

Impact of Goods and Service Tax (GST) on Housing Sector in India

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Abstract: In this research paper I try to attempt the impact of goods and service tax (GST) on housing sector in India. The author also has stated with a brief description of the historical scenario of Indian GST. The Goods and Services Tax (GST) is a value added tax implemented in India and it has been made clear that there would be a dual GST, taxation power – both by the centre and the state to levy the taxes on the goods and services. In the present State-level VAT scheme, CENVAT load on the goods remains included in the value of goods to be taxed under State VAT, and contributing to that extent a cascading effect on account of CENVAT element. With better regulations like RERA and GST coming into force, we can expect better transparency, management and increased buyer confidence in Real Estate sector.

Keywords: GST, VAT, CGST, SGST & IGST.

History of GST:

France is the first country in the world, which has implemented GST in 1954. Within 62 years of its advent, about 160 countries across the world have adopted GST because this tax has the capacity to raise revenue in the most transparent and neutral manner. Generally the GST ranges between 15%- 20% in most of the countries.

In India, GST was first recommended by Kelkar Task Force on implementation of Fiscal Reforms and Budget Management Act 2004. For the first time in India, when the ‘Goods and Service Tax’ was uttered by P. Chidambaram, the then Finance Minister of India, the deadline to introduce it was April, 2010. In December 2014, the Constitution (122nd Amendment) Bill, 2014 was introduced in Lok Sabha. The Bill was

passed by Lok Sabha in May 2015 and referred to a Select Committee of Rajya Sabha for examination.

The Goods and Services Tax has revolutionized the Indian taxation system.
Tax (GST) is an indirect tax which was introduced in India on 1 July 2017 and was applicable throughout India which replaced multiple cascading taxes levied by the central and state governments.

The tax rate under GST are set at 0%, 5%, 12%, 18% and 28% for various goods and services, and almost 50% of goods & services comes under 18% tax rate..There is a special rate of 0.25% on rough precious and semi-precious stones and 3% on gold.[2] In addition a cess of 15% or other rates on top of 28% GST applies on few items like aerated drinks, luxury cars and tobacco products.[3] GST was initially

proposed to replace a slew of indirect taxes with a unified tax and was therefore set to dramatically reshape the country's 2 trillion dollar economy.[4]

Review of Literature:

(Poddar and Ahmad, 2009)Intermediate purchases of inputs by the business firms do not get full offset and part of non offset taxes may get added up in prices quoted for exports thus making exporters less competitive in world markets

Objectives of the Study :-

The main objectives of the study are as follows:-

1. To study the concept of Goods and Service Tax (GST)
2. To examine about how to work GST in India
3. To analysis the Tax pre and post GST in India
4. To analysis the impact of GST on housing sector in India

Research Methodology:

The present study based on exploratory research methodology and secondary data. Secondary data collected from various books, National & international Journals, government reports, publications from various websites which focused on various aspects of Goods and Service tax. The research design was adopted to acquire greater accuracy and in - depth analysis for the purpose of the study.

Meaning of Goods and Service Tax (GST):

GST is one indirect tax for the whole nation, which will make India one unified common market. GST is a single tax on the supply of goods and services, right from the manufacturer to the consumer. Credits of input taxes paid at each stage will be available in the subsequent stage of value addition, which makes GST essentially a tax only on value addition at each stage. The final consumer will thus bear only the GST charged by the last dealer in the supply chain, with set-off benefits at all the previous stages.

“GST is a tax on goods and services with value addition at each stage having comprehensive and continuous chain of set of benefits from the producer’s / service provider’s point up to the retailer’s level where only the final consumer should bear the tax.”

New Article 366(12A) of the Indian Constitution defines Goods and Services Tax (GST) to mean any tax on supply of goods or services or both except taxes on the supply of the alcoholic liquor for human consumption. New Article 366(26A) defines service to mean anything other than goods.

Existing Article 366(12) defines goods to include all materials, commodities and articles. Goods and Services Tax (GST) in India is proposed to be the maiden REFORM (and not an amendment) in the existing indirect taxation structure.

GST is not a tax on business but a tax on consumers. Business that purchase goods and services that are consumed, used or supplied can claim inputs tax credit subject to prescribed documentation as apply GST on the same goods or service several times as it passes from business to business on its way to the final consumer, in this way the tax is essentially borne by final consumer.

GST the tax base will shift from production to consumption.

Goods & Services Tax Law in India is a comprehensive, multi-stage, destination-based tax that will be levied on every value addition.

