GST impact: Cost of homes get cheaper

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Here is how home prices in various segments of the property market will be affected by the GST

According to a Knight Frank report, prices fell by an average of 3% across cities, with Pune witnessing the highest decline, 7%, followed by Mumbai at 5% in 2017. Prices in the NCR, which had already fallen in the last six years, dropped another 2% on average.

Under the Goods and Services Tax (GST), the effective tax on under-construction projects has gone up to 12 percent, which is an increase of 6.5 percent.

The actual GST rate is 18 percent on reality but allows one-third of the tax to be deducted from the land value, from the total cost charged by the developer. While the GST gives an option of getting full input set-off credit, this is not applicable on ready-to-move-in flats and as a result, developers will have to bear the burden of the higher tax or pass on the same to the end-consumers or increase the overall prices, to match the new tax burden, say, developers. However, new flats will cost less, giving some breather to the developers of upcoming projects.

“While developers might still get some benefits for projects that are in the nascent stages, they will have to bear the tax burden for ready-to-move-in projects, since they are kept out of the GST’s ambit,” House of Hiranandani’s chairman and managing director, Surendra Hiranandani said. Under the GST regime, tax on under construction projects would be 12 percent, an increase of 6.5 percent for buyers, points out Rohit Gera, managing director of Gera Developments.

“There is an option of getting full input set-off credit on all input side if GST is paid by them, but this is not applicable on ready-to-move-in properties. As a result, developers will either have to bear the burden of the tax, since it cannot be passed on to the end consumers, or the rates of apartments that are ready-to-occupy will increase to the extent of the taxes,” Gera said.

Vinod S Menon, CEO of Bengaluru-based mid-market developer Citrus Ventures, says “Everybody talks about the positives that GST brings in. However, the devil lies in the details and no one seems to have any clarity on that.” Although the one-third deduction makes the effective rate 12 percent, with current effective VAT plus service tax rate is nine percent, there is still a three percent incremental charge.

“Since no retrospective claim of credits is possible, this will be a bone of contention between customers and developers, as to who will bear this, he said. Coupled with the new RERA regulator, GST will increase paperwork and thus, the overall cost, Menon said.

However, Knight Frank India chairman Shishir Baijal feels that akin to the note-ban, the GST would trigger some momentary disturbances but augur well for the industry in the long term.

“The intention of the GST is to bring in efficiency in the entire tax system and its implementation will see some teething issues. Eventually, it will pave the way for an extremely efficient tax system for the country,” he said. Echoing similar views, SILA founder and MD Sahil Vora, said there will be pain and forced consolidation in the sector, but in the long-run everybody will benefit.

Anarock Property Consultants’ chairman, Anuj Puri said, the affordable housing sector will not be impacted by GST, as there will be no tax under GST for affordable housing schemes. RICS South Asia managing director Sachin Sandhir adds, “The affordable housing sector is happy, as there is no tax on it. Since almost 70 percent of the market caters to the middle to high-income segment, the GST could shift the focus of smaller developers towards the high volume, low to medium income segment.”

According to Ram Chandnani, managing director, advisory and transactions services, India, CBRE, the GST will also attract international residential investment, as it has been seen globally that a unified tax structure has been one of the many catalysts for increased investments. “Additionally, sectors ancillary to real estate will see improved supply chain efficiency with the removal of various federal tax barriers and the creation of a common market, thereby, accelerating the delivery of goods,” he noted.

India Ratings maintained a negative outlook for the real estate sector for FY18, on expectations of a continued slump in the sale of residential units. This will lead to continued negative cash flows since FY14 and a further increase in already high debt levels, resulting in a weakening of the sector’s credit profile.

Rohit Jain, a partner at law firm Economic Laws Practice, maintains that greater clarity is needed on the transitional provisions under GST, whether it pertains to the credit of inventory, credit on unsold stock or the tax implications where part payments are made under the pre-GST and part under the new taxation system.

The report also pointed out that that the share of affordable homes among new launches rose from 53% in 2016 to 83% in 2017, indicating developers’ focus on properties within the Rs 50 lakh price bracket. The main reason for the launch of affordable housing is the huge demand in the segment and the subsidies under the Prime Minister Awas Yojana.

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