loss from waiver of SD and RC.

Though our estimates were made before the onset of GST, we do not think that they would be different now that GST is in place. This is because the GST for the real estate sector, as it currently stands, remains largely revenue neutral for the States. That is, the new GST rate roughly translates to the same percentage in value terms as the older Central taxes. Hence we think our non-SD revenue estimate applies even after GST.

Using the non-SD revenues for the State of Karnataka, which stands at an average of 11.9 percent currently, we estimate the revenue gains from increase in housing stock that benefit from HFA. Since these revenues are a function of the value of the property under development, we use the same two value estimates – Rs. 10 lakh and Rs. 20 lakh – for each house that is likely to benefit from HFA. We consider 100 percent of all new housing stock created by CLSS and 50 percent of new stock created by the other three verticals of HFA as a conservative estimate for new houses that would generate non-SD revenue for the State. Table 3.8 presents the magnitude of these revenues.

	Number of Houses Created Each Year by HFA (100% of CLSS + 50% of other verticals)	Value of Each House (*in ₹ lakh*)	Non-SD Revenue in Karnataka	Annual Non-SD Revenues (*in ₹ crore*)
Conservative Estimate	55,570	10	11.90%	661
Standard Estimate	55,570	20	11.90%	1323
Average Estimate	55,570	15	11.90%	992

Table 3.8: Non-SD revenue for Karnataka each year from 2017-18 to 2021-22

3.4.3 Net Impact of the Revenue Neutral Proposal to Forego Stamp Duties and Registration Charges for Low Value Housing

Now we are in a position to evaluate the net gain or loss to the State of Karnataka from adopting the revenue neutral proposal to remove stamp duties and registration charges for low value housing completely. Just to recap, our proposal allows for States to forego transactional revenues from low value housing in return for reaping the benefits of additional construction activity triggered by the Central Government's HFA policy. These benefits come from non-SD revenues such as land conversion fees, GST during construction etc. that more than compensate for loss of SD and RC revenues from low value housing. Table 3.9 presents the net impact of our proposal.

(*in ₹ crore*)	2017-18	2018-19	2019-20	2020-21	2021-22
Revenue Loss from SD and RC Waiver to Low Value Housing (from Table 3.7)	-745	-791	-841	-897	-957
Revenue Gain from Non-SD Sources on Housing Created by HFA (from Table 3.8)	992	992	992	992	992
Net Gain (Loss)	247	201	151	95	35

Table 3.9 – Net Impact on State of Karnataka's Revenues of the Revenue Neutral Proposal

As the above Table suggests, even with a full waiver of SD and RC, States would not "lose" revenues compared to their baseline scenario. In fact, Karnataka would stand to gain Rs. 729 crores in absolute terms and Rs. 640 crores in present value terms if we assume a reasonable rate of 6% (roughly the rate at which the State Government could borrow money in the market) to discount future gains and losses. The additional housing stock in the low value housing category generates enough non-SD revenues that States can afford to waive SD and RC.

It should be noted here that our proposal is revenue neutral even without considering the impact of another important source of revenue for the State. It is the revenue from secondary market transactions in houses created by HFA. Though it is hard to predict how many times a house changes hands, it is definitely not zero and States get to reap SD and RC revenues every time they do change hands. Accounting for these additional revenues would only help bolster the argument in favour of our revenue neutral proposal.

An alternative to the full waiver of SD and RC to low value home buyers is a partial waiver scheme that can be provided to all home buyers and not just to low value home buyers. Here, the State Government can give back additional non-SD revenues generated by housing activity triggered by HFA policies to all homebuyers in the form of a subsidy to SD and RC. Table 3.10 provides the break-even estimate of a partial SD rebate for all home buyers that would still be truly revenue neutral – all additional revenues to the State is given back in the form of a subsidy.

(*in ₹ crore*)	**2017-18**	**2018-19**	**2019-20**	**2020-21**	**2021-22**
Additional Revenue Generated from Non-SD Sources on Housing Stock Created by HFA (A)	992	992	992	992	992
SD and RC Revenues Under Base Case Scenario (B)	9,896	10,666	11,511	12,438	13,435
SD and RC Revenues from Housing Stock Created by HFA (C)	151	151	151	151	151
Total SD and RC Revenues from Housing Transactions in Karnataka (D = B+C)	10,047	10,816	11,661	12,589	13,586
Average SD and RC Subsidy/Rebate (=A/D)	9.87%	9.17%	8.51%	7.88%	7.30%

Table 3.10 – Break-even Subsidy/Rebate for all Home Buyers under the Partial Waiver Scheme

The average rebate (on the current SD and RC rate) to all homebuyers can range from 9.87 percent in 2017-18 to 7.3 percent in 2021-22. This means that all home buyers, whether they are buying low value homes or not, get this rebate. This is another revenue neutral option available to the State to use the additional revenues generated by new stock created by HFA-related policies.

Of course, our approach can be tweaked to accommodate other combinations easily. We provide an MS Excel-based utility that makes it easy to evaluate the impact of our proposal for different States under different set of assumptions. We describe the utility in more detail in Appendix 4 but provide a summary of results for various States in the next section.

3.5 Impact for other States – Results from Excel Utility

As mentioned before, paucity of registrations data restricts the use of our approach to States other than Karnataka without making reasonable assumptions on the market share of low value housing among all registrations. Here, we describe below our best estimate for net impact of the revenue neutral policy for the following States – Andhra Pradesh, Bihar, Gujarat, Jharkhand, Maharashtra, Odisha, Rajasthan, Tamil Nadu, Uttar Pradesh and West Bengal – under two different scenarios. Both scenarios use some common assumptions but differ in the percentage of non-SD and RC revenues that the States make from construction activity.

Common assumptions include the market share of low value housing (4%), percentage of housing shortage to be met by HFA (96%), market share of CLSS in new housing sanctions under PMAY (national average of 10%[36]) and percentage of houses constructed under the other three verticals that can be attributed solely to HFA (50%). In the first scenario, we assume 11.9 percent for non-SD and RC revenues (the same rate that was determined using data for Karnataka) but use a more realistic figure of 10 percent in the second scenario. Tables 3.11 and 3.12 present the net impact of our revenue neutral proposal for the selected states under the two different scenarios respectively.

State	Housing Shortage to be Covered by 2021-22	SD+RC Rate Used for Analysis	SD Revenue as % of GSDP	Revenue Loss from SD and RC Waiver for Low Value Housing	Revenue Gain From Non-SD and RC Sources	Aggregate Net Impact over 5 years	Present Value of Net Impact over 5 years
	(# houses)	*(%)*	*(%)*	*(in ₹ crore)*	*(in ₹ crore)*	*(in ₹ crore)*	*(in ₹ crore)*
Karnataka*	5,10,000	7.60	1.05	-4,230	4,960	729	640
Andhra Pradesh	6,35,000	5.50	1.27	-3,369	5,985	2,615	2,196
Bihar	5,95,000	6.00	0.59	-1,414	5,608	4,193	3,516
Gujarat	4,95,000	4.55	0.60	-2,587	4,665	2,078	1,775
Jharkhand	3,15,000	7.00	0.26	-631	2,969	2,338	1,960
Maharashtra	9,70,000	5.00	1.17	-7,859	9,142	1,283	1,207
Odisha	2,05,000	9.00	0.25	-655	1,932	1,277	1,069
Rajasthan	5,75,000	5.00	0.67	-2,013	5,419	3,406	2,868
Tamil Nadu	6,25,000	8.00	0.94	-4,118	5,891	1,772	1,523
Uttar Pradesh	15,35,000	6.00	1.07	-5,009	14,467	9,459	7,997
West Bengal	6,65,000	6.91	0.51	-1,887	6,267	4,381	3,689

Table 3.11 – Aggregate 5-year Net Impact on States' Revenue Based on Our Proposal Using **11.9%** contribution from Non-SD revenues and **10%** contribution from CLSS for non-SD and RC revenues from 2017-18 to 2021-22

* Assumes **13.5%** contribution from CLSS to keep it consistent with the discussion so far. The net impact would be Rs. 772 Cr. and Rs. 676 Cr. respectively if we assume **10%** contribution from CLSS for Karnataka.

