

# Effect of GST on Indian Real Estate

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## ABSTRACT

The real estate sector is one of the most important sectors of our Indian economy. It is expected that the Indian real estate sector will reach US\$ 1 trillion by the end of 2030. Since it has a very high multiplier impact on the economy therefore, it has proved to be a big driver of economic growth as well. After agriculture, this sector is the second-largest employment generating sector. The real estate industry in India has been growing at about 20% per annum and is contributing nearly 5-6% to Indian GDP. Besides generating high level of direct employment, it has also helped in stimulating the demand in more than 250 ancillary industries such as cement, steel, paint, brick, building materials, consumer durables and many more. Indirect taxability of Construction activities has been tough always and also subject to litigation many a times. Prior to Goods and Services tax ('GST') rules, the real estate developers and the buyers had to deal with problems arising from manifold erstwhile taxes such as VAT, Service Tax, Central Excise, Octroi, Entry Tax, Local Body Taxes, etc. In addition, rates of specific state, deemed sales, different valuation for VAT and Service tax, and varied schemes for paying taxes etc. were among the major problems faced by real estate sector. Before GST was introduced in India, the Central Government levied excise duty of 12.5% on almost all the items required for real estate construction. Parallely, the State Governments charged value-added tax ('VAT') from 12.5% to 14.5% on the same products. This study aims at researching the detailed impact of GST on the Indian Real Estate Sector.

## INTRODUCTION

Before 1<sup>st</sup> July 2017, the taxation laws of the Indian Central Government and the State Government were very different, as the state had the power to charge tax on the sale of goods whereas centre was charging additional duties on custom goods and services. But with the implementation of 122<sup>nd</sup> amendment bill of the constitution 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. The Indian real estate sector 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:-

**Table 1:** Rate Regime of Real Estate before GST

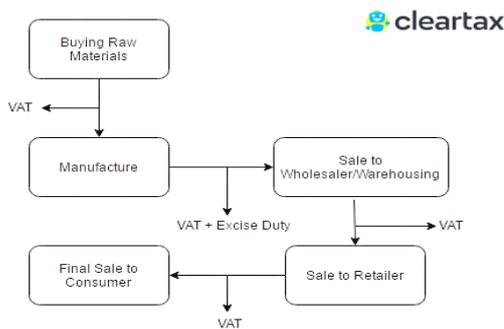
Nature of Duty	Tax Rate	When was tax essential to be paid?
VAT	1 to 4%	On Sale of Under Construction Properties
Service Tax	4.5%	
Registration Charges	0.5 to 1%	
Stamp Duty Charges	5 to 7%	

The above table shows the indirect taxes levied in India before GST, It shows that VAT, Service tax and Stamp duty charges are different for the states, 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.

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.

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%.

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, Andhra Pradesh, Rajasthan.



Flowchart of VAT implementation before GST

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%

Revised GST Rate after 2019

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.

**The Present Research Aims to Study the following Objectives**

1. To analyses the concept of GST and real estate.
2. To examine the 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 analyse and collected data also modified, classification and interpretation, tabulation of the data. In these data's also analyse 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.

**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 liber-

**Table 2:** Comparison of Tax before and 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

Bloomberg , Rates in Maharashtra, Madhya Pradesh, Andhra Pradesh, Rajasthan (Source)

**Table 3:** Input Tax Credit Rates

Residential Property (affordable housing segment)	8% with Input Tax Credit (ITC)	1% without ITC
Residential Property (non-affordable housing segment)	12% with ITC	5% without ITC
Commercial Properties	12% with ITC	12% with ITC (unchanged)

**Table 4:** Different Tax Regime after GST and Before

	Before GST	After 1 <sup>st</sup> July 2017	On 1 <sup>st</sup> April 2019	After 1 <sup>st</sup> April 2019
VAT		12 %	5-12 %	8-12 (Opt.in/out)
Service tax		12 %	5-12 %	8-12(Opt.in/out)
Registration tax		12 %	5-12 %	8-12(Opt.in/out)
Duty on Purchase		12 %	5-12 %	8-12(Opt.in/out)
Tax on property		12 %	5-12 %	8-12(Opt.in/out)

**Table 5:** Different Construction Raw Material Rate of GST imposed

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

alization 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 these taxes 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.

