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Real estate sector reacts on GST and its implications

Come July 1 and leasing of land, renting of buildings as well as EMIs paid for purchase of under-construction houses will start attracting the Goods and Services Tax.

Sale of land and buildings will be however out of the purview of GST, the new indirect tax regime. Such transactions will continue to attract the stamp duty, according to the legislations Finance Minister Arun Jaitley introduced in the Lok Sabha yesterday for approval. Electricity has also been kept out of the GST ambit. GST, which the government intends to roll out from July 1, 2017, will subsume central excise, service tax and state VAT among other indirect levies.

Here are the reactions form the participants of real estate sector -

From Amit Wadhwani, Director, Sai Estate Consultants

"Service tax and VAT will be replaced by Central GST & State GST whereas stamp duty stay unchanged as it is out of the purview of GST. Two aspects will define impact of GST on the sector is the rate & abatement for land value in total agreement value of residential and under construction homes. Most experts except the GST rate to be at 18 % and the value of land to be not more than 25 % of total consideration value of residential units.

In this case the consumer will end up about 13.5 % which is significantly higher than current service tax or VAT rates across all states. But then the angle of developers lowering costs on account of input credit allowance could lower prices if developers are willing to pass on benefits to the end users. This percentage could mean a saving of upto 20%.

Over all with implementation of GST, the consumer's could have to bear with slightly higher taxes but can expect good developers to offer double digit discounts provided the developers end up saving substantial taxes."

Dhaval Ajmera, director, Ajmera Realty on GST

Housing industry backs around 300 odd industries and is a key driving cycle for GDP and economy of the country. To boost consumer demand in the real estate sector, the industry hopes for more promising taxation procedures to be introduced by the government. The Goods and Services Tax (GST) will swap a dozen central and state taxes into a single national sales tax and would be far simpler than the current system.

It will make the drive of goods cheaper and smooth across the country. GST has been announced and industry is waiting to see which tax rate is applied on the real estate sector. There would be four tax slabs of 5, 12, 18 and 28 per cent according to Finance Minister Arun Jaitley.

Diipesh Bhagtani, Chairman-Exhibition, CREDAI-MCHI

"As an industry, we are all are waiting for the GST. We are welcoming it as there are a few advantages that come along with it. Today, there are a lot of different taxes that one has to pay like the VAT, octroi or the local body taxes. Instead of going to so many places and paying various taxes, we would then have just one tax that is going to benefit us.

So in this process a lot of labor will be saved and along with large sums of money. Also, we look at taxes to be in line with the standard of the absorption of the industry. The basic advantage is that this will save on a lot of time and further the benefits of these taxing can be passed on to the customer. We as an industry, who have been suffering from a lot of taxes which in sum amounts to 40% , if all that can be reduced then it's a big advantage to all of us."

Amit Wadhwani, director, Sai Estate Consultants

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Dharmesh Jain, president CREDAI-MCHI, CMD, Nirmal lifestyle.

Overall tax structure needs correction, as tax structure is too heavy right now on real estate. The government has clarified that property prices will not shoot up under the Goods and Services Tax (GST) regime. Property prices especially of affordable housing will not increase under the new tax regime as affordable housing has already exempted from service tax and ministry is addressing the need to continue this exemption under the GST. Cost of under construction residential unit will increase post GST implementation. This will be a hefty blow to industry and we can assume that cost of buying under construction property will significantly increase after GST becomes applicable from 1st April 2017. Industry bodies need to urgently engage with government to minimize this impact.

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Shubikha Bilkha, business head at The Real Estate Management Institute (REMI).

"The new indirect tax regime, the Goods and Services Tax (GST) has been established with a view to solve the complexities of the multi-tax regime. The purpose of the single tax structure was a decrease in compliance expenses and enhanced transparency. The proposed slab-wise GST structure, as opposed to a single tax structure, has its own set of challenges at the execution level.

Furthermore, there still exists some ambiguity as to the overall impact of the GST on real estate. As per the press announcements this morning based on the legislations introduced for approval at the Lok Sabha yesterday, the sale of land and buildings is outside of the purview of GST. Leasing of land, renting of buildings and the purchase of under construction properties via an EMI is expected to be subject to GST. While further clarification is required on a number of these points and the overall impact is still to be assessed, a few questions come to mind. As the government promotes a cashless economy that encourages the purchase of properties using institutional/bank finance, how then does the GST on EMIs for under construction impact the home-buyer? Furthermore, with REITs slated to bring the much required additional liquidity into the real estate sector, how does the GST on leasing/renting within a REIT impact the overall ROI for investors?

