International Journal of Technical Innovation in Modern Engineering & Science (IJTIMES),(UGC APPROVED)
Impact Factor: 5.22 (SJIF-2017),e-ISSN:2455-2585
Research Symposium on
"Advancements in Engineering, Science, Management, and Technology"
Volume 5, Special Issue 04, April-2019.

A Case Study to Analyse the Impact of GST on the Real Estate

Disha Mehra [1], Dr. Shevata Singhal [2]

[1,2]*Sushant School of Business,Ansal University, Gurugram*

Abstract— ***The Indian Real Estate Sector has been touted as one of the fastest growing sectors of the Indian economy. The ongoing trends contributed by the development of the concepts of modernization and westernization have fueled the development of this sector significantly. All this have completely changed the way we perceive our dream homes. A spurt in the income as well as an increase in the population is also said to have contributed to the development of this sector. Government policies are the driving forces of the real estate sector. This is since growth of this sector and growth of the country's economy go hand in hand. Approximately 9% of the country's GDP comes from this sector. The Indian economy has seen several reforms in the real estate sector by the government to strengthen the regulation, contribute to growth as well as to protect the consumer. One such instance of government reform is the Goods and Services Act, 2016. Keeping in light the above statements, this paper attempts to highlight the impact of GST on the real estate sector and its after-effects on the various aspects of this sector. The perception of various stakeholders of the real estate sector regarding the impact of GST on them can also be studied. This paper makes the use of secondary data.***

Keywords— ***Indian Real Estate Sector, GST, Home buyers, Developers, Property Rentals, Home Loans***

I. INTRODUCTION

GST has been one of the key reforms in the Indian economy. GST has completely altered the Indian indirect taxation system. It has bought all the taxes under one common roof thereby creating a sense of clarity of the taxation system among the consumers.

A. Goods and Services Act, 2016

The Article 366 (12A) of the Constitutional (101st Amendment) Act, 2016 defines "Goods and Services Tax" as any tax on supply of goods, or services or both, except for taxes on the supply of the alcoholic liquor for human consumption. [GST Council]

GST has been one of the major taxation reforms in the history of India. GST is only one indirect tax for the whole India, which aims at making India a unified market. Several indirect taxes such as VAT, Excise Duty, Service Tax has subsumed to one GST. Concepts such as manufacture, sale etc. have been replaced by 'Supply of goods' and 'Supply of services. The concept of "GST" however is altogether a different ball game [1]. In the erstwhile regime, the indirect taxes levied have been completely bought under the umbrella of GST. Primarily this means the taxes that were applied in the real estate transactions, haven't been completely bought under the ambit of GST. Stamp Duty would still continue and be levied by the State even after the advent of GST.

B. The Objective of GST

One of the major goals of Goods and service tax (GST) is to put an end to double taxation i.e., the impact of tax on tax. This will improve competitiveness as well as the pricing of the goods and services in the market which will in turn be highly beneficial for the GDP growth of India. Introduction of GST has replaced the multiple state and central taxation structures [2]. This is not only important but imperative in today's world. Integrating different taxes into a single tax has not only created a transparent taxation system but also made it possible to provide credit with respect to the input taxes collected.

C. GST In Other Parts of The World

In the year 1954, France became the first country which introduced GST. Approximately 150 countries worldwide have introduced GST with some or the other modifications since then. Majority of the countries who have adopted GST, have adopted a unified GST system. Brazil and Canada have adopted a dual system, which India has adopted. China has applied GST only to the goods and repairs provisions as well as on the replacement and the processing services.

D. Features of Indian GST: -

1. Single Registration: PAN is a requirement for registering under GST i.e., PAN is a mandate for all assesses. Assesses need to take up the registration for their businesses in every state where their supplies are made. Every assesses is treated as an individual separate entity and the concept of a separate legal entity under GST has been completely wiped out.

2. Principle of destination: The GST taxation structure follows the principle of destination. As a result, GST has its application on the imports whereas on the exports the GST is zero-rated. Considering the case of inter-state transactions within India, the State tax will be imposed in the destination state rather than the state of origin.

3. Uniformity in method: Procedures and steps involved in the collection of the central and state GST is a uniform method which will be followed all over India. Payment of taxes has been completely being facilitated through net banking which has encouraged the ease of doing business in India.