GST is an indirect tax levied on the supply of goods and services. GST Law has replaced many indirect tax laws that previously existed in India.

Here's a list of taxes that the GST will likely replace:

- Service Tax
- Cesses and surcharges related to supply of goods or services
- Central Excise Duty
- Excise Duties on medicinal and toilet preparations
- Additional Excise Duties on textiles and textile products
- Additional Excise Duties on goods of special importance
- Additional Customs Duties (CVD)
- Special Additional Duty of Customs (SAD)

These are the taxes that could be absorbed into the GST regime:

- Central Sales Tax
- State VAT
- Entry Tax
- Purchase Tax
- Entertainment Tax (not levied by local bodies)
- Luxury Tax
- Taxes on advertisements
- State cesses and surcharges
- Taxes on lotteries, betting and gambling

Components of GST:

There are 3 applicable taxes under GST: [CGST](#), [SGST](#) & [IGST](#).

- CGST: Collected by the Central Government on an intra-state sale (Eg: Within Karnataka)
- SGST: Collected by the State Government on an intra-state sale (Eg: Within Karnataka)
- IGST: Collected by the Central Government for inter-state sale (Eg: Karnataka to Tamil Nadu)

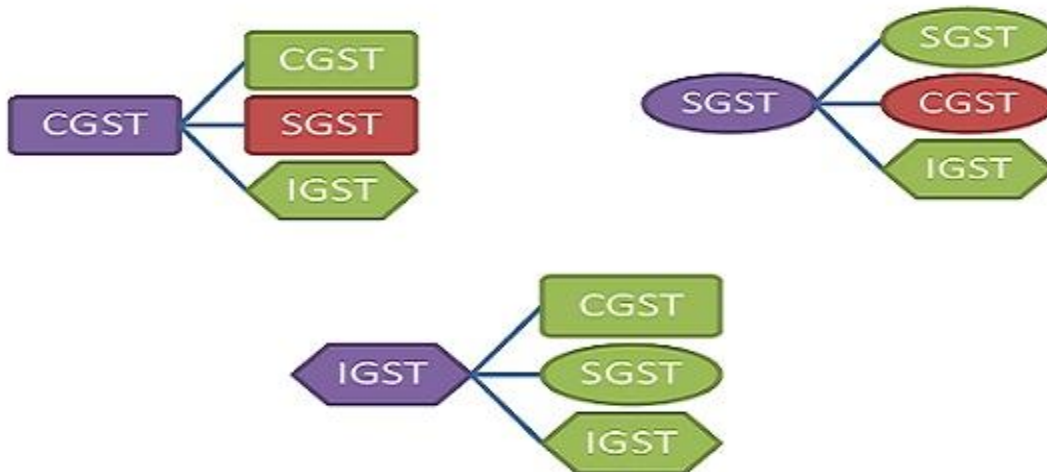


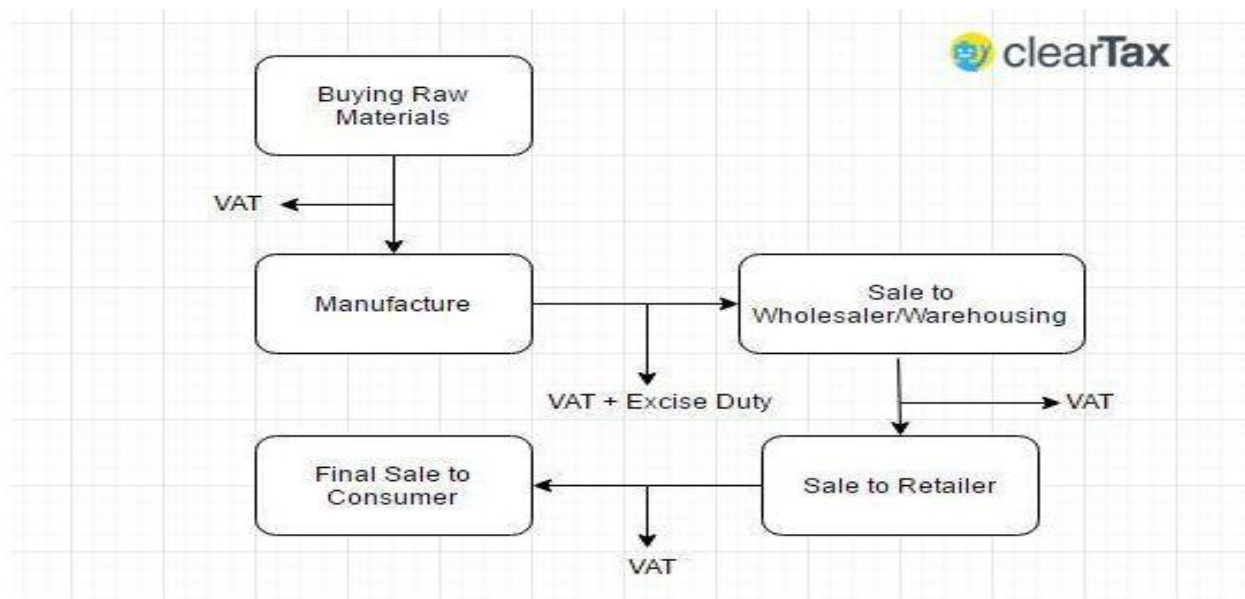
Table-1

A summary of levy and the imposing and collecting authority

| Nature of Levy | To be levied by | To be paid to the account of |
|--------------------|---|------------------------------|
| CGST | Central Government on Intra-State Supply of Goods and/or Services | CG |
| SGST | State Government Intra State Supply of Goods and/ or Services | SG |
| IGST = CGST + SGST | Central Government on Inter-State Supply of Goods and/or Services | CG |
| Additional Tax | Central Government on Inter-state supply of goods, but the net proceeds to be assigned to the States from where supply originates | CG |

Pre and Post GST:

Pre-GST (i.e. Present Scenario):- & Post- GST (Proposed Scenario):-