To meet the Modi Government's Development Agenda, especially their 'Housing for All' premise and improve the sentiment of home-buyers across this essential sector, a favourable GST for real estate is essential."

Sam Chopra, president of NAR India

"There are many taxes and duties that a developer pays on the procurement side, such as Customs duty, Central Sales Tax, excise duty, entry tax, etc. These are later passed on to the customer by adding onto the price of the unit. As GST proposes to roll multiple taxes into one, the cost of construction will come down. And eventually developers will pass on partial benefits to the customers to attract buyers and increase sales. The single tax structure will also stop the unwanted practise of double taxation. It will bring more transparency to the sector."

Sahil Kapoor, executive director, RE/MAX India

"The Indian real estate market is expected to touch US$ 180 billion by 2020. The housing sector alone contributes 5-6 per cent to the country's Gross Domestic Product (GDP). Real Estate is going under a paradigm shift with all the policy changes and Economic reforms. One such challenge is the management of the multiple indirect tax levies, such as VAT, service tax, excise, stamp duty and registration fees. Since the GST is to consider multiple indirect taxes, it will streamline tax compliance and reduce the scope for double taxation. It's definitely a great reason for home buyers to cheer, even if they have to pay slightly more in case the standard GST rate is high.Also, GST is likely to contribute around 2% to India's GDP. This is a significant boost to the economy which eventually will boost the Realty sector."

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Atul Banshal, Finance and Accounts, M3M Group , says "The real estate sector accounts for about five per cent of the country's GDP and is considered as the second-largest employer. However, the sector faces challenges in terms of fiscal policy decisions. One such bottleneck is multiple indirect tax levies, such as VAT, service tax, excise duty, registration fees, etc. Since the GST is to include multiple indirect taxes, it is bound to simplify tax compliance and minimise double taxation. Home-buyers stand to benefit. Moreover, GST is expected to add about 2 per cent to India's GDP. With economy growing, the demand for real estate sector will also get a boost. However, there are some teething issues, which have been highlighted by various real estate bodies and we expect GST council to take note and resolve the same as we continue to contribute to the GDP growth in a positive way."

Ravish Kapoor, Director, Elan Group "GST augurs well for the growth of real estate sector. By streamlining the tax structure, GST will enhance ease of doing business in the country, which would ensure a steady flow of investments into the sector."

Rajeev Jain, CO-chairman exhibition committee, CREDAI-MCHI and Director, Nirmal Lifestyle

"The state government is increasing the stamp duty by 1% eyeing to finance metro projects and on similiar grounds BMC is asking for the 1% surcharge to fund its infrastructure projects. The surcharge proposal still requires an approval from the state government and if the state carries out this amendment, it will come at a heavy cost to homebuyers who are already troubled by high realty rates and around 6% of existing stamp duty. The real estate market can get affected more and even buyers will suffer due this proposed surcharge. Sources from the government are not in the favour of levying additional burden on consumers and hence a standard taxation process should be implemented"

"GST will be a game changer for the real estate players as it will bring a lot of benefits. This new taxation regime will give freedom to the developers from many other taxes like excise duty, countervailing duty, service tax, value added tax, octroi, entry tax etc. as all the taxes will be subsumed in GST, which will be one indirect tax for the whole nation, which will make India one unified common market. Under the GST regime, there is a system of seamless tax credits throughout the value chain and across boundaries of States, which would ensure that there is minimal cascading of taxes which would ultimately reduce hidden costs of doing business. This benefit of subsuming multiple taxes into one will reduce the construction cost and thus bring in more liquidity into the market and boost home sales. This will lead to a reduction in the final cost to the end customers."

Sachin Sandhir, Global Managing Director - Emerging Business, RICS

"We congratulate the government for clearing the path for the rollout of the Goods and Services Tax (GST) from July 1st. While GST was not fundamentally designed with the real estate sector in mind, the sector will gain from it. GST will subsume all other taxes. It will contribute to normalising the tax incidence on the same good or service across different States and removing taxation on interstate movements. It is likely that the warehousing and logistics sector will stand to gain in this process, since placement of possibly larger warehousing and logistics hubs will depend almost entirely on transportation and connectivity, as opposed to being influenced by incidence of intestate taxation."