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Impact of GST on real estate sector

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Abstract

The abstract of the provided text discusses the introduction of the Goods and Service Tax (GST) in India and its impact on the taxation system, particularly in the context of the real estate industry. Before July 1st, 2017, India had separate taxation laws for the central government and the state government, resulting in double taxation and a lack of transparency. With the implementation of the 122nd amendment bill, GST was introduced with the goal of creating a "one nation one tax" system, eliminating the cascading effect of double taxation.

GST is highlighted as a beneficial change, particularly for consumers, as it reduces the tax burden and offers a more transparent tax policy. The real estate industry, a significant contributor to India's GDP, has historically been associated with a lack of transparency. GST is seen as a solution to bring simplicity and transparency to the tax regime in this sector. It has streamlined the tax structure by removing multiple taxes such as VAT, Service tax, and central excise, and has also automated and simplified processes related to registration, refunds, and tax payments.

Keywords: Goods and service tax, value added tax, service tax

Introduction

Before 1st July 2017, the taxation laws between the center government and the state government were separately charged, as state had power to charge tax on the sale goods whereas center was charging an additional duties on custom goods and services. But with the implementation of 122nd amendment bill of the constitute of India GST (Goods and Service tax) was introduced which states the notion "one nation one tax". GST basically eliminated the double taxation which is known as "Cascading effect". It is beneficial from the point of view of the consumer which helps in reducing the tax burden because of its transparent nature of one tax policy.

Indian economy is a very vast and fast growing economy of the world, many pillars are needed to support the weight of our growing economy and real estate is an important one. Real estate industry contributes around 8% to India's GDP (Gross domestic product). Since inception real estate industry is in limelight in terms of lack of transparency. Therefore, GST helps this sector in bringing in the simplicity in tax regime system and transparency of one tax system.

GST regime for this sector has proved to be beneficial as it helped in removing all the multiple taxes like VAT (Value added tax), Service tax, central excise etc. GST has automated and simplified process of registration, refund and tax payment.

Tax rate regime of real estate industry before GST in India is as follows:-

Nature of Duty	Rate of Tax	When was tax required to be paid?
VAT	1 to 4%	On Sale of Under Construction Properties
Service Tax	4.5%	
Registration Charges	0.5 to 1%	
Stamp Duty Charges	5 to 7%	

The above table shows the indirect taxes levied in India before GST, It shows that VAT, Service tax and Stamp duty charges vary from state to state, that is VAT charges varies

from 1% to 4%, Service tax 4.5%, Stamp duty charges from 5% to 7% varies for different states in India.