State	Housing Shortage to be Covered by 2021-22	SD+RC Rate Used for Analysis	SD Revenue as % of GSDP	Revenue Loss from SD and RC Waiver for Low Value Housing	Revenue Gain From Non-SD and RC Sources	Aggregate Net Impact over 5 years	Present Value of Net Impact over 5 years
	(# houses)	*(%)*	*(%)*	*(in ₹ crore)*	*(in ₹ crore)*	*(in ₹ crore)*	*(in ₹ crore)*
Karnataka*	5,10,000	7.60	1.05	-4,230	4,168	-63	-27
Andhra Pradesh	6,35,000	5.50	1.27	-3,369	5,029	1,660	1,391
Bihar	5,95,000	6.00	0.59	-1,414	4,712	3,298	2,762
Gujarat	4,95,000	4.55	0.60	-2,587	3,920	1,333	1,148
Jharkhand	3,15,000	7.00	0.26	-631	2,495	1,864	1,561
Maharashtra	9,70,000	5.00	1.17	-7,859	7,682	-177	-23
Odisha	2,05,000	9.00	0.25	-655	1,624	969	809
Rajasthan	5,75,000	5.00	0.67	-2,013	4,554	2,541	2,139
Tamil Nadu	6,25,000	8.00	0.94	-4,118	4,950	832	731
Uttar Pradesh	15,35,000	6.00	1.07	-5,009	12,157	7,149	6,051
West Bengal	6,65,000	6.91	0.51	-1,887	5,267	3,380	2,846

Table 3.12 – Aggregate 5-year Net Impact on States' Revenue Based on Our Proposal Using **10%** contribution from Non-SD revenues and **10%** contribution from CLSS for non-SD and RC revenues from 2017-18 to 2021-22

*Assumes **13.5%** contribution from CLSS to keep it consistent with the discussion so far. The net impact would be Rs. 30 Cr. and Rs. 4 Cr. respectively if we assume **10%** contribution from CLSS for Karnataka.

As the above tables show, most States can expect an increase in revenues from our proposal despite waiving SD and RC for low value housing. The Excel utility provides the user with greater control on the underlying assumptions and can quickly estimate the net impact with changes in these assumptions.

3.6 Concluding Remarks

Solving the housing shortage problem stands high in importance as one of Governments' fundamental responsibilities. While it is important to provide demand side stimulus such as interest rate subventions, it will not be enough to meet our massive housing supply-demand gap without incentivizing other key stakeholders such as the developers and the State Governments. While it is well known that taxes form a large part of the house price in India, any strategy to reduce it and compromise State revenues will be resisted by the States. Our analyses in this study lay out a framework for developing a revenue neutral strategy for States that will allow full or partial waiver of SD and RC, especially for buyers of low value housing. Our proposal leans on an important positive externality that States enjoy, namely the additional non-SD revenues that they generate from increase in housing stock triggered by Central schemes such as the Housing for All. It is important that such approaches be considered and promoted to achieve the larger vision of "Housing for all by 2022." We have also showcased how this can be achieved by using our revenue neutral model. The excel utility supplied along with this document acts as a quick reference guide for an impactful implementation (detailed manual in Appendix 4). Such valuable insights ex-ante will help states to pro-actively take up Stamp Duty Reforms to address the housing shortage. We look forward to working with MoHUA, NHB and individual State governments to undertake and implement such reforms.

Addendum to the Report – II

Impact of COVID – 19 on RE Sector and Policy Implications Thereof

Note: *This chapter has been incorporated in Jul – 2020 when the whole world, including India is going through and unprecedented outbreak of COVID-19. This pandemic has brought life in general and economy in particular to a standstill with a number of countries and industrial sectors experiencing negative growth rates*[41].

The world is today faced with an unprecedented situation since the beginning of 2020. The entire world has virtually come to a standstill thanks to the pandemic called COVID – 19. Given the very little economic activity owing to this, most industries sectors have shrunk. The situation in the real estate sector is no different. In this chapter we look at a few nuances emerging out of this situation. We start by examining a few ground realities, followed by the Central and State government response to the situation. Finally, we end with our own assessment and end with a couple of ideas that can boost demand in order accomplish the goal of Housing for All (HFA).

Situation of the Real Estate Sector and Government's Response

IIMB-RERI conducted a primary survey of 294 real estate developers across the country in Jun 2020 to understand the impact of COVID – 19 on demand, supply and other issues pertaining to the sector[42]. As expected, the findings were not very encouraging. The key takeaways can be summarised as:

- 73% of the residential developers witnessed a complete standstill in sales with the affordable segment taking a major hit.
- Strained cash-flows are expected for the next 6 months or so. Given this liquidity situation, most developers can take care of fixed costs and debt servicing for less than 3 months
- RERA compliance worries and labour migration were the other major concerns raised by developers
- The sector in general feels that recovery will take long and is expected to be sluggish

[41] https://www.worldbank.org/en/news/feature/2020/06/08/the-global-economic-outlook-during-the-covid-19-pandemic-a-changed-world as viewed on 26th Jul 2020
[42] https://www.iimb.ac.in/state-sector-impact-covid-19-indian-res as viewed on 27th Jul 2020

- From a response perspective, developers are exploring digital marketing as an alternative channel to reach out to customers. Reducing fixed costs, pay cuts, layoffs were the other thoughts on their mind.

From a policy perspective, some of the policy measures to support the sector by the government were[43]:

- Karnataka and a few other state governments reduced SD rates for affordable housing[44]
- Extension for RERA registered projects
- Extending the CLSS – MIG scheme until Mar – 2021
- Rental accommodation under the PMAY for migrant labourers

The Way Forward:

The pandemic situation and the response thereof are still effervescent and emerging. However, it's reasonable to assume that economy in general will be sluggish. As a result, employment and wage rates can be expected to be low for a considerable period of time translating into lower demand. As we have argued throughout this report, the SD reform is about stirring up demand. Leaping further on this basic premise, a few more policy options can be explored to encourage people to "afford" a house for themselves, thus spurring demand. A detailed discussion on this is beyond the scope of this Study. However, we present below a couple of ideas for further exploration and an in-depth study. IIMB-RERI would be keen and pleased to undertake such a feasibility and implementation study.