Example:- (1) Rate of Excise Duty – 8%; (2) VAT Rate – 12.5%; (3) Central GST Rate – 12%; (4) State GST Rate – 8%; (5) Profit Margin – Rs. 5,000/- fixed (6) All parties are located in one state.

Table-2
Pre and Post GST

| Particulars | Under Present Scenario | Under GST |
|---|------------------------|--------------|
| (I) Manufacturer (D1) to Wholesaler (D2) | | |
| Cost of Production | 45000 | 45000 |
| Input Tax Credit (Assuming nil) | – | – |
| Add : Profit Margin | 5000 | 5000 |
| Producers Basic Price | 50000 | 50000 |
| Add: Central Excise Duty @ 12% | 6000 | – |
| Add : Value Added Tax @ 12.5% on Rs. 56,000/- | 7000 | – |
| Add : Central GST @ 12% | – | 6000 |
| Add : State GST @ 8% | – | 4000 |
| Sale Price | 63000 | 60000 |
| (II) Wholesaler (D2) to Retailer (D3) | | |
| Cost of Goods to D2 | 56000 | 50000 |
| Available Input Tax Credit for set off | 7000 | 10000 |
| Add : Profit Margin | 5000 | 5000 |
| Total | 61000 | 55000 |
| Add : Value Added Tax @ 12.5% | 7625 | – |
| Add : Central GST @ 12% | – | 6600 |
| Add : State GST @ 8% | – | 4400 |
| Total Price to the Retailer | 68625 | 66000 |
| (III) Retailer (D3) to Final Consumer (C) | | |
| Cost of Goods to D3 | 61000 | 55000 |
| Input Tax Credit | 7625 | 11000 |
| Add : Profit Margin | 5000 | 5000 |
| Total 1,32,000 1,20,000 | 66000 | 60000 |
| Add : Value Added Tax @ 12.5% | 8250 | – |
| Add : Central GST @ 12% | – | 7200 |
| Add : State GST @ 8% | – | 4800 |
| Total Price to the Consumer | 74250 | 72000 |
| Total Tax Payable in All Transactions | 14250 | 12000 |
| Verification:- VAT @12.5% $[74,250 * 12.5 / 112.5] = 8250$ + 6000 (CENVAT) = 14250 | | |
| – D1 (6000 +7000) | | 13,000 |

| | |
|--|--------|
| – D2 (7625 – 7000) – | 625 |
| D3 (8250 – 7625) | 625 |
| Verification:- GST @20% [72000 *20 / 120] =12000 | |
| – D1 (6,000 + 4,000) | 10,000 |
| – D2 (11,000 – 10,000) – | 1,000 |
| D3 (12,000 – 11,000) | 1,000 |

Impact of GST on Housing Sector in India:-

The real estate industry contributes about 7.8% to India’s GDP and is the second-largest employment generator after the IT industry.

