

# What are the Tax Implications of Resolving a RERA Complaint?



## Introduction

Resolving disputes under the Real Estate (Regulation and Development) Act, 2016 (RERA) is a crucial step for homebuyers and builders in India. While the Act provides a transparent mechanism for addressing grievances, understanding the tax implications of resolving a RERA complaint is equally important. This blog delves into these tax-related considerations, including their connection to key aspects like lease agreements, will registration, and other property-related transactions.

## Taxation on Compensation Awarded in RERA Complaints

When filing a RERA complaint against a builder, a common outcome is the awarding of compensation to the homebuyer. This compensation could cover issues such as delayed possession or substandard construction. However, the compensation received is taxable under "income from other sources" as per the Income Tax Act. Homebuyers need to account for this income while filing their annual tax returns to avoid penalties.

Builders, on the other hand, may claim certain expenses incurred during the settlement of **RERA complaints** as business expenditures. This could include legal fees or interest paid to buyers, which may reduce their taxable income.

## **Tax Implications for Lease Agreement Registration**

Lease agreements are often integral to property-related disputes under RERA. Whether you're a buyer leasing a property until possession or a builder leasing unsold inventory, lease registration ensures the agreement is legally valid.

The registration of a lease agreement attracts stamp duty and registration charges, which vary across states. These expenses can be deducted as allowable expenses for businesses under certain conditions. For individual taxpayers, understanding whether the lease income qualifies for exemptions under specific provisions of the Income Tax Act can help minimize tax liabilities.

## **Online Lease Agreement Registration and Digital Tax Benefits**

With the advent of digital processes, online [lease agreement registration](#) has gained prominence. Opting for this mode not only simplifies documentation but may also provide tax benefits in the form of reduced administrative costs. Additionally, tax deductions under Section 80GG for rent paid can be claimed by individuals, provided specific criteria are met.

## **Tax Considerations in Will Registration**

Will registration is another legal aspect that intersects with property-related disputes. In cases where a property owner dies intestate, complications in ownership can lead to RERA complaints. To avoid such issues, registering a will can ensure the seamless transfer of property ownership.

While the act of will registration itself does not directly affect taxes, the subsequent inheritance of property does. The legal heirs receiving the property must account for any income generated from it, such as rental income or capital gains from its sale. These income streams are taxable under the respective heads of income.

## **Online Will Registration and Its Tax Efficiency**

Online will registration provides a convenient alternative to traditional methods. By creating a legally binding document online, property owners can save time and ensure clarity in asset distribution. From a tax perspective, having a registered will helps avoid disputes that could result in prolonged legal battles and higher financial liabilities for heirs.

## **Builder's Tax Obligations in RERA Disputes**

When a RERA complaint against a builder is resolved, builders may face tax implications depending on the nature of the resolution. For instance, compensation paid to buyers is generally treated as an expense, potentially reducing taxable profits. Conversely, penalties imposed on builders for non-compliance with RERA regulations are not deductible under the Income Tax Act, as these are considered punitive in nature.

Builders also need to account for Goods and Services Tax (GST) on unsold inventory or lease agreements. Ensuring proper GST compliance during and after the resolution of a RERA complaint is essential to avoid further legal complications.

## **Taxation of Property Sale During or After a RERA Dispute**

In many cases, property owners may decide to sell their units during or after the resolution of a RERA complaint. The tax implications of such a sale largely depend on the nature of the property (self-occupied or let-out) and the duration of ownership.

Capital gains tax is applicable on property sales, with long-term gains taxed at 20% after indexation benefits. However, taxpayers can claim exemptions under Sections 54, 54EC, and 54F by reinvesting the proceeds in another residential property or specified bonds within stipulated timelines.

## **Resolving Tax Implications of Lease Registration**

Lease registration is not only legal compliance but also taxation. The income generated from leasing property is taxable under “income from house property” for individuals or “business income” for entities. Proper documentation of the lease agreement ensures accurate tax reporting and eligibility for deductions, such as the standard 30% deduction for repairs and maintenance under the house property income category.

Online lease registration offers the added advantage of maintaining digital records, which are easily accessible for tax assessments and audits. Leveraging this feature can reduce the likelihood of errors or omissions in tax filings.

## **Importance of Professional Guidance**

Resolving RERA complaints often involves navigating intricate legal and tax considerations. Engaging legal and tax consultants ensures compliance with both RERA provisions and income tax regulations. Professionals can help identify eligible deductions, exemptions, and strategies to minimize tax liabilities while ensuring full legal compliance.

Whether dealing with lease agreements, will registration, or income from compensation, professional advice can save taxpayers from costly mistakes.

## **Conclusion**

The resolution of RERA complaints involves various tax implications, from the treatment of compensation received to the taxation of lease income and property transfers. Understanding these implications is critical for buyers, builders, and other stakeholders to ensure compliance and minimize liabilities.

Whether navigating lease registration, ensuring clarity with a registered will, or handling property sales, aligning legal actions with tax regulations is key to a smooth dispute resolution process. Opting for digital processes such as online lease or will registration can further streamline compliance and reduce administrative burdens.

Stakeholders can resolve RERA complaints effectively by proactively addressing tax considerations while maintaining financial and legal integrity.

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