First, the "Rent to Own" model in a Public-Private-Partnership (PPP) mode can be explored. This model would be very similar to other greenfield and brownfield infrastructure projects on PPP mode. In this, the government can work with the private developers with unsold inventory to repurpose it for affordable housing. The intended buyer rents the premise and pays rent to the developer over fixed period of time. Overtime, s/he builds equity into the premise and ultimately owns it. The government can stand guarantee and add the subsidy component to compensate and ensure builder's profitability. The equity component can itself be fungible. Should the tenant

[43] https://pib.gov.in/PressReleseDetailm.aspx?PRID=1623862

[44] https://www.thehindu.com/news/national/karnataka/registration-fee-cut-for-flats-costing-less-than-35-lakh/article31683901.ece

choose to leave midway or is evacuated for non-payment, the equity component may be compensated for through the "Going Concern" mechanism by the next tenant.

The other option is to explore REITs in the residential space. This would be a pure private investor aggregating vast number of available inventory and selling it as "sub-units" to the public at market values until a full housing unit worth is accumulated. Low rental yields are often quoted as bottleneck this approach. However, a detailed study can bring out various ways to tackle this issue. The recent consideration of the government to allow FDI in the completed housing market[45] may spur this.

All these will require significant reforms on the stamp duty front as each transaction currently attracts a registration fee and stamp duty. As we have showcased in this report, there are ways to reduce stamp duty without foregoing the revenues accrued thereof. Taking these up diligently and implementing them would be a great leap forward towards fulfilling the government's commitment and responsibility of Housing for All by 2022. To reiterate again, we look forward to jointly work with MoHUA, NHB and individual State governments to undertake and implement such reforms.

[45] https://economictimes.indiatimes.com/news/economy/policy/govt-may-allow-100-fdi-in-completed-housing-projects/articleshow/77057171.cms

References

Alm, James, Patricia Annez and Arbind Modi, "Stamp Duties in Indian States: A Case for Reform," World Bank Policy Research Paper 3413, 2004.

Dowell, Stephen, "A History and Explanation of the Stamp Duties and the Stamp Laws," London: Butterworths, 1873.

Duranton, Gilles, Ejaz Ghani, Arti Grover Goswami, and William Kerr, "The Misallocation of Land and Other Factors of Production in India," World Bank Policy Research Working Paper 7221, 2015.

Duranton, Gilles, Ejaz Ghani, Arti Grover Goswami, and William Kerr, "A Detailed Anatomy of Factor Misallocation in India," World Bank Policy Research Working Paper 7547, 2016.

Economic Survey of Karnataka 2015-16, as accessed from http://des.kar.nic.in/docs/Economic%20Survey%202015-16_English%20Final.pdf, as accessed on March 5, 2017.

Economic Survey of Karnataka 2017-18, as accessed from http://planning.kar.nic.in/docs/Economic%20Survey%20Reports/ES_17-18/English.pdf, as accessed on December 4, 2018.

Gopalakrishnan, S. and A. Das-Gupta, "Stamp Duties and Registration Fees in West Bengal," Working Paper, NIPFP, 1986.

Government of India, Jawaharlal Nehru National Urban Renewal Mission – Overview, http://mohua.gov.in/upload/uploadfiles/files/1Mission%20Overview%20English(1).pdf, accessed on March 12, 2018.

Government of India, "Report of the Technical Group on Urban Housing Shortage (TG-12) (2012-17)," 2012, as accessed from http://www.nbo.nic.in/Images/PDF/urban-housing-shortage.pdf, as accessed on September 27, 2016.

Government of India, Ministry of Finance, Whitepaper on Black Money, 2012.

KPMG-NAREDCO, "Decoding Housing for All by 2022," Report, 2014.

Kumar, A., "Understanding the Black Economy and Black Money in India," New Delhi: Aleph Book Company, 2017.

Law Commission of India, Sixth Report on Registration Act of 1908, 1957, as accessed from http://lawcommissionofindia.nic.in/1-50/report6.pdf, as accessed on November 4, 2016.

Morris, Sebastian and Ajay Pandey, "Land Markets in India: Distortions and Issues," Published in Mohanty, N. R. Sarkar and A. Pandey (eds), India Infrastructure Report 2009 — A Critical

Resource for Infrastructure, 3inetwork, Oxford University Press, New Delhi, 2009. Available at https://ssrn.com/abstract=2182490.

Mukherjee, Vivekananda, "Determinants of Stamp Duty Revenue in Indian States," Project Report, Centre for Training and Research in Public Finance and Policy, 2012.

National Institute of Public Finance and Policy, "Black Money in the Real Estate Sector: A Study," Working Paper, NIPFP, 1995.

National Institute of Public Finance and Policy, "Economic Reforms and the Stamp Act," Working Paper, 1995.

RBI Bulletin, "Affordable Housing in India," January 2018.

Tandon, N.K., "Under-reporting of Real Estate Transactions in India," ICSSR, New Delhi, 1987.

The Indian Stamp Act, 1899, https://indiacode.nic.in/acts/2.%20Indian%20Stamp%20Act,%201899.pdf, as accessed on November 4, 2016.

The Registration Act, 1908, https://indiacode.nic.in/acts/7.%20Registration%20Act,%201908.pdf, as accessed on November 4, 2016.

Wanchoo Committee, "Direct Taxes Enquiry Committee, Final Report," 1971 as accessed from https://www.thehinducentre.com/multimedia/archive/03091/direct-taxes-enqui_3091080a.pdf, on November 4, 2016.

Young Lee, David-Jin and Kyu-Dong Kim, "South Korea: Overview of the Stamp Duty Regime," Working Paper, Pricewaterhouse Coopers, Korea, 2013.

Appendix 1: List of Amending Acts and Adaptation Orders

1. The Indian Stamp (Amendment) Act, 1904 (15 of 1904).
2. The Indian Stamp (Amendment) Act, 1906 (5 of 1906).
3. The Indian Stamp (Amendment) Act, 1910 (6 of 1910).
4. The Indian Stamp (Amendment) Act, 1912 (1 of 1912).
5. The Decentralization Act, 1914 (4 of 1914).
6. The Repealing and Amending Act, 1914 (10 of 1914).
7. The Indian Stamp (Amendment) Act, 1923 (43 of 1923).
8. The Indian Stamp (Amendment) Act, 1925 (15 of 1925).
9. The Indian Bar Councils Act, 1926 (Act 38 of 1926).
10. The Indian Finance Act, 1927 (5 of 1927).
11. The Repealing and Amending Act, 1927 (10 of 1927).
12. The Repealing and Amending Act, 1928 (18 of 1928).
13. The Indian Air Force Act, 1932 (14 of 1932).
14. The Amending Act, 1934 (35 of 1934).
15. The Government of India (Adaptation of Indian Laws) Order, 1937.
16. The Indian Independence, (Adaptation of Central Acts and Ordinances) Order, 1948.
17. The Adaptation of Laws Order, 1950.
18. The Mysore High Court (Extention of Jurisdiction to Coorg) Act, 1952 (72 of 1952.
19. The Andhra (Adaptation of Laws on Union Subjects) Order, 1954.
20. The Indian Stamp (Amendment) Act, 1955 (Act 43 of 1955).
21. The Finance Act, 1956 (76 of 1956).
22. The Adaptation of Laws (No.2) Order, 1956.
23. The Indian Stamp (Amendment) Act, 1958 (19 of 1958).
24. The Finance Act, 1961 (Act 14 of 1961).
25. The Union Territories (Stamp and Court Fees Laws) Act, 1961 (Act 33 of 1961).
26. The Marine Insurance Act, 1963 (Act 11 of 1963).
27. The Pondicherry Extention of Laws Act, 1968 (Act 26 of 1968).
28. The Punjab Reorganisation and Delhi High Court (Adaptation of Laws on Union Subjects) Order, 1968.