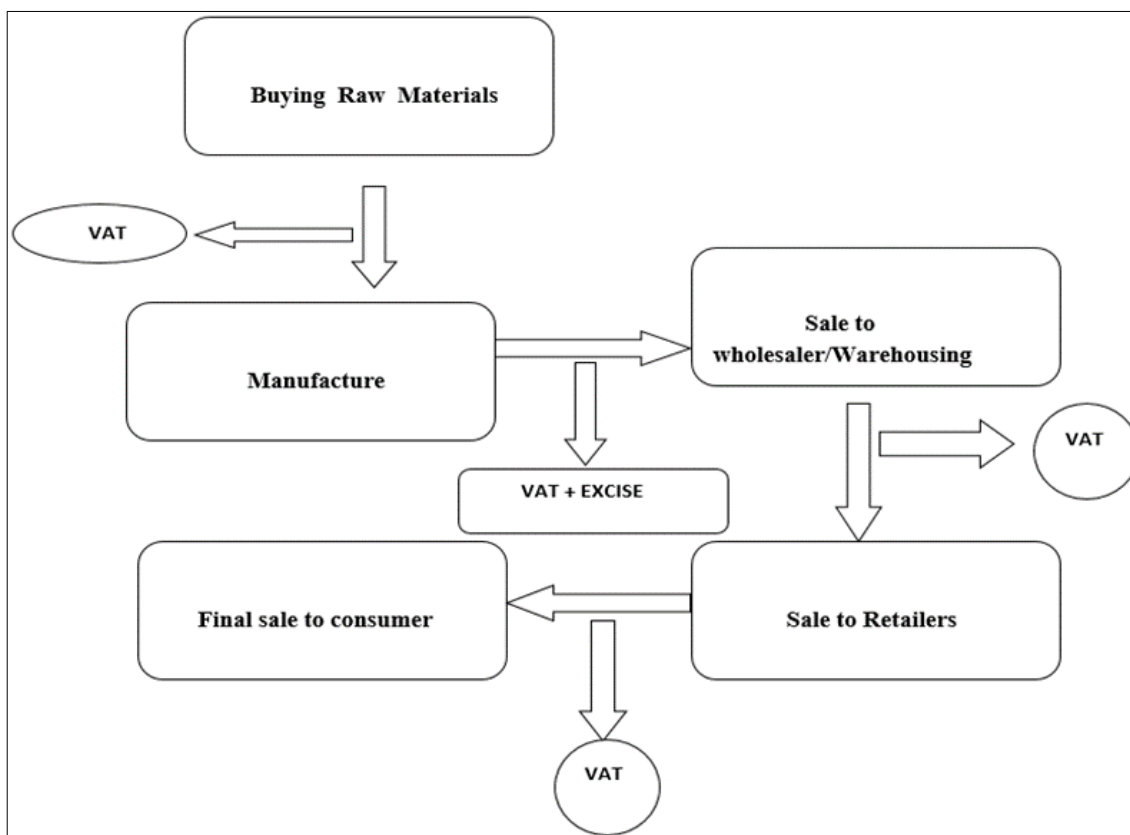


Fig 1: Mode of payments through taxes

The flowchart shows the multiple indirect taxes imposed before 2017 that is before GST was introduced. It shows the different tax structure which created ambiguity in tax system. Changes happened in Real estate industry, as this industry was at loss after post demonetization period as prices had dropped by almost 40% and introduction of new

tax structure for housing unit as full liberty has been provided to builders to choose the option between the old tax rate with input tax cost and new tax rate of 5% and 1% without input tax cost for under construction residential project.

GST on Real Estate Properties New GST Rates		
Particulars	Effective GST Rate Till 31-March-2019	Revised GST Rate W.e.f 01-April-2019
GST Rate on Premium Housing /Normal Housing Projects	12% (standard rate of 18 % less a deduction of 6 % as land value)	5%
GST Rate on Affordable Housing	8% (concessional rate of 12% less a deduction of 4% as land value)	1%

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Fig 2: GST on real estate rates

The new tax structure under real estate industry has made many new changes which makes profitable buyers as tax has been reduced which intend increase the demand of the real estate. The new tax structure has been implemented to improve the input tax credit system as on non-affordable properties which has its carpet area more than 60sq m in

metro cities and 90sq m in non-metro cities are expected to levy old GST rate at 12% with input tax credit and new GST rate at 5% without input tax credit. On the other hand, on affordable properties, a builder can levy old GST rate at 8% with input tax credit and new without input tax credit at 1%.

Table 1: Rates of various Items in Madhya Pradesh before & after GST

Item	Before GST	After GST
Cement	30	28
Paint	26	28
Plaster	26	28
Ceramic tile	26	28
Tampered glass	28	26
Fly ash	6	5
Wallpaper	18.5	28

Table 2: Rates of various Items in Rajasthan, Maharashtra before & after GST

Item	Before GST	After GST
Cement	26-30%	28
Paint	24-26%	28
Plaster	26%	28
Ceramic tile	26-35%	28
Tampered glass	28-30%	26
Fly ash	6-10%	5
Wallpaper	18.5%	28

The table shows the comparison of few items or product used by builders in the construction process and it shows the tax slabs which were and are levied in India before GST and after GST in the states of Maharashtra, Madhya Pradesh, Rajasthan.

Justification of the Study

Since the pre GST regime, there was a burden of multiple taxes in the system that is when a product or a housing unit is under constructed then taxes were levied and again when the product was produced or housing unit was ready to move, then again taxes were levied which meant taxes on taxes.

