GST rate cut – Real Estate sector – II

Why in news?

The GST Council recently recommended reduction in the GST rates payable on under-construction properties.

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What are the changes proposed?

- An under-construction property attracts GST at the rate of 18%.
- But it is not charged on the entire value of the property.
- It is charged only on two-third of the value and the remaining one-third value of the property is considered as the cost of land.
- Hence, the effective rate of GST payable on purchase of under-construction residential or commercial properties is 12% with full input tax credit (ITC).
- Recently, the GST Council slashed these tax rates for affordable and non-affordable housing in the under-construction segments.
- The Council has decided to cut the GST rate for residential housing from 12% to 5% and for affordable housing from 8% to 1% along with removal of input tax credit (ITC).
- The new rates will be effective from April 1, 2019.

What is the necessity for lower rates?

- There was a need to incentivise the real estate sector, given the inventory pileup and the slowdown in launch of new projects.
- Lower offtake restricting money flow in the sector was also among the concerns that led to the lowering of the GST rates.
- As per rough estimates, about 40% of the offtake should happen in the first year of completion of a project.
- This proportion has now slipped to about 25%, which shows the lower demand for under-construction properties.
- Also, it was felt that builders were not passing on the benefits of input tax credit to home-buyers as lower prices.

Why were the states opposing this?

- Some states cited possible revenue loss, valuation of land, breaking of value chain in absence of ITC and sourcing norms for real estate developers as contentious issues.
- States such as Punjab argued that the formula of considering one-third value of the property as the cost of land be avoided and should instead be linked to circle rates.
- The reasoning behind this is that in cities with lower land value, calculating GST rates only on two-thirds of property value, deprives states of revenue otherwise due to them.
- Also, the GST Council is likely to mandate that around 80% of a project's inputs must come from formal sector vendors (registered dealers) in the GST net.
- States like West Bengal says this could lead to use of more cash and result in flow of black money into the sector.
- Also, by this ruling, most of the sourcing cost would be met by purchase of capital goods to meet the 80% target.
- This will allow builders to buy other construction material like cement and sand from unregistered dealers that will give rise to evasion.
- However, the government said the 80% sourcing norm is likely to exclude purchase of capital goods so that the major component of the 80% is from purchase of construction material.

Source: The Indian Express

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