29. The Stamp and Excise Duties (Amendment) Act, 1971 (Act 44 of 1971).
30. The Union Territories Taxations (Amendment) Act, 1971 (Act 73 of 1971).
31. The Refugee Relief Taxes (Abolition) Act, 1973 (Act 13 of 1973).
32. The Union Territories Taxation Laws (Amendment) Act, 1973 (Act 14 of 1973).
33. The State of Himachal Pradesh (Adaptation of Laws on Union Subjects) Order, 1973.
34. The North-Eastern Areas (Reorganisation) (Adaptation of Laws on Union Subjects) Order, 1974
35. The Laccadive, Minicoy and Aminidivi Islands (Alteration of Name) Adaptation of Laws Order, 1974.
36. The Finance Act, 1976 (66 of 1976).
37. The Finance Act, 1985 (Act 32 of 1985).
38. The Finance Act, 1994 (Act 32 of 1994).
39. The Depositories Act, 1996 (22 of 1996).
40. The Depositories Related Laws (Amendment) Act, 1997 (8 of 1997).
41. The Finance Act, 2000 (10 of 2000).
42. The Registration and Other Related Laws (Amendment) Act, 2001 (48 of 2001).
43. The Finance {No.2) Act, 2004 (23 of 2004).
44. The Delegated Legislation Provisions (Amendment) Act, 2004 (4 of 2005).
45. The Finance Act, 2005 (18 of 2005).
46. The Special Economic Zones Act, 2005 (28 of 2005).
47. The Finance Act, 2006.

Appendix 2: The Indian Registrations Act of 1908

This system continued until 1864 (subject to minor modifications by Act I of 1843). In 1864, the Registrations Act, XVI was enacted. Section 13 of this Act stated that certain documents shall not be received as evidence in court or be acted upon by any public officer unless the document is duly registered. Post this, 1866, 4 particular documents, including property transfer deeds were compulsorily to be registered. This Act was amended from time to time and was finally adopted as the Registrations Act of 1908. This Act as amended from time to time (last being in 1984) calls for compulsory registration of documents as per section 17, viz.[46]:

- Immovable property related:
  - (a) Instruments of gift of immovable property
  - (b) Other non-testamentary instruments which purport or operate to create, declare, assign, limit or extinguish, whether in present or in future, any right, title or interest, whether vested or contingent, of the value of one hundred rupees, and upwards, to or in immovable property;
  - (c) Non-testamentary instruments which acknowledge the receipt or payment of any consideration on account of the creation, declaration, assignment, limitation or extinction of any such right, title or interest; and
  - (d) Leases of immovable property from year to year, or for any term exceeding one year, or reserving a yearly rent;
  - (e) Non-testamentary instruments transferring or assigning any decree or order of a court or any award when such decree or order or award purports or operates to create, declare, assign, limit or extinguish, whether in present or in future, any right, title or interest, whether vested or contingent, of the value of one hundred rupees and upwards, to or in immovable property

Discretionary clause applicable only to 1(e) above:

PROVIDED that the State Government may, by order published in the Official Gazette, exempt from the operation of this sub-section any leases executed in any district, or part of a district, the

[46] https://indiacode.nic.in/acts/7.%20Registration%20Act,%201908.pdf

terms granted by which do not exceed five years and the annual rent reserved by which do not exceed fifty rupees.

- Exemptions from application of clauses (b) and (c) above:
  (a) Any composition-deed;
  (b) Any instrument relating to shares in a joint Stock Company, notwithstanding that the assets of such company consist in whole or in part of immovable property;
  (c) Any debenture issued by any such company and not creating, declaring, assigning, limiting or extinguishing any right, title or interest, to or in immovable property except insofar as it entitles the holder to the security afforded by a registered instrument whereby the company has mortgaged, conveyed or otherwise transferred the whole or part of its immovable property or any interest therein to trustees upon trust for the benefit of the holders of such debentures;
  (d) Any endorsement upon or transfer of any debenture issued by any such company;
  (e) Any document not itself creating, declaring, assigning, limiting or extinguishing any right, title or interest of the value of one hundred rupees and upwards to or in immovable property, but merely creating a right to obtain another document which will, when executed, create, declare, assign, limit or extinguish any such right, title or interest;
  (f) Any decree or order of a court, except a decree or order expressed to be made on a compromise and comprising immovable property other than that which is the subject-matter of the suit or proceeding;
  (g) Any grant of immovable property by Government;
  (h) Any instrument of partition made by a revenue-officer;
  (i) Any order granting a loan or instrument of collateral security granted under the Land Improvement Act, 1871, or the Land Improvement Loans Act, 1883;
  (j) Any order granting a loan under the Agriculturists Loans Act, 1884, or instrument for securing the repayment of a loan made under that Act;
  (k) Any order made under the Charitable Endowments Act, 1890, (6 of 1890) vesting any property in a Treasurer of Charitable Endowments or divesting any such treasurer of any property;

(l) Any endorsement on a mortgage-deed acknowledging the payment of the whole or any part of the mortgage-money, and any other receipt for payment of money due under a mortgage when the receipt does not purport to extinguish the mortgage;

(m) Any certificate of sale granted to the purchaser of any property sold by public auction by a civil or revenue-officer.

Explanation for clause 2(m): A document purporting or operating to effect a contract for the sale of immovable property shall not be deemed to require or ever to have required registration by reason only of the fact that such document contains a recital of the payment of any earnest money or of the whole or any part of the purchase money

- Authorities to adopt a son, executed after the 1st day of January, 1872, and not conferred by a will, shall also be registered.
- Any other document not specified above may also be registered, however is not mandatory.

The Registrations' Establishment (as envisaged by the Act) consists of the Inspector-General of Registrations (IGR) are appointed or directed by the State Government. The District Registrars (DR) for each of the revenue district and their subordinate Sub-Registrars and Joint-Registrars (SR) are appointed by the State Government too. Separate offices for each of the Sub and Joint Sub-Registrars may be created across the States. The jurisdiction for each of these DR and SR shall be notified by the State from time to time. Also, Inspectors of Registrations' offices appointed by the State Government, report to the IGR.

The key tasks of this Establishment are:

1. Register all documents presented to the SR
2. Collect fee and duty as prescribed by the State
3. Maintain fire-proof record of all documents:
    a. Presented for registration
    b. Fee and duties collected therein

Appendix 3: The Indian Stamp Act of 1899

The concept of stamp duty in India originated in 1869. This was done to raise revenue for the British Government. It was adopted as a fiscal measure by enacting the Stamp Act, 1869 (18 of 1869) which was replaced by the Indian Stamp Act, 1879 (1 of 1879). Since the passing of the Act of 1879 the Stamp law was amended by ten different enactments. In spite of that need was felt to enact a more comprehensive law.