With the shortcomings of multiple taxes in India, the introduction of GST proved to be the blessings as there was no cascading effect of double taxation system, there was no discrimination among the state government taxes nor the central government taxes in India. GST of real estate changed and benefited both builders and customers by reduction of tax rates in the recent time.

Review of Literature

- The Rajya Sabha had on August 3 and the Lok Sabha on August 8 unanimously approved the Bill to enable the rollout of GST, arguably the biggest tax reform in India in recent times. The approvals have paved the way for implementing the indirect tax regime within the Union government's revised deadline of April 1, 2017.
- Ribhu Sharma mentioned in an article Impact of GST on Real Estate Sector in India for Resale Flats or Property: According to para 5(b) of Schedule II of CGST Act, 2017, there will be no GST on resale, completed property or flats. For Homes Purchased Under CLSS: In the 33rd GST council meeting, the members have decided to slash the GST rate from 8 percent to 1 percent in case the value of the home is under 45 lakh.
- Rahul Srivastava article on GST cut in real estate: Buying flats can become cheaper after January The first proposal is a fixed lowered 12 per cent GST rate with full input tax credit (ITC) to the builder.
- Article on GST Registration and Impact of GST on Real Estate by Danish published in India today

newspaper on 07/04/2019, GST had been proved beneficial for developers too. Due to the availability of input tax credits under GST, multiple taxes have been subsumed It has been very helpful in reducing the construction cost.

- CMA Bhogavalli Mallikarjuna Gupta in his article Tax Rates – Notification No. 11/2017-Central Tax (Rate), 28th June, 2017 mentioned on page 29-31, Construction of a complex, building, civil structure or a part thereof, including a complex or building intended for sale to a buyer, wholly or partly, except where the entire consideration has been received after issuance of completion certificate
- Dr. Shant kumar AB, Dr. Sanjeev kumar (IOSR Journal of business and management) this paper reviewed that government needs money or revenue through taxes and that revenue will be collected from reduction of taxes by them after affect of GST(Goods and service tax).
- Niraj dhar dubey, Dr. Devesh kumar, Sitaram pandey (2017) [12] this paper reveals the avoidance of duplication of taxes in which government is focusing on affordable housing system and focuses on providing houses for all by 2020.
- Ramesh Nair (2017) [1] this study review the impact of GST and Benami property act on all the developers how they run their business and reviewed about the credit linked subsidy scheme for the middle income group people.

Objective of the Study

1. To analyse the concept of GST and real estate.
2. To examine the impact of GST on real estate business in India.

Hypothesis

This study has fulfill the following hypothesis

$H_0 =$ There is no significant impact of GST on real estate business in India.

Research Design

Every research has required literature in data, without literature and data research cannot be proceed. In this regard, study the secondary data has been used for analyzing the research Problem. Sources of secondary data are annual report, budget, statistical reports and any published documents which are related to tax on real estate.

The objective which were taken in the study, also analyze and collected data also modified, classification and interpretation, tabulation of the data. In these data's also analyze with the help of statistical tools like mean, growth rate, standard deviation, coefficient of variation. The hypothesis taken in the study is also analyzing with the help of student t-test.

Limitations of the study

This study has the following limitations

- Non availability of sufficient data and literature.
- This study covers only limited time period that is of 3 years data.
- Data's are grouped and sub-grouped as per the requirement of the study.
- It is based on secondary data.
- The reliability of secondary data is depended upon audits.

Significance of the Study

Indian economy is the fastest economic growth in the world and it has been seen that there is a significance changes has been made in the economy.

After liberalization and globalization which is second phase of Liberalization privatization and globalization number of changes has been arrived in Indian economy and there is a "Cascading Effect" in various sectors.

Recently government of India has been brought reforms in indirect tax structure. Before reforms there were number of taxes consisting indirect taxes like service tax, central tax, VAT, excise tax, sales tax, surcharge, EXIM tax and other taxes etc. But the Government of India reforms in this tax structure that one tax one nation that is there should be one tax because before GST every state having their own tax structure. There were ambiguous levies on taxes, but after 2017 the Government of India brought only single tax system that is GST.