4. Administration: Subsuming center as well as state taxation administrations has reduced duplication as well as the cost of compliances. This has reduced the multiple taxes as well as cascading effects of these multiple taxes.

5. Goods and Services Classification: For the classification of products for the Central and State GST, Harmonized System of Nomenclature (HSN) has formed the basis and for the classification of services, Service Tax Accounting Code (which is commonly known as SAC) has been taken as the basis.

E. Indian Real Estate Sector

The Indian Real estate market will by the year 2030 is expected to reach US$ 1 trillion market size as compared to US$ 120 billion in the year 2017 and is expected to contribute 13% per cent of India's GDP by the year 2025. The Indian Retail, Hospitality and Commercial real estate sector are fostering a very high growth rate, which provides much-needed quality infrastructure catering to the growing needs of the Indian growing economy [3]. The IT and ITES sector, retail sector, consulting sector and the fastest booming e-commerce sector are having a huge demand of the official setup spaces in today's scenario [4]. Commercial real estate stock has surpassed 600 million square feet by the end of the year 2018 whereas leasing of office space in the eight top cities has been expected to cross 100 million square feet during the tenure 2018-20. Office space of the grade-A has been expected to surpass 700 million square feet by the end of the year 2022, with most of this demand being contributed by Delhi – NCR.

In the recent times there has been an increasing demand in for official and the residential spaces in the real estate sector [4]. It is expected that the private equity investments in the real estate sector will grow to US$ 100 billion by the year 2026 in which tier 1 as well as tier 2 will be the cities receiving the maximum benefit [4]. Private equity including the investments by venture capitalists in the real estate sector has surpassed US$ 2.99 billion during the months from January to August 2018.

Indian construction development sector has been a recipient of equity inflows through the means of Foreign Direct Investment (FDI) has reached to a value of US$ 24.87 billion during the period from April 2000 to June 2018, as stated by the data that has been given out by the Department of Industrial Policy and Promotion (DIPP),

Some of the major initiatives in this sector are as follows:

1. Embassy Office Parks has announced that it would be raising Rs.52 billion which is around US$ 775.76 million through India's first Real Estate Investment Trust (REIT) in the month of September 2018.
2. New housing properties has been launched across India's seven top cities which has increased by 50 per cent by quarter-on-quarter basis from April,2018 to June 2018.
3. Blackstone group had acquired One Indiabulls situated in Chennai from Indiabulls Real Estate for amount of Rs.900 which is around US$ 136.9 million in the month of May,2018.
4. DLF had bought 11.76 acres of land for an amount of Rs.15 billion which is around US$ 231.7 million for its expansion in Gurugram, Haryana, in February 2018.

F. Government Initiatives

The Indian Government along with the respective state governments have been taking several steps for encouraging the development of this sector. The Government of India has launched The Smart City Project which plans to build 100 smart cities, this vision of the Indian government has provided the real estate companies with prime opportunities for their development [5]. Some of the major Government initiatives taken for this sector are as follows:

- 6,028,608 have been sanctioned till September 2018 under the Pradhan Mantri Awas Yojana (PMAY) in the urban areas.
- With a fund outlay of Rs. 60,000 crores (which is around US$9.27 billion), National Urban Housing Fund was approved in February,2018.

During the tenure 2017-18 about 1,427,486 houses in the urban areas have been sanctioned under the government scheme of Pradhan Mantri Awas Yojana (PMAY). Construction of additional 3,21,567 houses were sanctioned in March,2018 under this scheme.

II. OBJECTIVES OF THE STUDY

GST has been one of the key reforms in the Indian Real Estate Sector. GST has completely altered the way the real estate sector used to work and made the taxation system much clearer and hassle free for the buyers. Mentioned below are the objectives based on which the study has been conducted:

1. To highlight the impact of GST on the real estate sector and its after effects on this sector.
2. To study the perceptions of different stakeholders of the real estate sector regarding the impact of GST on them.
3. To study the aftermath of GST on property rentals as well as the home loans.
4. To draw out a conclusion on how the GST has impacted this GDP contributing sector.