Accordingly the Indian Stamp Bill was legislated into a law on 27th Jan 1899 and came into force from 1st of Jul 1899. It has been amended a number of times by the Union Government, the latest being through the Finance Act, 2006. Further, the States have adopted this law and amended it a number of times as well. Appendix 1 gives all amendments to this Act by the Centre as well as different States (47 in all). The document can be a sale deed, conveyance deed, gift deed, mortgage deed or any of the other documents, as defined under the Act. Basically, these documents are used to create rights and liabilities of the parties involved in the transaction. In its current State, this Act encompasses the following:

- It defines SD as charges/duties levied by the Government on certain types of instruments comprising of transactions of particular description.
- It lays down the law relating to duties levied in the form of stamps on instruments recording transactions.
- Duty is levied on most instruments, including documents, mentioned in Schedule I to the Act.
- Extent of Stamp duties to be levied by the Centre on various documents specified. The documents themselves are as per Entry 91 of the Union List under Article 246 in the 7th Schedule of the Constitution (viz. Bills of Exchange, cheques, promissory notes, bills of lading, letters of credit, policies of insurance, transfer of shares, debentures, proxies and receipts).
- Extent of Stamp duties on documents other than those mentioned above are levied and collected by the States by virtue of the legislative entry 63 in the State List in the 7th Schedule of the Constitution (Rates of SD in respect of documents other than those specified in the provisions of Union List with regard to rates of SD)

- Machineries and provisions of all aforementioned documents
- Section 9 of the Act authorises the Central Government or the State Government to reduce or remit, whether prospectively or retrospectively, the duty payable on the Central or the State instruments, as the case may be
- Section 17 provides that all instruments executed in India chargeable with duty and executed by any person in India shall be stamped before or at the time of execution. Therefore, the liability to pay SD arises before or at the time of the execution of the instrument. The subsequent cancellation of the sale deed by a decree of Court can, therefore, have no bearing. There is no provision in the Act to the effect that in the event of cancellation of the instrument by a decree of Court, the liability to pay SD would cease
- Section 18 provides for a 3 months window for stamping for all instruments other than bills and notes executed outside India.
- Section 27 calls for truthful declaration of consideration and all other facts and circumstances affecting the chargeability of the duty. It's incumbent upon the parties to the instrument to do so.
- Section 29(c) clarifies that the obligation of paying the duty is on the lessee/grantee.
- Section 35 mandates due stamping for all instruments failing which it shall not be eligible to be admitted in evidence.
- Section 36 further clarifies that:
    - Once the Court, rightly or wrongly, decides to admit the document in evidence, so far as the parties concerned, the matter is closed
    - Where a document has been admitted and placed on record as an exhibit the same cannot be controverted either by the trial court or the appellate court or in revision

Under Article 268 of the Constitution of India, the State, in which SD is collected, retains the proceeds. The SD collected in the Union Territories form part of the Consolidated Fund of India. Similarly, as highlighted above, Registration is a mechanism mandated under the Registration Act, 1908 which (under Section 17 of the Act). It requires that certain documents be compulsorily presented to an officer who maintains public record (like a sub-registrar) for registration. The document can be a sale deed, conveyance deed, gift deed, mortgage deed or any of the other documents, as defined under the Act. Basically, these documents are used to create rights and liabilities of the parties involved in the transaction.

Appendix 4: User Guide to the Excel Utility Supplied with this Document

The Excel utility helps compute the trade-off between the additional revenue each State would make from housing activity triggered by PMAY and loss of revenue from lowering SD and RC on low value housing by modifying key inputs. This section provides the intuition and a guide to using the utility. In particular, the user guide provides screen shots of all inputs and steps necessary to evaluate our revenue neutral proposal.

The intuition behind our revenue neutral proposal as captured by the utility is as follows:

1. States <u>lose revenue</u> if they lower SD and RC rates for low value housing. The extent of their loss depends on:
    a. SD and RC rate applicable for low value housing (Input E in tab<User Inputs> of the Excel utility)
    b. SD and RC revenues (SD and RC rate times the number of transactions) from current and future registrations of only low value housing transactions
        i. Current revenues: They are estimated as a percentage of current total SD and RC revenues (Input G).
        ii. Future revenues without PMAY impact: They are estimated in two steps:
            1. First, we estimate future total SD and RC revenues by exploiting the linear historical relationship between SD and RC revenues and GSDP of the State (Input F);
            2. Second, we estimate future SD and RC revenues from low value housing (Input G).
2. On the other hand, States tend to <u>gain revenue</u> from new housing stock created by PMAY. To estimate this, we need the total housing stock that PMAY is expected to create in that State (Inputs A and B) and the revenue impact of the new stock. Using an average value of a new house (Input I), the revenue impact can be estimated from two sources:
    a. Non-SD revenue from these new housing stock:
        i. We assume that not all stock created by PMAY verticals generate non-SD revenue. Our model assumes that all housing stock created by CLSS

(Input C) and some percentage (Input D) of the stock created by the other verticals generate non-SD revenue.

ii. We estimate the non-SD revenue generated from new housing stock from market sources (Input H)

b. Loss of SD and RC revenue from low value housing stock created by PMAY

i. SD and RC rate applicable for low value housing (Input E)

ii. New housing stock from PMAY that is eligible for SD and RC. We assume only housing stock created by CLSS is eligible for SD and RC (Input C)

3. The net impact to the State is the sum of (1) and (2).

The Excel utility is designed in such a way that all inputs can be modified by the user and the net impact to the State can be automatically derived at. Some of the ***comparative statics*** of the model (impact on net revenues by changing one input and keeping others constant) are:

1. Increase in housing stock created by CLSS (Input C) will increase non-SD revenue but will also lower SD and RC revenue. It increases the non-SD revenue for the State since we assume that 100% of CLSS houses but only 50% of stock from other verticals generate non-SD revenues. It decreases potential SD and RC revenues since we assume that only housing stock created by CLSS generates SD and RC revenues for the State. Hence the net effect depends on the difference between these two sources of revenue.
For example, if the CLSS percentage increases to 30% from 25% of housing stock needed (HS), then the net revenue gain =

$[(0.30HS + (1\text{-}0.30)*0.50*HS)*\tau_{non\text{-}SD} – (0.30HS*\tau_{SD})] –$
$[(0.25HS + (1\text{-}0.25)*0.50*HS)*\tau_{non\text{-}SD} – (0.25HS*\tau_{SD})]$

$= [(0.05HS – 0.05*0.50*HS)*\tau_{non\text{-}SD} – 0.05HS*\tau_{SD})]$

$= 0.025HS*\tau_{non\text{-}SD} – 0.05HS*\tau_{SD}$

$= (0.025*\tau_{non\text{-}SD} – 0.05*\tau_{SD})*HS$

Using $\tau_{non\text{-}SD} = 11.9\%$, $\tau_{SD} = 7.6\%$ and HS = (489,600 units*₹900,000 per unit) or ₹44,064cr, the net revenue gain/loss

= (0.025*0.119 – 0.05*0.076)* ₹44,064cr

= - ₹36.3cr (we need to compute present value of this loss to compute actual impact today)

2. Increase in housing stock from other verticals of PMAY that generate non-SD revenue (Input D) will increase net revenue for the State.
3. Increase in SD and RC rate (Input E) will decrease net revenue for the State.
4. Increase in non-SD revenue rate (Input H) will increase net revenue for the State.
5. Increase in the percentage of low value housing transactions in current SD and RC revenue (Input G) will decrease net revenue for the State.
6. Increase in average value of a house (Input I) will increase net revenue for the State.