It should be bring the homogeneity among the states regard indirect tax structure that is GST. In this paper it has been analyze the effect of GST on real estate to know whether real estate has been become costly or cheaper to analyses the real estate.

Due to following reason, on the basis of the study that customer can easily assess that GST is worthwhile for them or not.

Impact of GST on Buyers

As on before GST regime, buyers were asked to pay VAT, Service tax, Registration charges and stamp duty o purchase of properties which are not constructed fully or are under construction. Also all the indirect taxes were state levied and prices of properties vary from state to state.

But from 1st July 2017, a single tax rate 12% was applied on properties which are under construction therefore, buyers got benefit from reduction of prices which are implemented under GST. The result of which under long term developers will pass on the benefit they received from input credit tax.

The condition changed from 1st of April 2019 when the council changed the tax regime for real estate industry as on demand for the housing unit increased because of flexible GST tax regime where tax structure changed from 12% to 5% which are without input tax credit and for affordable housing taxes changed from 8% which are with input tax credit to 1% without input tax credit.

Table 3: This in turn benefited the buyer or customer to get housing unit at affordable prices

	Before GST	After 1 st July 2017	On 1 st April 2019	After 1 st April 2019
VAT	4-5% (Vat amendment act 2009) Schedule 2	12%	5-12%	8-12
Service tax	14.5-15% (Commercial) and 4.5% (Residential)	12%	5-12%	8-12
Registration tax	0.8%	12%	5-12%	8-12
Duty on Purchase	8% on affordable and 1% on non-affordable houses	12%	5-12%	8-12
Tax on property	12%	12%	5-12%	8-12

This table explains the tax structure before 2017 according to the VAT amendment act 2009 and after 2017 till 2019. The tax slab on July 2017 was 12% which was similar for both affordable and non-affordable housing unit. But in April 2019 it varies for both affordable housing unit and non-affordable housing unit in India.

Impact of GST on Developers

Builders had to pay indirect tax duties like sales tax, VAT, Entry taxes, custom duty etc. for which credit facility was also not available and therefore these indirect taxes were applied on raw materials, service taxes like approval charges, labour charges, professional fees etc. which ultimately transferred the burden of these taxes to the buyers who buy the housing unit from builders or developers.

But due to availability of input tax credit after the implementation of GST the cost of construction and all the other expenditures reduced significantly as multiple taxes got illumed and one tax one nation was implemented. On the other hand developers had to face input credit tax issues through which there was lack of transparency in the whole

system due to which buyers also suffer and demand for housing unit reduced to bit margin.

On 1st April 2019, with the new improvising in the tax structure the developers got an opportunity to choose the option between the tax regimes which will benefits in improving the tax credit facility and in turn helps in selling more housing units to customers under low GST regime.

Impact of GST on other Stakeholders

The impact on labor, material suppliers and raw materials depends on the increase or decrease in the tax levied on the goods and services.

GST Rates for some of the goods relating to the construction industry in India are given below:

Product	Rate of GST
Sand	5%
Sand & Fly ash Bricks	12%
Steel	18%
Paints	18%
Marble and granite	28%
Cement	18%

The following table shows the GST rate and its input tax creditability

Particulars	Applicability	Rate of Tax	Input Tax Credit
On ready-to-move (RTM) properties for which completion certificates are issued	Not applicable – Because Sale of building is treated as activity or transaction which shall be treated neither as a supply of good nor a supply of service as per SCHEDULE III of CGST Act, 2017	–	Not available
On Under Construction Properties (For Homes Purchased Under Credit-Linked Subsidy Scheme)	Applicable as supply of services as per Schedule I of CGST Act, 2017	8%	Available

On Under Construction Properties (Other than above)	Applicable as supply of services as per Schedule I of CGST Act, 2017	12%	Available
On resale properties	Not applicable	-	Not available
On Land purchase and sale	Not applicable. As per Schedule III, sale of land is neither supply of goods nor services.	-	Not available
Works contract	Applicable	18%	Available
Composite supply of works Contract	Applicable	18%	Available
Composite supply of works Contract to Government Authorities	Applicable	12%	Available
Composite supply of works contract – for use by general public	Applicable	12%	Available
Composite supply	Applicable	12%	Available

