GST on sector will make houses more affordable

Tax consultants and realtors say the GST rate of 12 percent on the housing sector is a customer-friendly decision and will lead to reduced tax liability or be tax-neutral. The input credit could lead to a fall in the net tax on housing reform kicks in.

Taiwari says that GST at 12 percent for construction of projects for sale to homebuyers will reduce the cost of acquisition of a house. In some cases, even input credit would 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 on the finished product. Take a simple example. A developer is set to complete a housing project through a works contract awarded to a contractor. The cost of construction is around Rs 2,000 per sq ft, the going rate in the market for average quality. The contractor will collect GST at the rate of 18 percent of the amount on which he is completing the work. In this case, he will collect a tax of Rs 360 on the ‘per sq ft rate’ of construction (Rs 2,000 per sq ft) from the developer.

If the developer sells the house at Rs 3,000 per sq ft for the built-up area, which is the going rate for the affordable segment, he will pay a tax at 12 percent on the final cost. In this case, it will also be Rs 360 per sq ft. Therefore, his fresh tax liability would be nil. If other expenses and tax paid is included, the developer could have claimed more. But under GST, he can claim only up to the fresh tax liability.

But if the product is in the premium segment, the entire input tax credit is not sufficient to bring down the fresh tax liability to nil. The going rate for premium construction is at around Rs 5,000 per sq ft. The net tax collected by the works contractor would be Rs 900 per sq ft from the developer. But while selling at Rs 10,000 per sq ft, he must pay Rs 1,200 per sq ft. Therefore, after adjusting against the taxes on input, he will have to pay Rs 300 per sq ft, or three percent, which he will recover from the buyer. But as the developer will also pay taxes on other expenditure, the net tax liability at 12 percent GST on finished products will be very small.

A simple calculation shows that the price of a house costing Rs 1 crore may reduce by Rs 3.5 lakh in the affordable housing segment, which is a 0.35 percent impact. On the other hand, in the premium segment, the impact is Rs 4.5 lakh, which is 0.45 percent.