POSITIVE MOVE

GST: Win-win for buyers, developers

The Goods and Services Tax (GST), one of the biggest tax reforms of independent India all set to be a reality soon, the real estate sector is expected to get a boost. The good news for both, the developers and home-buyers is that they will all stand to gain from this historic financial move.

Industry experts feel that the move will help the sector in a big way. Jaxyx Shah, president, CREDAI, talking about GST and its possible impact on the real estate sector, says, “CREDAI welcomes the introduction of GST as a major reform since it integrates all central and state taxes into one comprehensive tax regime for the entire country. Trade and industry are major gainers of GST as it will eliminate multiple taxation at the state and central level, with consequent cascading effects. However, for all other sectors, GST is their total indirect tax liability; for the real estate sector, GST fixed at 12 per cent, is only a fraction of its tax burden. The real estate sector is exceptional because the GST regime does not include multiple taxation. Stamp duty, levied by the states on all immovable property would continue to remain in force, even after the implementation of GST.

The additional burden on real estate on account of the stamp duty averages between 5 and 8 per cent of the value of the immovable property. Besides, the stamp duty is payable on every transaction. Lastly, stamp duty is levied by the state governments on circle rates or guideline values of the property, which are arbitrarily determined and in as much as the value at which the transactions take place.” Shah further explains, “Unless abatement for land is allowed, cost to the end-consumer would go up. CREDAI would, therefore, urge the government to minimise double taxation on real estate by treating land as zero rated under the GST regime. The positive multiplier effect of real estate on other industries would make up for the revenue loss and the impact would be beneficial for a tax regime-consistent with the objective of Housing for All by 2022.”

Explaining the new reform further, Sachin Menon, partner and head, Indirect tax, KPMG, India elaborates, “The government has specified the GST rate of 12 per cent on the sale of under-construction properties (including the value of land). Sale of land/completed property is not subject to GST. The primary inputs such as cement is taxable at 28 per cent, whereas steel will attract a GST of 18 per cent. Although developers can claim full ITC (Input Tax Credit), refund of any excess unutilised ITC is not permissible. While there is a positive impact due to higher input tax credit, the inclusion of value of land for payment of GST at full rate of 12 per cent, is not in line with the industry expectations.”

While industry inputs on the same, NAREDCO chairman, Rajeev Talwar, points out that GST is the biggest reform in the finance sector since 1947 and NAREDCO compliments the union and the state governments for painstakingly working out this path-breaking reform. “We had submitted a white paper to the government with the detailed analysis of impact rates at multiple points and their implications and are indeed happy that the paper has been studied and considered by the GST Council. The heavily-taxed real estate sector will come up as a winner in all aspects of this tax reform.”

NAREDCO president, Parveen Jain, agrees, “There is no doubt that GST will be a game-changer for the Indian economy, including the real estate sector, since it will subsume more than 16 major taxes and levies into a single consolidated tax. Additionally, the unified tax regime will stop the unwanted practice of double taxation, which hurts real estate and other sectors, giving its cascading effect with inflationary prices for end-users. NAREDCO is further hoping that the GST Council will also address issues related to the affordable housing segment, which was exempted from service tax in the previous tax regime.”

“Clearing the air about GST’s effect on home-buyers, Menon adds, “As far as buyers are concerned, continuation of stamp duty on the agreement value with an enhanced GST rate will increase the cost of buying real estate unless the developers pass on the benefit of GST to consumers. Given that property prices are market-driven and demand based on the cost of construction, the expectation of any reduction for the consumer who has already purchased the property seems to be far-fetched. The government is expected to generate higher revenues from the increase in the tax on the sector, especially due to the restriction on the refund of excess input tax credit. Indian real estate is driven by consumer demand and sentiments; unless the prices are brought to a realistic level, an uptick in the demand curve may take some time.”

On a coincidental note, Menon explains the trend citing an example of the tax break-up for the consumers, “At present, a buyer, say in Mumbai, has to pay the Maharashtra VAT at the rate of 1 per cent on the agreement value. Besides VAT, the buyer also pays the service tax on the entire consideration at the at the rate of 4.5 per cent. Thus, the effective incidence for the buyer is 5.5 per cent (approximately) on the sale price. Going forward, under GST, though he will not pay VAT/Service tax, nevertheless, he will be liable to pay GST at the rate of 12 per cent. So, clearly the tax burden for buyer will increase by around 9 per cent unless the same is compensated by way of reduced prices by the developer due to the enhanced ITC.”

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