The detailed steps of how the utility can be used are given below. The utility consists of 3 sets of tabs that are colour coded differently. These are:

User Input Tabs in <Yellow>: The tab <Instructions> provides a step-by-step set of instructions on how to use the spreadsheet. The screenshot of this tab is given below.

How to use the Utility?

Objective The Utility provides an easy way to quickly determine whether States would be better off or worse off by waiving stamp duty for low value housing.
While States would lose stamp duty revenues, they will make it up through non-stamp duty revenues on housing created by the Central scheme, PMAY.

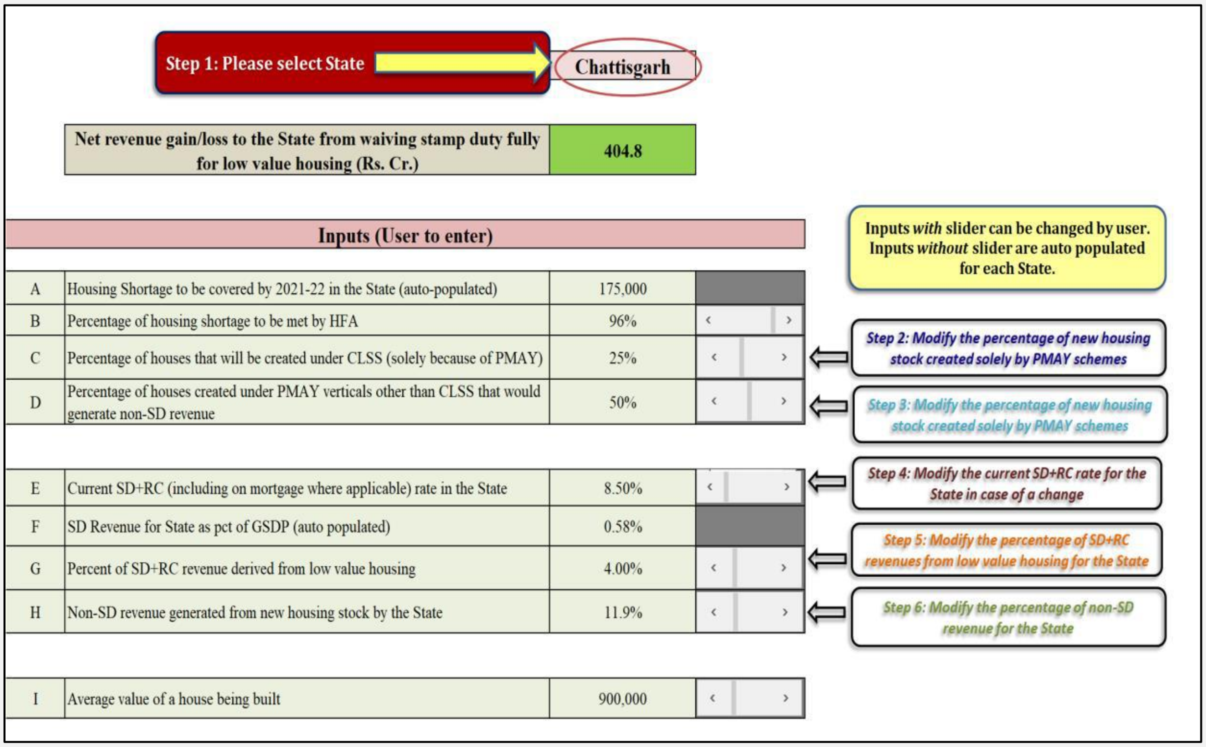
Steps in using the Utility

1 **Change necessary inputs listed in the tab <User Inputs>.**
Start with the State that you want the analysis for.
The housing shortage in that State and SD revenue as % of GSDP of the State are auto-populated based on publicly available data.
All other inputs can be changed by sliding the slidebar on the right of the input. The key inputs here are: Percentage of housing that will be created solely by PMAY and percentage of housing created under the other 3 verticals that would generate non-SD revenue for the State.

2 **Outputs are displayed in the tabs <Output (Do not change)> and <Model Working (Do not change)>.**
The net gain/loss to the State of fully waiving the SD for low value housing is displayed both in aggregate (from now till 2021-22) as well as in present value terms.
It is also displayed in the tab <User Inputs> at the top to provide a quick summary of whether it makes sense for the State to waive SD or not.
Summary for the alternative proposal, i.e., giving SD rebates to all and not just to those who transact in low value housing, is also provided.
The maximum rebate rate is computed based on uniform reduction in rates across all value categories.
The tab <Model Working (Do not change)> presents a detailed step-by-step computation of the impact of the revenue neutral proposal.

3 **All tabs after <Input Data (Do not change)> hold data used in the computation of the impact of the proposal.**
They are obtained from various sources which have been displayed at the end of each tab.
Unless the user is absolutely sure about their data, it is best that they don't change the data that is already in these tabs.

- The tab<User Inputs> provides users with a set of inputs that can be changed to reassess the impact of our proposal. Some of the inputs are automatically populated based on secondary data that are provided separately in red coloured tabs. The user starts with choosing the State from the drop-down menu (Step 1). The dropdown will appear once you click on the cell. The screenshot of this tab is given below. The user also needs to input the percentage of housing stock that is solely attributable to PMAY (Step 2). We have assumed stock created by CLSS as those solely attributable to PMAY. Though we assume 25% in the report for CLSS created stock, the user can modify this assumption and examine the impact. Of the housing stock created by other verticals of PMAY, we assume that 50 percent of them would generate non-SD revenues for the State in the report. This too is an assumption that the user can modify in Step 3. The utility allows for changes in other inputs as well (Steps 4-6). The slider at the right allows the user to dynamically change the inputs to determine the impact on the revenue neutral proposal. The net revenue gain or loss for the State is computed automatically as the inputs change.



A	Housing Shortage to be covered by 2021-22 in the State (auto-populated)	175,000
B	Percentage of housing shortage to be met by HFA	96%
C	Percentage of houses that will be created under CLSS (solely because of PMAY)	25%
D	Percentage of houses created under PMAY verticals other than CLSS that would generate non-SD revenue	50%
E	Current SD+RC (including on mortgage where applicable) rate in the State	8.50%
F	SD Revenue for State as pct of GSDP (auto populated)	0.58%
G	Percent of SD+RC revenue derived from low value housing	4.00%
H	Non-SD revenue generated from new housing stock by the State	11.9%
I	Average value of a house being built	900,000

- **Output Tabs in <Green>:** The tab <Output (Do not change)> provides a quick summary of the net revenue gain or loss to the State upon waiving the SD and RC for low value housing. Both a simple aggregate as well as the present value of the revenue gain or loss is presented. In addition, the maximum SD rebate (alternative proposal) that can be given for all transactions is also shown.