Changes in Tax Regime and Its Impact on Real Estate

Table 4: Analysis of Various sections of taxes in Various States in India Madhya Pradesh

Year	Land Rates	Stamp Duty	Reg Charges	VAT	Service tax	GST
2016	Accordingly	8%	1%	14-16%	4.5-5.5%	-
2017	Accordingly		-	-	-	5-18%
2018	Accordingly		-	-	-	5-18%
2019	Accordingly		-	-	-	5-18%

Table 5: Maharashtra

Year	Land Rates	Stamp Duty	Reg Charges	VAT	Service tax	GST
2016	Accord.	5%	1%	14-16%	5%	-
2017	Accordingly		-	-	-	5-18%
2018	Accordingly		-	-	-	5-18%
2019	Accordingly		-	-	-	5-18%

Table 6: Andhra Pradesh

Year	Land Rates	Stamp Duty	Reg Charges	VAT	Service tax	GST
2016	Accordingly	4%	1.5%	15%	4-5%	-
2017	Accordingly		-	-	-	5-18%
2018	Accordingly		-	-	-	5-18%
2019	accordingly		-	-	-	5-18%

With the Help of above tables i.e. Table 1, 1.1, 1.2, 1.3, we can analyze the various changes which the Real Estate sector went through and how GST is benefiting buyers and sellers, We can also analyze and interpret how the implication of GST is benefitting or not, various states in India.

An Explanatory example for above cases of GST impact
Sai enterprises of Bhopal city Madhya Pradesh deals in Residential and commercial housing units Comprising of both Affordable and Non-Affordable sections

Case I

A person name Mr. Ram bought an affordable housing unit from Sai Enterprises value for Rs.40 L

The break-up of the foresaid unit of Affordable Property is as follows:

2016(Before GST)

Land Rates: 1500000

Registration Charges: 0.8%

Stamp Duty: 7.5%

VAT: 2%

Service Tax: 3.09%

Total Tax: 13.39%

Construction charged by the developer is: 1500000 (Inc. Raw materials and ITC)
Total Value 30L of 13.39% = 4, 01,700 (Total Tax)
Profit of Developer

2017-2018 (GST)

Land Rates: 15L

Construction Charges: 15L (Inc. Raw material & Tax credit)

Stamp Charges: 7.5%

GST: 8.0% (concessional rate of 12% - 4%)

Total Value: 30L of 15.5% = 4, 65, 000

Total Profit

The above example shows that the same person Mr. Ram bought the house of 40L

2019 (1st April 2019)

Land Rates: 15L

Construction charges: 15L

Stamp Duty: 9.5%

Registration: 0.8%

GST: 5% (without ITC)

Total Value: 30L of 15.3% = 4, 59, 000

Profit of Developer

Case II

A person name Mr. Shayam bought a Non - Affordable housing unit from Sai Enterprises value for Rs.70 L

The break-up of the foresaid unit of Non-Affordable Property is as follows

2016 (Before GST)

Land Rates: 25L

Registration: 25L

Stamp duty: 7.5%

VAT: 2%

Service tax: 3.09%

Total Tax: 13.39%

Total Value: 50L of 13.39% = 6, 69, 500

Total Profit

2017 (After GST)

Land Rates: 25L

Registration: 25L

Stamp duty: 9.5%

Reg charges: 0.8%

GST: 12% (18% land value – 6% value)

Total Value: 50L of 22.3% = 11,15,000

Total Profit

2019 (After 1st April 2019)

Land Rates: 25L

Registration: 25L

Stamp duty: 9.5%

Reg charges: 0.8%

GST: 1% (without ITC)

Total Value: 50L of 11.3% = 5, 65, 000

Total Profit

GST Impact on Inputs (Raw Materials) in India

Item / Component	Tax rate
Iron & Steel	18%
Sanitary fittings	28%
Sand	5%
Building Bricks	5%
Fly ash Bricks	12%
Services	18%
Cement	28%