III. SCOPE FOR THE FURTHER RESEARCH

1. Primary research-based study can be carried out to the study the buying behaviour of the home buyers post GST.
2. Surveys can be conducted in order to study the impact of GST on the various real estate developers.
3. Cross sectional analysis can also be carried out in order to the study the effects of GST on the constructional material costs as well overall structural construction costs.

IV. SUMMARIZATION

GST has affected all sectors of the economy equally. Health care sector, Hospitality Sector, FMCG Sector, etc. have all been impacted by the GST. This paper attempts to highlight the impact of GST in the context of the real estate sector as well as tries to understanding the perception of different stakeholders regarding the consequences of GST on them.

Buyers are the shareholders which ultimately hold one of the most important position in any business, thus in the context of the second objective studying buyer's perspective as well has focusing on how has the buyer been impacted by GST becomes all the more important [6].

A. Perceptions of different stakeholders of the real estate sector regarding the impact of GST on them.

A.1.) Gains a deep insight into how has the GST impacted the buyer's buying behaviour. And A.2.) Summarizes GST from a developers' point of view i.e., about how GST has affected the developers. as their sentiments.

1) GST and The Buyers' Buying Behaviour

The pre-GST taxation was complicated and lacked transparency for the buyers. In the previous tax regime, the buyers were liable to pay taxes that depended on the status of the construction of the property and also the state where the property has been located [6]. Also, the buyers were subjected to pay Value added taxes (VAT), Service tax, stamp duty as well as the registration charges when they were purchasing an under-construction property, whereas if they were purchasing a ready to move in flat, they were charged with stamp duty and registration charges [6]. Further, as the VAT, Stamp duty and the registration charges, were state taxes, they were levied differently in different states. Service tax was a central tax and was charged on the under-construction properties. The calculation of taxation in the earlier regime was a very tedious process and lacked clarity. When compared to the GST regime, GST charges all the under- construction properties at 12 per cent on the value of the property excluding the stamp duty and the registration charges. On the sale of ready-to-move-in properties there is no indirect taxation applicable. One of the biggest takeaways from the present regime is that GST applies to the overall purchase price of the property.

Tax calculations under the GST for real estate market is not simple. For instance, A project which has its OC being received by the buyer has no indirect tax charged on it. The GST on the under-construction properties will be charged to the prospective home buyers on the sale prices but its credit can be availed by the developers on solely the construction cost. Thereby, the developers are supposed to pay the GST on the complete project but the input shall only be availed on the construction cost. Thus, there of 30 per cent. Hence, to bridge this gap the developer will in turn hike the prices which will again negatively impact the buyers.

Despite government reforms, the Indian real estate sector is still not flourishing. As per the data released by JLL India, during the year 2018, housing sales rose by 47 percent in seven cities, although the rise has been on a lower base. PropTiger claimed a rise of 25 per cent in nine Indian cities. There was a higher demand of ready to move in properties due to lesser risk and no GST. As per the data released by an online survey conduct by property consultant ANAROCK, 49 per cent buyers preferred ready to move in apartments whereas 35 per cent preferred properties which will go upon the ready to move in stage within the next six months. Surprisingly, only 5 per cent of the buyers wish to invest in new projects. The real estate market, especially in the Delhi NCR has been highly impacted by defaults and delays in the housing project deliveries. Lakhs of home buyers are stuck up in projects by Jaypee Amrapali, Unitech among others gave shaken up the buyers' sentiments. It was a turbulent two years between the period from 2016 to 2017 when the reforms such as RERA, demonetization and GST has come into the picture. Buyers have remained cautious in understanding these reforms as well as making subsequent property buying decisions.

But as per the recent announcements made by the GST council on 24th February, 2019, the GST rates on the under-construction properties will be slashed to 5% from 12% without the input tax credit. The developers thus, will not have the ability to claim the Input Tax Credit post the rate cut. This will lead to abolishing of the problem of developers who didn't pass the ITC benefits to the buyers. Also, the ITC was unused and was furthermore added to the final project cost, will be now be abolished thereby benefiting the homebuyers as the prices of the homes will eventually come down.

2) GST from the view point of Developers

In the previous regime, developers had to bear several taxes for instance excise duty, VAT, customs duty etc. on the raw materials or the inputs and Service tax on the variety of input services for instance architect professional fees, legal charges etc. Earlier Value Added Taxes and the Service tax accounted for around 9 per cent of the price of the property. In the present tax regime however, these taxes have been subsumed.