Outputs (Automatically Created)

Main Proposal: Waive all stamp duty for low value housing					
	2017-18	**2018-19**	**2019-20**	**2020-21**	**2021-22**
Incremental Revenue from Housing Stock Created by PMAY (Rs. Cr.)	225	225	225	225	225
Loss of SD Revenues from Waiving SD for Low Value Housing (Rs. Cr.)	-120	-124	-129	-134	-139
Net gain/loss for the State (Rs. Cr.)	105	101	96	91	85
Total gain/loss until 2021-22 (Rs. Cr.)	477.7				
Present value (@6% Discount Rate) of the Total gain	404.8				

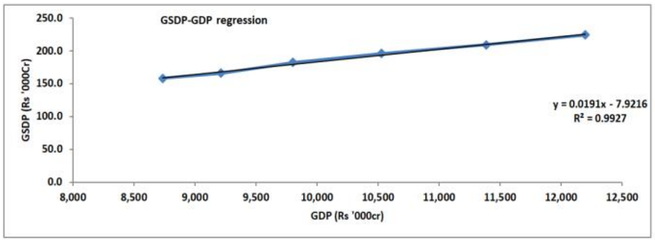
Alternative Proposal: Provide SD rebate for all housing transactions					
	2017-18	**2018-19**	**2019-20**	**2020-21**	**2021-22**
Average SD Rate Rebate (%)	15.4%	14.4%	13.4%	12.4%	11.6%

- The tab <Model Working (Do not change)> presents a detailed step-by-step derivation of our revenue neutral model. These steps mirror the sequence described in the report.

Potential Reduction in Stamp Duty for Low Value (or All) Housing From Additional Revenues Generated by PMAY for States

All calculations are automatically computed once inputs are chosen in tab <Input and Summary Output>

Step 1: Get historical relationship between State GSDP and India's GDP (Use data from 2011-12 to 2016-17)



Step 2: Determine projections of stamp duty revenues from 2017-18 to 2021-22 (Baseline Scenario)

	GSDP and SD Projections (In Rs. '000 Crore)				
	2017-18	**2018-19**	**2019-20**	**2020-21**	**2021-22**
GDP	13,012.00	13,962.00	15,005.00	16,149.00	17,379.00
GSDP	240.86	259.02	278.96	300.84	324.35
SD Revenues (all transactions)	1.40	1.50	1.62	1.74	1.88
SD Revenues (low value transactions)	0.06	0.06	0.06	0.07	0.08

Potential loss of revenues if Stamp Duty is waived for low value transactions

Step 3: Housing Stock to be created each year because of PMAY until 2021-22

Item	Total Housing Stock to be created by 2021-22	Annual Housing Stock to be created
Housing Shortage to be covered by 2021-22	175,000	35,000
Percentage of housing shortage to be met by HFA	168,000	33,600
Percentage of houses that will be created under CLSS (assumed to be **created solely because of PMAY**)	42,000	8,400
Percentage of houses that will be created under other schemes of PMAY but would have been **created anyway**	126,000	25,200

Our focus is on these houses as they would generate additional revenue to the State

Step 4: Incremental revenues from Housing Stock created by PMAY

Incremental revenues generated by housing stock created under PMAY in Crores (Average value per house = Rs. 900000)					
	Total Value of Housing Stock to be created by 2021-22	**Total Value of Housing Stock to be created each year**	**Incremental SD Revenue/year (Rs. Cr.)**	**Incremental Non-SD Revenue/year (Rs. Cr.)**	**Total Incremental Revenue/year (Rs. Cr.)**
Incremental revenues to the State from housing stock created under CLSS (**solely due to PMAY**)	3,780	756	64.26	89.96	154.22
Incremental revenues to the State from housing stock created under other 3 verticals (**would have been created outside of PMAY anyway**)	11,340	2,268	[redacted]	134.95	134.95

Step 5: Revenue Gain/Loss to the State from Full Stamp Duty Waiver to All Low Value Housing (Main Proposal)

Revenue Gain/Loss from Stamp Duty Waiver to All Low Value Housing (Rs. Crores)					
	2017-18	**2018-19**	**2019-20**	**2020-21**	**2021-22**
Loss of SD Revenues from Existing Low Value Transactions	-55.85	-60.07	-64.69	-69.76	-75.22
Loss of SD Revenues from Incremental Housing Stock Created under PMAY	-64.26	-64.26	-64.26	-64.26	-64.26
Gain in Non-SD Revenues from Incremental Housing Stock Created under PMAY	224.91	224.91	224.91	224.91	224.91
Net Gain/Loss in Revenues to the State	104.80	100.58	95.96	90.89	85.43

	(in Rs. Crores)
Total Net Gain/Loss to the State	477.66
Present Value (@6% Discount Rate) of the Total Net Gain/Loss to the State	404.79

Step 6: Potential Reduction in Stamp Duty Rate if Revenues from New Houses Created by PMAY are Distributed Uniformly Across All Value Categories (Alternative)

Uniform Reduction in Stamp Duty Rate Across All Value Categories					
	2017-18	**2018-19**	**2019-20**	**2020-21**	**2021-22**
Gain in Non-SD Revenues from Incremental Housing Stock Created under PMAY (Rs. Cr.)	224.91	224.91	224.91	224.91	224.91
Baseline SD Revenues from all existing transactions (Rs. Cr.)	1,396.34	1,501.64	1,617.25	1,744.05	1,880.39
Incremental SD Revenues from Housing Stock Created by PMAY (Rs. Cr.)	64.26	64.26	64.26	64.26	64.26
Total SD Revenues for the State from Housing (Rs. Cr.)	1,460.60	1,565.90	1,681.51	1,808.31	1,944.65
Average SD Rate Rebate (%)	15.40%	14.36%	13.38%	12.44%	11.57%

- **Auto Input Tabs in <Red>**: There are six tabs which either hold key secondary data needed for the revenue neutral model or the interim output derived from the model. These tabs **do not require user intervention** and must be changed only if the user is confident that their data are more accurate than the one presented in the utility. These tabs include:
    - Housing shortage by State – contains the number of units estimated to be the shortage in each State; this number is revised according to the latest Government estimate.
    - GSDP by State (historical) – contains the GSDP in constant prices (2011-12 = base year) for all States.
    - GDP and GSDP by State (with projections) – contains the projections of GSDP and India's GDP until 2021-22.
    - GDP GSDP Relationship – contains estimates for a linear regression of the State's GSDP on India's GDP.
    - Current SD+RC Rate by State – contains the latest SD and RC (including SD on mortgages where applicable) for all States.
    - SD as Pct of GSDP – contains the SD revenues as percentage of the State GSDP for all States.

Appendix 5: Progress of the Pradhan Mantri Awas Yojana (PMAY) as of Dec 2019[47]

The PMAY has made tremendous progress in terms of sanctioning and allotting houses to the needy. Here we document the progress in terms of number of houses allotted and the budget sanctioned for the same. The data is as of Dec 2019 and made available by the Ministry of Housing and Urban Affairs (MoHUA)[47]. A total of 1.03 crore houses have been sanctioned so far. Fig A5.1 depicts the quarterly progress since 2016.

