

Business News ▶ With no GST breather, ready-to-move-in flats to cost more

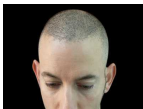
ST breather, ready-to-move-in flats to cost more

Effective tax on under-construction projects has gone up to 12 per cent, which is an increase of 6.5

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Representational pic - With no GST breather, ready-to-move-in flats to cost more



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Summers will have to shell out more for the ready to move flats system as developers with large inventories are planning to pass on the higher tax

burden to home-buyers. However, the new flats will cost less, giving some breather to the developers of upcoming projects.

Under GST, the effective tax on under-construction projects has gone up to 12 per cent, which is an increase of 6.5 per cent. The actual GST rate is 18 per cent on realty, but allows one-third of the tax to be deducted from the land value, from the total cost charged by the developer.

The GST gives an option of getting full input set-off credit, which is not applicable on ready-to-move-in flats and as a result, developers will have to bear the burden of higher tax or pass on to the end-consumers or increase the overall prices to match the new tax burden, say developers.

"While developers might still get some benefits for projects that are in nascent stages, they will have to bear the tax burden for the ready-to-move-in projects since they are kept


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out of the GST ambit," House of Hiranandani Chairman and Managing Director Surendra Hiranandani said.

Gera Developments Managing Director Rohit Gera said under the GST regime, tax on under construction projects would be 12 per cent, an increase of 6.5 per cent for buyers. "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."

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

Since no retrospective claim of credits is possible, this will be a bone of contention between customer and developer as to who will bear this, he said, adding that coupled with the new regulator Rera, GST will increase paperwork and thus the overall cost.

However, Knight Frank India Chairman Shishir Baijal said like the note-ban, GST would trigger some momentary disturbances but augur well for the industry in the long term.

"The intention of GST is to bring in efficiency in the entire tax system, and its implementation will see some teething issues. But 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.

"But the affordable housing sector is happy as there is no tax on it. Since almost 70 per cent of the market caters to the middle to high income segment, GST could shift focus, particularly of smaller developers towards high volume, low to medium income segment," RICS Global's Sachin Sandhir said.

Anarock Property Consultants Chairman Anuj Puri said the affordable housing sector will not be impacted by GST as

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there will be no tax under GST for affordable housing scheme.

CBRE South Asia's Ram Chandnani said 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 creation of a common market, accelerating the delivery of goods."

Atul Chordia of Panchshil Realty said they have only completed or near-ready projects which will be paying 12 per cent GST on the cost of construction. "The effective 12 per cent tax is higher than the industry as we tend to use best-in-industry material, much of which will fall under the 28 per cent slab leading to higher overall cost."

India Ratings maintains a negative outlook for the real estate sector for FY18, on expectation of a continued slump in 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 weakening of the sector's credit profile.

Rohit Jain, a partner at law firm Economic Laws Practice, said there isn't enough clarity on transitional provisions under GST, whether it pertains to 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.

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