GST rate cut – Real Estate sector

Why in news?

The GST Council recently recommended reduction in the GST rates payable on under-construction properties.

What are the new GST rates for the real estate sector?

- The GST on **under-construction flats**, which are not in the affordable housing segment, has been reduced to 5% without input tax credit (ITC) from 12% earlier with the ITC.
- The GST rate on affordable homes has been reduced to 1% without the ITC from earlier 8% with the ITC.
- The rate cut is applicable for under-construction property or ready-to-move-in flats where the completion certificate is not issued at the time of sale.
- Properties, for which construction has been completed, attract stamp duty, not the GST.
- The GST Council has also redefined the affordable housing segment, which did not have any valuation threshold till now.
- Under-construction properties priced up to Rs.45 lakhs will now be treated as affordable housing projects and will attract 1% GST without the ITC.
- Although the cap on the price of affordable houses is Rs.45 lakhs for both metro and non-metro projects, the carpet area requirements differ.
- Only those flats with the carpet area of 60 square metre in metros (Delhi-NCR, Bengaluru, Chennai, Hyderabad, Mumbai-MMR and Kolkata) and 90 square metre in non-metros falling under the Rs.45 lakh cap will be eligible for the 1% GST rate.
- These new GST rates in the real estate industry will be effective from 1 April, 2019.

What are the advantages?

- There are 5.88 lakh unsold under-construction houses in the biggest seven cities of India, of which 34% are priced below Rs.40 lakhs.
- With affordable housing now defined within Rs.45 lakhs, more properties qualify for this category.
- Thus the GST cut, coupled with the change in definition, will induce more sales in homes falling in this budget range.

- It is estimated that the reduction in the GST can potentially reduce buyers' pay out by 6%-7% on the overall cost, depending on the category.
- The increase in sales will also bring down the unsold inventory which has been afflicting the real estate sector.
- Also, the government estimates that revenues will not be hit by the rate cut, since higher sales volumes will compensate the exchequer.

What are the concerns on part of the builders?

- Builders will not be able to claim the Input Tax Credits under the new GST rules.
- Hence, they may be forced to raise base prices for the buildings that they sale, as critical inputs, particularly cement (taxed at 28%), entail high levies that can no longer be claimed as ITC under GST.
- If that happens, buyers will prefer to opt for unsold completed properties that don't attract GST, instead of incomplete projects.
- Also, the GST Council is likely to mandate that around 80% of a project's inputs must come from formal sector vendors in the GST net.
- All these measures will raise compliance as well as material costs on part of the developers.
- This will lead to issues of traceability of transactions and making the transactions opaque.

Source: The Hindu, Livemint