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Construction of real estate to attract 18% GST; home prices may not be impacted

Along with this, the government has also allowed deduction of land value equivalent to one-third of total amount charged by the developer

Kailash Babar | ET Bureau | June 30, 2017, 07:53 IST

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MUMBAI: The government has notified the goods and services tax rate for construction of real estate at 18% as against 12% announced earlier.

Along with this, the government has also allowed deduction of land value equivalent to one-third of total amount charged by the developer.

Experts say the revised rate is expected to be tax neutral as the GST obligation for the property buyer would remain the same. “This revised rate is unlikely to impact property buyers beyond what was announced earlier. The rate of 18% would now be charged on two-thirds of the under-construction property value, which will be the same as 12% on the entire value of the property as announced earlier. This is based on an assumption that the states would also come out with a similar notification as the Centre has,” said Harsh Shah, partner at legal firm Economic Laws Practice.

Homebuyers are unlikely to be burdened with an additional tax outgo and cost on account of introduction of GST from July 1. However, luxury realty projects on prime land parcels that are expensive are likely to see prices move slightly up as additional credit to the developer may not be sufficient to offset the increase in the output tax.

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“The notification on Central Goods and Services Tax (CGST) issued today specifies the rate on Construction Complexes at 9%. CGST and State GST are two components of GST. The GST rate on our industry remains unchanged at 12%. Any conjecture or speculation of a change in incidence of tax on real estate to a rate other than 12% is unwarranted,” said Jaxay Shah, president, Credai.

The key indirect taxes levied on real estate are excise duty, value added tax and service tax totalling 9-11%, excluding stamp duty, which varies as it is a state levy. These, barring stamp duty, would be subsumed within GST under the new indirect tax regime that will also allow input tax credit for developers.

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Deepak Lavania | TNN | September 04, 2018, 15:00 IST

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