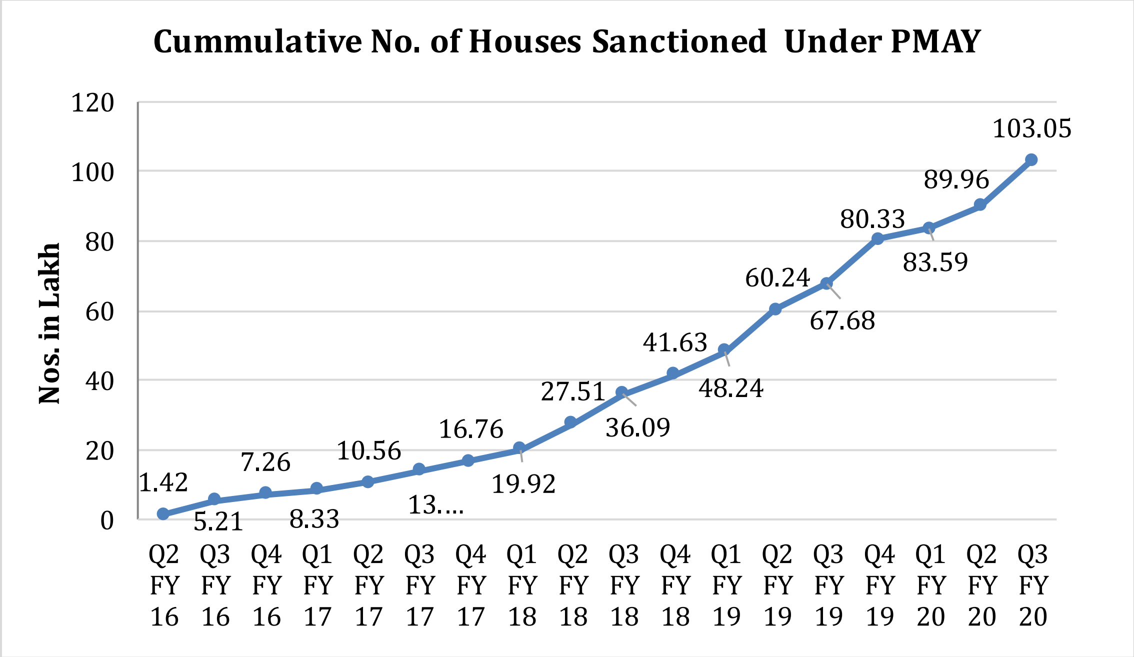


Fig. A5.1: Cumulative number of houses sanctioned as of Dec 2019

The total Central assistance amount sanctioned stands at INR 1,63,181 Crores (1.63 Lakh Crores). Of this, ~49,000 Cr was already utilised while remaining has been released by the MoHUA for utlisation. The year on year cumulative sanctioned, released and utilised amounts are presented in fig. A5.2.

[47] http://mohua.gov.in/upload/uploadfiles/files/Final%20Annual%20Report%20compressed-81-140.pdf as viewed on 29th Jul 2020. These numbers are comprehensive as of Dec 2019 and not updated as of Jun 2020 that we have consistently maintained in this report.

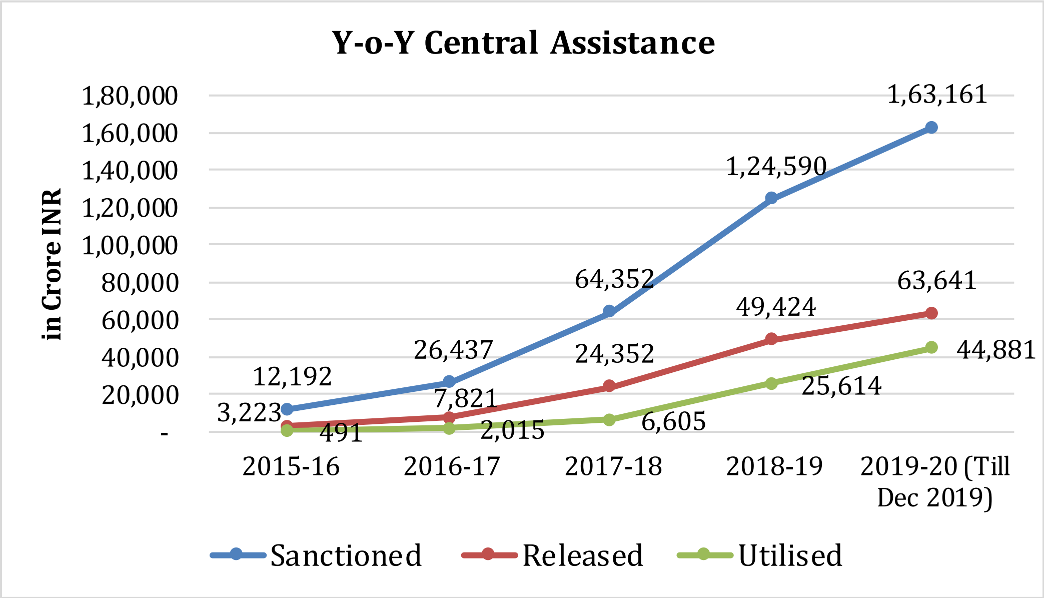


Fig. A5.2: Cumulative amount sanctioned, released and utilised by MoHUA as of Dec 2019[47]

The CLSS vertical, the main area of focus of this report, has contributed ~8% by Dec 2019. The annual progress is shown in fig A5.3.

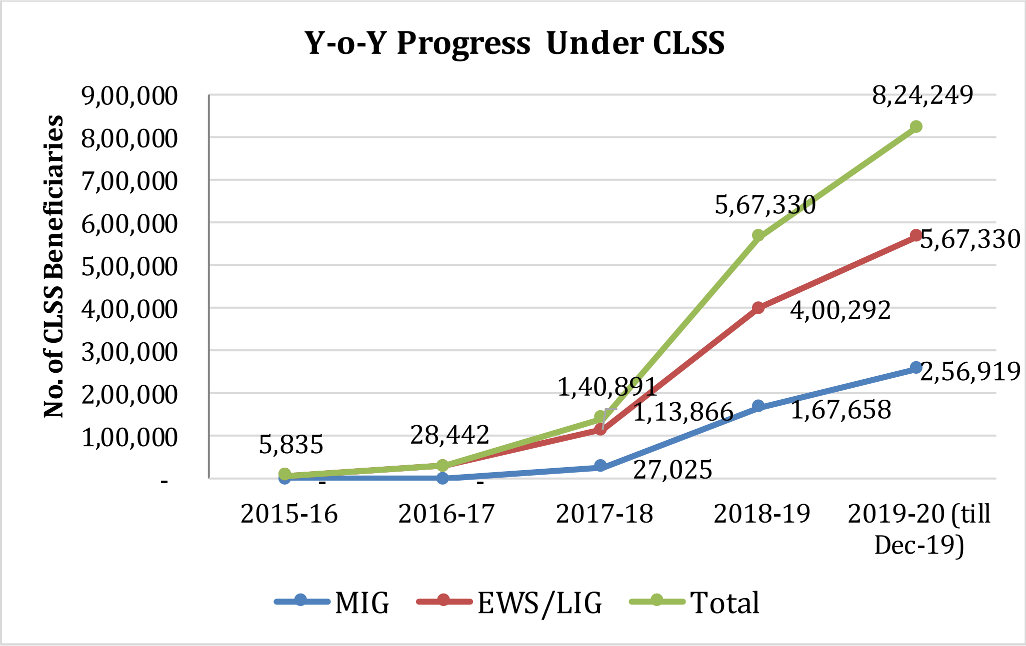


Fig. A5.3: Cumulative no. of CLSS beneficiaries[47]