#ExpertsOnGST: Harsh Shah, Partner, Economic Laws Practice

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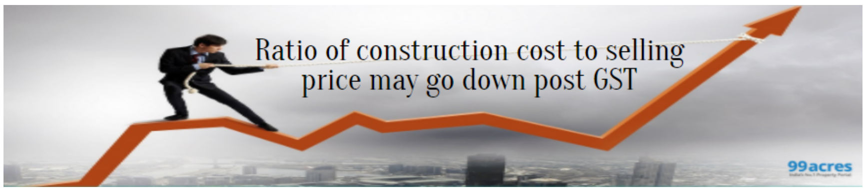

(https://www.99acres.com/microsite/articles/files/2017/06/harsh-shah1.jpg)How will GST impact the residential capital and rental markets in India?

The effective rate of GST on sale of an under-construction property is 12 percent which is higher than the current effective rate of 5.5 percent comprising of service tax at the rate of 4.5 percent (3.75 percent where the value of the property is less than Rs 1 crore) and 1 percent VAT in Maharashtra. The VAT rate differs across States but is generally in the range of 0.5 percent to 2 percent. However, a developer is likely to get additional credits on the procurements undertaken by him. The quantum of such additional credits depend on various factors such as the stage of completion, location of the project, etc. Thus, the GST impact would essentially depend on the inter-play between the additional credits and the increase in the rate of tax. Independent of this, on the whole, the sector will benefit on account of simplicity and transparency in terms of taxation. While there may be some initial glitches, which are expected considering introduction of such a massive reform, GST will be beneficial in the long run.

Renting of residential estate will be exempted under GST. Thus, the position on taxability on the rentals is same as in the current regime.

What will be its implications on the final property cost to be borne by a homebuyer? Which side will the property prices swing post GST – up or down?

The additional output tax on real estate transactions under the GST regime needs to be looked into in the context of the incremental credits in the hands of the developer. If the incremental credits are not sufficient to offset the output taxes, a potential homebuyer is likely to pay more than an existing buyer. For prime locations where the value of land is high, there is a possibility of the price swinging upwards since there are no corresponding credits associated with the land.

How will it impact the cost of land in your city?

Since land is excluded from GST, the land cost should ideally be unaffected because of introduction of GST. However, the demand/supply position for the real estate sector could have an indirect impact on the cost of land. In places, like Mumbai, where land is always at a premium, GST may not impact the land cost.

Which raw materials will witness a hike and a dip in values, post GST? How is this going to alter the ratio of construction costs to selling price?

The GST making authorities have largely adopted a *fitment formula* for deciding the rates on most of the products, whereby, the rates under GST are likely to be similar to the rates currently being suffered on the subject goods. Raw materials like cement and tiles will attract GST at 28 percent, whereas items like steel will attract 18 percent GST. However, considering the fact that the non-creditable costs are likely to substantially reduce under GST, the ratio of construction cost to selling price should go down. In fact, to this extent, the per square feet rate (excluding taxes) may also go down.

What will be the impact on Foreign Direct Investments (FDIs) and Private Equity (PE) fund flow in the sector?

The real estate sector has historically been prone to litigation on several aspects, such as taxability under Service tax, Value Added Tax ('VAT'), taxability on renting of immovable property, etc. The sector will benefit under GST because of the clarity of the tax implications on the sector. Thus, implementation of GST should increase the FDI and PE fund flow for the sector.

How will Input Tax Credit (ITC) benefit real estate stakeholders including developers and buyers?

The construction cost for the developer will come down because of the additional ITC available to the developer. Further, the GST law has introduced an anti-profiteering mechanism whereby the benefits available by way of reduction in rate or additional credits need to be passed on to the customer. Thus, the reduction in construction cost because of the additional ITC will be passed on to the buyers too.

What is the anticipated impact of GST on the commercial buying and leasing market?

The tax implications on supply of under-construction commercial or residential property are largely the same. The commercial lease rentals may go up a bit since there are restrictions on availing credit for construction of a property which is intended for leasing, making it a bit more expensive.

Overall, do you view GST in positive light for the real estate industry of India? And why?

Certainly. Clarity of taxation in any sector helps various stakeholders since there are hardly any uncertainties on the tax front. In the long run, GST will bring in this much needed clarity for the real estate sector which will be very useful for this sector.

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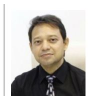

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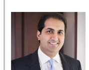

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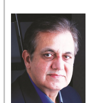

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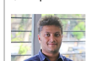

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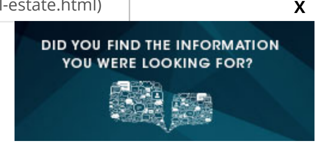

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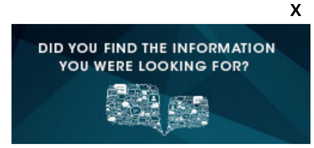
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