

# Rise in real estate tax slab puts developers in fix

Mumbai, June 29: Builders and people involved in the real estate sector fear that the introduction of GST will increase the prices of houses. The tax for the real estate has gone up from 12 per cent to 18 per cent. This will ultimately put the burden on the consumers to pay more for the houses.

Another fear surrounding the sector is whether consumers would be willing to buy such expensive houses. Currently, the service tax applied on the construction projects is 4.5 per cent, VAT is one per cent and stamp duty is five per cent. Under GST, these construction projects will fall under the 18 per cent slab.

Sachin Sandhir, global managing director of Emerging Business, RICS



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said that the idea of GST stands out on the account of its usage of 'tax credits'. The primary purpose of this is to reduce and eliminate instances of cascading taxes or 'tax-on-tax' paid at different stages of the real estate supply chain. He said, "GST is expected to keep real estate costs low for the affordable housing segment, but increase

costs for others."

"Considering that almost 70 per cent of the real estate market caters to the middle to high income segment, GST could shift focus, particularly of smaller developers towards the high volume, low to medium income segment," he added.

Financial advisors to the real estate sector are

not having much hope from the GST in terms of it bringing the prices down. "The housing prices will go up and the consumers will have to pay the extra money," said Ajay Jain, financial advisor of Centrum Capital.

"The government has assured that the input credit will be available. However, it is applicable only on certain things. If a project is worth ₹100 crore, 25 per cent of it is the construction cost and the rest 75 per cent is spent on things like permissions and approvals and no input credit is available for this," he added.

According to Mr Jain, GST will put a 5 per cent extra burden on the sector which will be directly passed on the consumers. Also, if a consumer has

already made the initial payment for his flat, GST will still be applicable on the final payment.

He also pointed out that the GST couples with RERA can be seen as a set back to the real estate market. "The past two months saw a slow down in the sale of houses due to two reasons — no clarity about GST and compulsory registration under RERA," said Mr Jain.

Surendra Hiranandani, chairman & MD, House of Hiranandani said that the intent of GST is not to reduce real estate prices but to streamline the tax administration and bring more businesses in the tax net and that it is unlikely that GST will have any impact on the property prices.

"We feel that the current rate of 12 per cent on

under construction project might marginally bring down the prices in the affordable houses segment, owing to the input tax credits but it is unlikely that a similar impact will be felt in mid-priced or premium developments," said Mr Hiranandani.

He further added that more clarity would 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 the under-construction projects.

"GST will have a major implication on the final prices because if the cost of the land is 10 per cent of the overall project, there is a possibility of the costs not rising as much," he added. — SG