In the present tax regime, input tax credit can be availed by the developer on selling the under-construction property against the taxes that had been borne by the buyer [7]. Further, reduction in the cost of logistics will be an added advantage for the developer and will lead to a reduction in the costs. However, many construction materials lie under the taxation slab of 18 and 28 per cent. For instance, steel and its related products lie in the 18 per cent tax slab whereas cement which is the most widely used component as well as prefabricated structural components lie under the taxation slab of 28 per cent [7]. However, presence of the input tax credit against these products have somewhat neutralized its overall costs.

Reverse Charge Mechanism has significantly come under the usage in the GST regime. It can be defined as a mechanism in which the recipient of the goods and services pays the taxes rather than the seller. A developer is entitled to pay the GST on the services availed by him, when compared to those who reside in a non-taxable area, availing services by the goods transporters, legal services etc. he is also entitled to make the payment of GST under the Reverse Charge Mechanism on the services that are provided to the developer by the government or the local authorities for instance the municipalities. However, transport of goods by railways, postal authorities etc are beyond the scope of GST as was in the case of Service Tax regime.

A significant change under present taxation regime is that a person who has registered under the GST act is entitled to pay GST on all the goods and services that he is availing from a person who is not registered under the GST act [8]. This has adversely affected the developers. Also, the taxes paid by the developer cannot be adjusted under the Reverse Charge Mechanism against the Input Tax Credits that is made available by GST on the usage of inputs. The taxes paid by the developer under RCM must be paid either by cheque or cash.

Thus, under the GST there has been a negative impact on the builders, due to the dual effect of levy of GST on procuring the goods and services from an unregistered person and the requirement of discharging the reverse taxes on the goods and services that have been received from the suppliers and the service providers which are unregistered [8]. This has significantly raised the cost for the developers, especially the small developers who availed the goods and services from unregistered suppliers and were not levied by the taxation costs to such an extent earlier.

As per the recent announcements made by the GST council which were made on 24th February,2019, the intermediate taxes on the development rights for instance TDR, FSI, JDA will be exempted on those residential properties on which GST was earlier applicable. However, the details of this scheme will be decided later. Such an exemption will also lead to the addressal of the cash flow issues faced by the builder and an easier taxation structure for them.

B. The aftermath of GST on property rentals as well as the home loans

Property rentals and Home loans are the factors on which the real estate heavily relies.

B.1.) and B.2.) highlight how have these factors been impacted and subsequently how these factors have impacted the buyers post GST.

1) Property Rentals Post GST

Input credit is made available to the developer if and only if the sale is made prior to getting the completion certification or prior to the first occupancy. But there is no credit is available if the developer has made a choice of renting out the property. Thus, a rise in the prices of commercial rentals has been observed. Also, the GST has been levied on renting of the residential property, which must be used as an accommodation [8]. Thus, tenants also witnessed a rise in the rent payment under the GST regime as service tax is not applicable on the residential properties in the pre-GST taxation regime.

2) Home Loans and GST

Before critically evaluating the effect of the GST on the home loans, looking at the components impacted by the hike in the rise of rates under the GST becomes more important. The major cost of home loan is the payment of interest on the payment of the money that has been lent. This cost will not be impacted as service tax or GST is not levied on it [9]. In analogy, no stamp duty is charged on the documentation related to the home loan, this will not change by GST as GST has still not be subsumed under GST.

But there are a variety of other charges that have been levied on the home loans. Firstly, is the processing fee paid on the time of undertaking the home loan. Prior to GST, it was 15 per cent but under the GST it went up by 3 per cent, i.e., it is now 18 per cent. Since it's solely a single time cost the overall effect on the home loan will be of less of significance. The banks also recover some other charges like the advocate charges etc., related to the home loan, which will rise proportionately [9].

In analogy to the processing fee which is paid during the time of application, one must pay the prepayment charges if by chance an individual decides to make the prepayment of the home loan before it completes its tenure or if the individual decides to shift the loan to some another lender. Generally, it is payable when the home loan has been taken under the fixed interest rate. For floating interest rate home loans, prepayment charges are not levied by the banks [10]. However, the housing finance companies can however charge the prepayment charges when an individual decides to shift towards some other lender. But when the payment of loan is to be made from the individual's own resources the housing finance companies are not entitled to take the prepayment charges.[11]

The banks can also charge an individual in case there is any EMI default owing to either the cheque has been returned or the ECS return, on these the GST rates have risen. Thereby, looking at the charges that have been recovered by the lenders, as per the GST regime the rates have gone up by 3 percent.