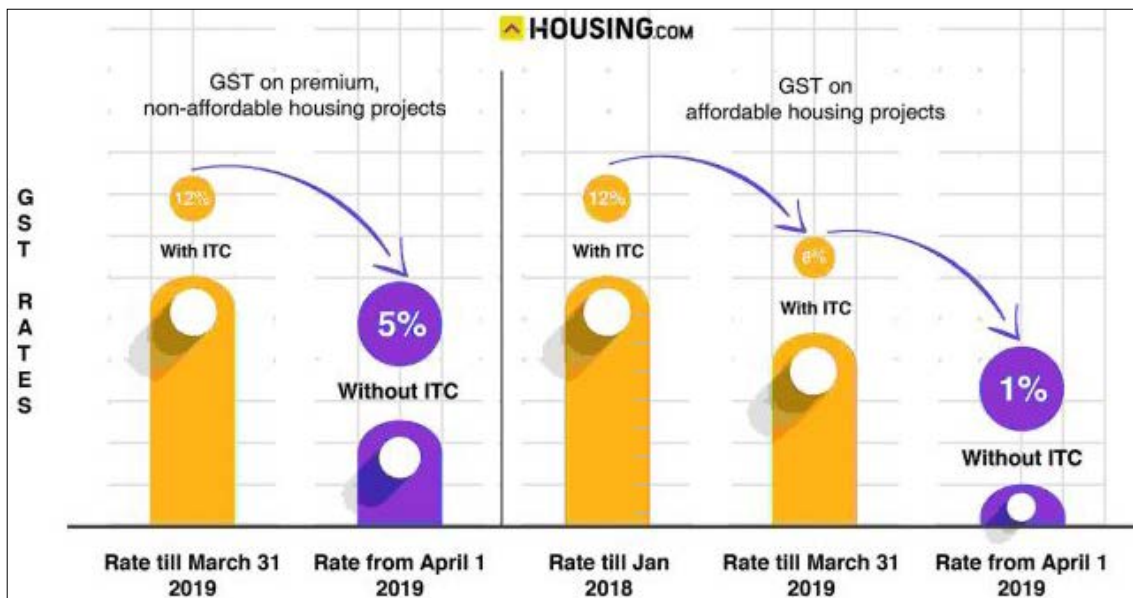


Fig 3: GST on housing projects

The above graph shows the comparison of GST regime for the year 2018 and 2019, where many changes took place in tax structure slabs within real estate sector. It shows that according to GST council committee the GST rates on affordable housing project changed from 12% (January 2018) with input tax credit to 1% (April 2019) without input tax credit. Whereas, GST on non-affordable taxes housing project changed from 12% (March 2019) with input tax credit to 5% (April 2019) without input tax credit. Which in turn helps in removing the double taxation system that is Cascading effect and brings in more efficiency, accountability and transparency in real estate sector?

Conclusion

However, with the introduction of GST, the real estate sector experienced several benefits. GST eliminated the cascading effect of double taxation, simplifying the tax regime and bringing transparency. Buyers benefited from reduced tax rates, especially for under-construction

properties. The tax structure changed from 12% to 5% for non-affordable housing and from 8% to 1% for affordable housing, without input tax credit.

Developers also gained from GST as it allowed for input tax credit, reducing construction costs and improving transparency in the system. The availability of input tax credit helped developers lower the overall cost of the housing units. Additionally, the option for developers to choose between different tax regimes further improved the tax credit facility.

Other stakeholders, such as labor, material suppliers, and raw material providers, were also impacted by GST. The rates of GST on various construction-related goods varied, ranging from 5% for sand to 28% for marble and granite. The in conclusion, the implementation of Goods and Services Tax (GST) in the real estate sector has had a significant impact. Before the introduction of GST, the sector faced challenges due to multiple indirect taxes, such as VAT, service tax, registration charges, and stamp duty,

varying from state to state. This created ambiguity and increased the tax burden on buyers.

Put tax creditability also varied based on the nature of the transaction.

Overall, GST has brought positive changes to the real estate sector, reducing the tax burden on buyers, improving transparency, and providing benefits to developers. The simplification and transparency introduced by GST have contributed to the growth and development of the real estate industry in India.

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