## CHANGES IN GST RATE STRUCTURE FROM 1<sup>ST</sup> APRIL 2019

### Impact of GST on Buyers

As on before GST regime, buyers were asked to pay Value added tax, Service tax, Registration charges and stamp duty on the purchase of properties which are

not constructed fully or are under construction. Also all the indirect taxes were state levied and the prices of properties varies in each state. But from 1<sup>st</sup> July 2017, a single tax rate 12% was applied on properties which are under construction therefore, buyers got benefit from the 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 1<sup>st</sup> 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.

This in turn benefited the buyer or customer to get housing unit at affordable prices.

### Impact of GST on Developers

Builders were required 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, after the implementation of GST, due to the availability of input tax credit the cost of construction and all the other expenditures reduced significantly as multiple taxes got illuded 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 1<sup>st</sup> 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.

**Table 6:** 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 of works contract- Affordable Housing	Applicable	12%	Available

Source:cleartax.in

### 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 are given below:

### Impact of GST on Manufacturing Sector

#### Reduced Cost of Production

There new GST administration has many advantages and one among them is reduced production cost that will probably be spurred by reduction of tax. One more advantage of GST administration is that union or central tax credit over state taxes will not be accessible and vice versa can be removed. This will be done by permitting unrestricted tax credit. Even if GST has 2% lower tax rate it will increase the overall profits of the manufacturer by nearly 10%. Example: Let's suppose that a manufacturer of say, LMN purchases raw material or inputs like cloth, thread, buttons, tailoring machine worth Rs.100, a sum which includes a tax of Rs.10 with these manufacturing inputs of a shirt. In this process, the producer adds a value to the materials he started out. Let us take this value added by him to be Rs.30. Now, the gross total value of his goods would be Rs (100+30=Rs.130. If the rate of tax is 10%, then the tax on an output of the shirt will be Rs.13. However, under the GST, he can set off the tax against the tax he has paid already on raw material (Rs.10). Thus, the applicable GST amount on the manufacturer will be only Rs (13-10= Rs.3).

#### Problem free Supply of Goods

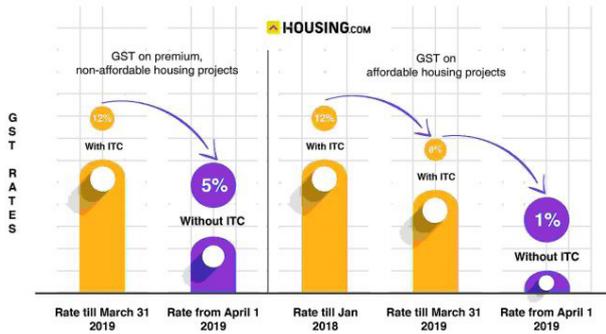
The key points of check at the state border, which are accompanied with material inspection and location, based conformity lead to fruitless production, logistic time and transportation hours aligning with regulatory barrier reduce the effectiveness of Indian manufacturers when compared to their international counterparts. The new GST model will unite the Indian market and aid the smooth flow of goods within the country.

#### Reorganization of Supply Chain Market

Three projections of GST- an additional 1% tax on supply of merchandise, the supply of goods and services to self and input tax credit between the state to state sales may force the need for supply chain restriction. As per the constitution's 100<sup>th</sup> Amendment Act, 2015 related the separation between "supply to oneself" and "supply from one person to another" and the added tax should only be levied in cases where is a consideration i.e., supply to self should not be covered within its sphere. Accessibility of input tax credit on state supply of goods and services may lead to warehouse re-engineering that can eliminate an extra level of warehousing in the supply chain, consequently leading to better overall cost benefit.

#### Area based Exemptions

The systematic GST will send out optimistic signals to the world and the country is going to be seen as a united & an integrated market. The territory based exemptions seen



Changes on rate after GST in Affordable Housing currently will lose their distinct significance.

### 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.
- The study is based on the secondary data.
- The reliability of secondary data is depended upon audits.

### CONCLUSION

The economy of our country is one of the remarkably incredible and rapidly developing economies of the world. Abundant columns are expected to help the solidity of our developing economy and land and real estate is a major one. GST scheme for the real estate sector has definitely end up being valuable as it aided in removing a variety of duties like VAT (Value added charge), Service tax, focal extract and so on. GST has automated and clarified the process of enlistment, discount and assessment payment. GST will certainly put across affirmative signs to the world and our country will be seen as a bound together marketplace. GST is authentically a striking achievement for the Government and India Inc. GST has begun with an optimistic message and the rewards for

everyone are apparent. As GST has clarified the assessment treatment for the real estate and has resolved some long standing issues of valuation, nature of supply and so on, the enormous benefit seems to be in relation to long-drawn-out info credit on the obtainment of materials and ventures.

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