V. CONCLUSION

In the affordable housing segment, specially, the homes having carpet area in size up to 60 square metre, have been significantly benefited from the decline in the GST rate by 4 per cent (earlier it was 12 per cent and under GST it is 8 per cent). But as per the latest announcements on 24th February, 2019, the GST rate has been reduced from 8 percent to 1 percent for the affordable housing. The definition of affordable housing has also been changed. In metro cities, affordable housing will include properties which have the carpet area up to 60 metres squares and have a cost amounting to Rs. 45 lakhs. In the non-metro cities, affordable housing will include properties which have a carpet area up to 90 metres squares amounting to Rs. 45 lakhs.

However even after almost two years after the implementation of the GST, there is only clarity among the home buyers regarding the GST rate of 5 per cent levied on the under-construction projects. There exists still a confusion about the rebate amount that a home buyer is supposed to get on the input tax credit that the developers receive. On the other hand, the developers continuously state that they are supposed to do multiple calculations in order to arrive at the suitable ITC and they will pass on the ITC only during the final stages i.e., during the project completion stage. However, as per the latest announcements, this has been abolished.

Developers' cost has significantly reduced to nullification of double and triple taxes to moderate level of taxation with the help of input tax credit. Though there has been no overall change in the computation of the overall taxes, the GST regimes has nullified the system of tax on tax. Also, the shady transactions have also been minimized and thus, have made this sector more transparent and enhanced its accountability.

But the end users i.e., the consumers have not been able to receive the benefits under this regime because of the presence of ineffective anti-profiteering provisions. The end consumers will benefit only when the base property prices see a decline and the developers pass on the input tax credit benefits that they receive to their customers. With the advent of GST although there has been an elimination of the concept of tax on tax, it can be observed that even after passing the benefits of ITC to the customers, the buyers must pay nearly 3 to 4 per cent more than the previous taxation regime comprising of the service tax and VAT.

REFERENCES

[1] Nitin Kumar, *"Goods and Service Tax in India-A Way Forward"*, "Global Journal of Multidisciplinary Studies", Vol 3, Issue6, May 2014.

[2] Ehtisham Ahamad and Satya Poddar, "*Goods and Service Tax Reforms and Intergovernmental Consideration in India"*, "Asia Research Center",LSE,2009.

[3] Girish Garg,*"Basic Concepts and Features of Good and Service Tax in India*",2014.

[4] Reddy, D. T. *Progress of Real Estate Sector in India*. Indian Journal of Applied Research, 3(1), 25-27. Jan2013.

[5] Gupta, A. *Risk Factors in Indian non-listed Real Estate Funds.* 24th Annual European Real Estate Society Conference,2017.

[6] Agogo Mawuli*: "Goods and Service Tax- An Appraisal"*Paper presented at the the PNG Taxation Research and Review Symposium, Holiday Inn, Port Moresby,29-30, 2014.

[7] Dr. R. Vasanthagopal, *"GST in India: A Big Leap in the Indirect Taxation System"*, International Journal of Trade, Economics and Finance, Vol. 2, No. 2, April 2011.

[8] Arora, R. *Real Estate Investment Trusts (REITs): Development in India*. Indian Journal of Applied Research, 1(10), 102-103, Jul2012.

[9] Deep, S., Asim, M., Kesarwani, N., & Kandpal, S. *Identification of Delay Causing Actor in the Indian Real Estate Project: An AHP-Based Approach.* Baltic Journal of Real Estate Economics and Construction Management, 6(1), 116-130.

[10] Hoesli, M., & Reka, K. *Contagion Channels between Real Estate and Financial Markets.* Real Estate Economics, 43(1), 101-138,2015.

[11] Pinki, Supriya Kamna, Richa Verma, *"Good and Service Tax – Panacea For Indirect Tax System In India"*, "Tactful Management Research Journal",Vol2, Issue 10, July2014