In India, before the implementation of GST, there were various kinds of taxes applicable on Real Estate – VAT & Services tax was directly applicable to the developers. VAT was applicable on sale of goods (i.e. on construction material), service tax was applicable on the labor & services component. VAT & Service tax vary from state to state and generally ranged from 7-

9% put together. Then developers also had to take the burden of higher input costs because all the raw materials like cement, steel, iron rods, bricks, sand, paints, wall fittings, plaster, tiles etc. were also charged various kinds of taxes that ranged from 20-25% for most components.

The Centre has also hiked GST rate for the sector to 18 percent from 12 percent decided upon earlier. And the new rate of 18 percent would now be charged on two-thirds of the under-construction property value, which will turn around to be the same as 12 percent on the entire value of the property that was announced earlier. The only catch is that states also come out with a similar notification.

Table-3
Current real estate transaction taxes

| | Bengaluru | Mumbai | Pune | Chennai | Gurugram |
|----------------------|------------------|---------------|-------------|----------------|-----------------|
| VAT | 4.0% | 1.0% | 1.0% | 2.0% | 4.0% |
| Service Tax | 4.5% | 4.5% | 4.5% | 4.5% | 4.5% |
| Stamp Duty | 5.7% | 5.0% | 5.0% | 7.0% | 6.0% |
| Registration Charges | 1.0% | 1.0% | 1.0% | 1.0% | 0.5% |
| Total Taxation | 15.2% | 11.5% | 11.5% | 14.5% | 15.0% |

To say the least, the Indian real estate sector has been going through significant transformation in recent times. The recently implemented Real Estate and Regulation Act (RERA) has already started addressing the issue of non-transparency, and affixes a level of accountability on real estate builders and brokers which is unprecedented in the history of the Indian property sector

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Table-4

Following are the comparative statement of taxes of major construction materials:-

| Items | GST Rates (%) | Existing Rates* (%) |
|----------------------------------|---------------|---------------------|
| Cement | 28 | 30 |
| Wall Paper | 28 | 18.5 |
| Paints and Varnishes | 28 | 26 |
| Putty, Wall fittings | 28 | 26 |
| Plaster | 28 | 26 |
| Ceramic Tiles | 28 | 26 |
| Sand Lime bricks, fly ash bricks | 5 | 6 |

* Based on Maharashtra VAT, may vary from state to state.

Highlights:

- New flats will cost less, giving some breather to the developers of upcoming projects.
- GST gives an option of getting full input set-off credit, which is not applicable on ready-to-move-in flats
- Under GST, the effective tax on under-construction projects has gone up to 12 per cent.

Govt reduces GST on work deals for Affordable Homes:-

*The government has reduced GST rate on work contracts for affordable housing to 12% from 18% fixed earlier. But it is unlikely to have any impact on prices of affordable housing for buyers, industry experts said as GST rate for buyers to purchase a finished house remains at 12%.

In a notification issued on Tuesday, the government said GST on composite supply of work contracts for affordable housing up to carpet area of 60 sq metre in a project approved by a competent authority will be 12%, including the state GST.

CREDAI president Jaxay Shah said the new rate is only for work contractors. If a developer involves a work contractor for his project, his cost will be reduced by 6%. But in the affordable segment, developers construct projects themselves to be cost-efficient. Therefore, the cost for developers will remain the same.

And on top of that, buyers will continue to pay GST at 12% on affordable housings. Of course, he will get the credit for taxes paid on inputs.

In GST regime, when a developer sells a house to an enduser, GST will be calculated at 18% on the two-third value of the house. The net rate would be 12% of total price of the house. The abatement of one-third of the value of the house is given to adjust the land price, which neither comes under goods or nor services category.

Benefits to Property Buyers:-

- A simple and transparent tax applied on the purchase price is the biggest take-away for property buyers. Under the GST regime, all under-construction properties will be charged at 12% (excluding stamp duty and registration charges). It will not apply to completed and ready-to-move-in projects, as there are no indirect taxes applicable in the sale of such properties.
- With the introduction of the Goods and Services Tax (GST), the total incidence of tax will increase from 5.5 per cent to

12 per cent. However, developers will be able to avail of input credit, on all the goods and services purchased and spent in the construction of the property.

- VAT (with rates differing from one state to another) and Service Tax together accounted for 7-9% of the ticket price for a residential property, which is 3-4% lower than the GST rate. However, due to information asymmetry, consumers were largely unaware of how VAT and service tax are calculated – definitely, the entire tax calculation was too complex for laypeople to understand.
- Any real estate product comprises of three expense components, namely land, material and labour or service costs. VAT is calculated on material cost, and service tax is calculated on labour and service cost. It is very difficult for buyers to ascertain what components were included for calculation of VAT and service tax.

