THE TIMES OF INDIA

Tue, 23 May-17; Times of India - Kochi; Size : 201 sq.cm.; Page : 1

CIRRUS

GST could bring 5% drop in housing prices

Prabhakar Sinha
@timesgroup.com

New Delhi: Housing prices are likely to fall by up to 5% following the implementation of goods and services tax (GST) after the Centre and the states decided to peg the levy at 12% on finished houses or apartments, which after allowing for credit for taxes paid on inputs such as cement, steel, paints and other items will result in the actual burden being lower.

As a result, the price of a Rs 1 crore apartment may come down by Rs.3 lakh to Rs 5 lakh, said a consultant. The net price of houses in the affordable segment, which cost up to Rs 30 lakh (at Rs 3,500 per square feet of built up area) should fall by 5%.

Once GST kicks in, home buyers will not have to pay the 4.5% service tax on the final price that they pay while taking possession. As a result, tax consultants and realtors said that fixing the GST rate at 12% was a customer-friendly move and would lead to either lower tax liability or be

▶**Acquisiton cost, P 11**

tax neutral. For a premium product, however, CREDAI chairman and CMD of ATS Infrastructure Geetambar Anand said that if system is implemented properly, at 12% GST, customers of projects that cost up to Rs 6,000 a square feet will be benefit.

Cost of acquisition of houses to come down

▶Continued from 1

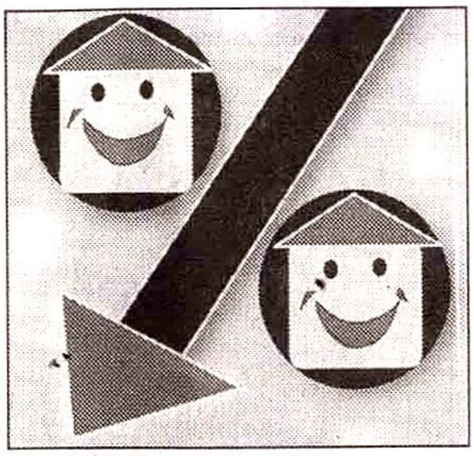
Premium project may not gain significantly as developers build high margins into such properties.

CREDAI Vice President and MD of Gaursons Manoj Gaur said that if input credits are allowed properly, the 12% GST rate is favourable to buyers. Whether the prices will be cut or not can be said when it is implemented.

Suresh N Rohira, partner, Grant Thornton India LLP said that GST at 12% would certainly bring down the tax liability in the affordable segment. He said that the taxes on inputs for construction are more than 12% of the final price. But if a developer is working with a high margin, which is the case in premium project, the net tax will remain significant.

Partner – Indirect tax KPMG India Priyajit Ghosh said that under the GST regime with 12% GST on construction sector will make the sector better off. Because of input credit, the net tax on finished product will have a downward pressure.

At present, a developer pay excise tax and VAT on inputs like cement and steel at 27.7% and 18.1% respectively, which vary from state to state, according to a Crisil report. Now, cement and steel will be taxed at 28% and 18% respectively under GST. Similarly, other inputs like paints and white goods are going to be taxed at 28%.



But the final product that is housing unit will be taxed at 12% with the allowance of credit against taxes paid on inputs. But as 12% tax will be levied on entire cost including the land, the amount will be sufficient enough to provide for the input credit, said Ghosh. He said that 12% tax rate is favourable to the industry. For normal houses up to Rs 6000 per sq ft, 12% GST on finished house or apartment will be effectively reduced to near zero as the developer will take the credit for taxes he paid on inputs. At the same time, the buyer will not have to pay the service tax at the rate of 4.5% of the price of the house. This will reduce the cost of acquisition of the house. In some cases, even input credit could be more than the GST to be levied on the finished product, but a developer can claim a maximum credit to the extent of the GST he would be paying on the finished product.

GST IMPACT

Take a simple example: A developer is getting a housing project complete through works contract awarded to a contractor. The cost of construction is around Rs 2000 per sq feet, the going rate in the market for average quality. The contractor will collect a tax at the rate of 18% of amount on which he is completing the work. In this case, he will collect a tax of Rs 360 on Rs 2000 per sq feet from the developer.

If the developer sells the house at Rs 3000 per sq ft built up area, which is the going rate for the affordable segment housing, he will pay a tax at 12 % on the final cost. In this case, it will be also Rs 360 per sq feet. Therefore, his fresh tax liability would be nil. If other expenses and tax paid thereon is included, the developer could have claimed more. But under GST, he can claim only up to the fresh tax liability.

But the service tax that a buyer pays so far at the rate of 4.5% will not be levied now. So the next cost for the buyers of not so premium houses will decline. But if the product is in premium segment, the entire input tax credit is not sufficient to bring down the fresh tax liability to nil.