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GST may help reduce cost of construction; bring down property prices

The new GST rate may increase prices of premium units due to high land costs, but the amount of benefit that a buyer may get will depend on the demand-supply situation and competition in a micro market



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The Goods and Services Tax (GST) rate of 12 percent applicable on under-construction properties is likely to bring down property prices as some developers would now decide to pass on the benefit of input tax credit to homebuyers. However, the new GST rate may increase prices of premium units due to high land costs, say tax experts.

The GST rate of 12 percent is applicable for under construction buildings where the value of land is included in the sale value. The benefits arising out of input tax credit (ITC) on raw materials such as steel, cement etc used in the project would result in an overall neutral tax incidence for construction and benefit the builder who may then decide to pass it on to the buyer.

While full ITC will be available for goods and services utilised in construction, the GST regime will not subsume stamp duty and registration charges. However, the service tax and value added tax (VAT) charges, currently payable on sale of under-construction properties, would be subsumed by the GST.

Even though the GST rate of 12 percent is higher than the current effective tax rate of 10 percent (including service tax, VAT and excluding stamp duty), the cost of an affordable unit for home buyer is likely to be reduced if the developer is willing to pass on the benefit of input tax credit available to him for procurement of raw materials such as steel, cement, glass and services such as interiors and architectural work, they say.

Premium apartments may cost more as there is no abatement for land and land is expensive in metro cities. If the cost of land is higher than the cost of materials used in a project, the tax incidence may go up, they say.

Under GST, developers will now get credit for goods and services and therefore the effective cost of construction for them will go down. They may decide to pass on this benefit to the buyers. "But to what extent they decide to pass on the benefit to buyers will vary from developer to developer," says MS Mani – Senior Director, Deloitte Haskins & Sells LLP.

The amount of benefit that a buyer may get will depend on the demand-supply situation and competition in a micro market. "Depending on the specific market dynamics, a builder may decide to pass on the benefit of the input tax credit in the form of reduced prices," says Mani, adding one may have to wait and watch to see if the government comes out with exemptions for apartments of lower size or lower value.

Contrasting views

Real estate bodies Naredco and Credai have given contrasting assessments of the impact of GST on housing prices. While Naredco has maintained that there will be no inflationary impact on housing prices, Credai has said the cost to end consumers will increase unless the government provides abatement on land.

"There will be no inflationary pressure on housing prices," says Naredco chairman Rajeev Talwar.

In the case of premium housing, GST will apply to the full value of the property where the land cost could be higher than the cost of construction. What this means is that even though the input credit on construction costs will be taxed at an average of 18 percent for steel and other materials used, the amount of GST paid for premium projects will be high on account of high cost of land.

"In the case of a premium development, the entire input tax credit is not sufficient to bring down the fresh tax liability to nil because of the taxes paid on other expenditures, having negligible impact. More clarity will prevail once the GST gets implemented and the government clears its stand on the abatement available for the land cost for calculating service tax on under-construction projects," says Surendra Hiranandani, Chairman & MD, House of Hiranandani.

What should homebuyers look out for

Experts say that each housing project could have a different cost structure and that will determine the amount of savings that will accrue to a developer on account of constructing a project and the subsequent benefits that will be passed on to buyers.

"It is critical for home buyers to see that developers compute the benefit of additional input tax credit correctly and pass it on to the home buyers," says Harpreet Singh Partner, Indirect Tax, KPMG India.

According to an ICRA note, GST rate will be 12 percent for construction of buildings intended for sale to a buyer, where the value of land is included in the sale value. In case the land and construction values are explicitly identified through separate agreements, the GST rate applicable is expected to be 18 percent.

GST and maintenance charges

Under GST, the existing rate of 15.55 percent charged for maintenance of cooperative housing society will be replaced by 18 percent. This means that apartment owners who pay a monthly maintenance charge of more than Rs 5,000 will have to pay about 2.5 percent additional tax. This excludes property tax, stamp duty, electricity and water charges.

The new rate is applicable on housing societies that have an annual income of more than Rs 20 lakh. No GST is to be paid by societies whose income is less than this amount.