Benefit to Developers:-

- If you are a developer, you were earlier charged for Central Excise Duty, VAT and entry taxes collected by the state on construction material costs. Further, you had to pay a 15% tax on services like labour, architect fees, approval charges, legal charges etc. Your tax burden was transferred to the buyer eventually. However, under the new regime, the changes in construction costs are not grave. Furthermore, reduced cost of logistics will result in reducing expenses as well. The input tax credits will also help you increase profit margins and it will be a simpler tax to work with.

- GST will eliminate all the other taxes, and the benefit of being able to claim input tax credit can also improve developers' profit margins.
- The implementation of GST makes the calculation much simpler, since the buyer has to pay only a single Goods and Services Tax. Also, the builder must pass on the benefit of the price reduction he enjoys due to input tax credit to the buyer.

Conclusion:-

- The introduction of Goods and Services Tax would be a very noteworthy step in the field of indirect tax reforms in India. By amalgamating a large number of Central and State taxes into a single tax, it would alleviate cascading or double taxation in a major way and pave the way for a common national market. From the consumer point of view, the biggest advantage would be in terms of reduction in the overall tax burden on goods and services. Introduction of GST would also make Indian products competitive in the domestic and international markets. Last but not the least, this tax, because of its transparent character, would be easier to administer. However, once implemented, the system holds great promise in terms of sustaining growth for the Indian economy.
- In the first place, the macroeconomic impact of a change to the introduction of the GST is significant in terms of growth effects, price effects, current account effects and the effect on the budget balance.
- Housing prices are likely to fall by up to 5% following the implementation of Goods and

Services Tax (GST) across India from July. The GST council fixed GST at 12% on the housing sector with the allowance of credits for taxes paid on inputs like cement, steel, paints, and other items. Because of the input credit, the net taxes on housing will likely fall. A simple calculation shows that the price of a house costing Rs 1 crore may reduce by Rs 3-5 lakh. The net price in the affordable housing segment of up to Rs 30 lakh at Rs 3,500 per square feet built-up area should fall by 5%.\

Suggested Solutions:-

1. While on one hand govt. is giving interest subsidies to buyers under Prime Minister Jan Awas Yojana and income tax exemptions u/s 80 IBA, on the other hand it is negating these exemptions/benefits by levying GST. A 12% tax levy on affordable housing could seriously damage the nascent affordable housing industry which the govt. is so eager to promote and could derail governments plans of 'Housing for All 2022'. Thus, in order to keep the effect of GST neutral or minimal and achieve the govt. target of 'Housing for All 2022' the following suggestions are given –
2. Continuing the exemption for affordable housing – The exemptions for affordable housing available under service tax should be continued under GST. Further, in order to ensure that the increase in cost due to blocked input credit is minimum, works contract/labour contract given for an affordable housing project should also be exempt. Refund of input credits paid

can also be given, similar to that given to exporters.

3. Reducing the rate of tax – The govt. should consider reducing the rate of tax or giving abatement on land value for affordable housing. Rates should be kept between 5-6% instead of the current 12%. Reduction in tax rates should also be done for works contract/labour contract given for an affordable housing project. Reducing the rate of tax might be a better option than completely exempting the project so that input credit is available.
4. Subsuming stamp duty under GST – Since stamp duty has not been subsumed under GST, the cascading effect of taxes has not completely been removed in real estate. The central and state governments should work towards subsuming stamp duty under GST as well to completely eliminate the cascading effect. Input credit should also be available for stamp duty paid on land purchased for executing affordable housing projects. However, considering the current scenario, absorption of stamp duty under GST looks farfetched as most states would be unwilling to cede this source of revenue.
5. With GST, multiple taxation will go away. This is the biggest change for Real Estate. What it means is that when a developer has already paid GST on input materials, he can claim input tax credit. Let's understand this in more detail.

It may seem that current taxes (VAT plus Service tax of 7-9%) are lower than the new GST of 12% on under-construction properties. But customers do not realize that the developer is also paying taxes on

input materials which are built in his cost.

Now, with GST that will change. Although, the developer will charge a 12% GST to the customer, he will be able to claim input tax credit i.e. the taxes that he has already paid while purchasing various raw materials. So, in turn effective costs will reduce. As per GST he is bound to pass the input tax credit benefit to the customer.

So, as a customer you may feel that you are being charged a higher tax rate. But the base (on which tax rate is charged) will reduce because of the input tax credit.

6. With better regulations like RERA and GST coming into force, we can expect better transparency, management and increased buyer confidence in Real Estate sector.

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