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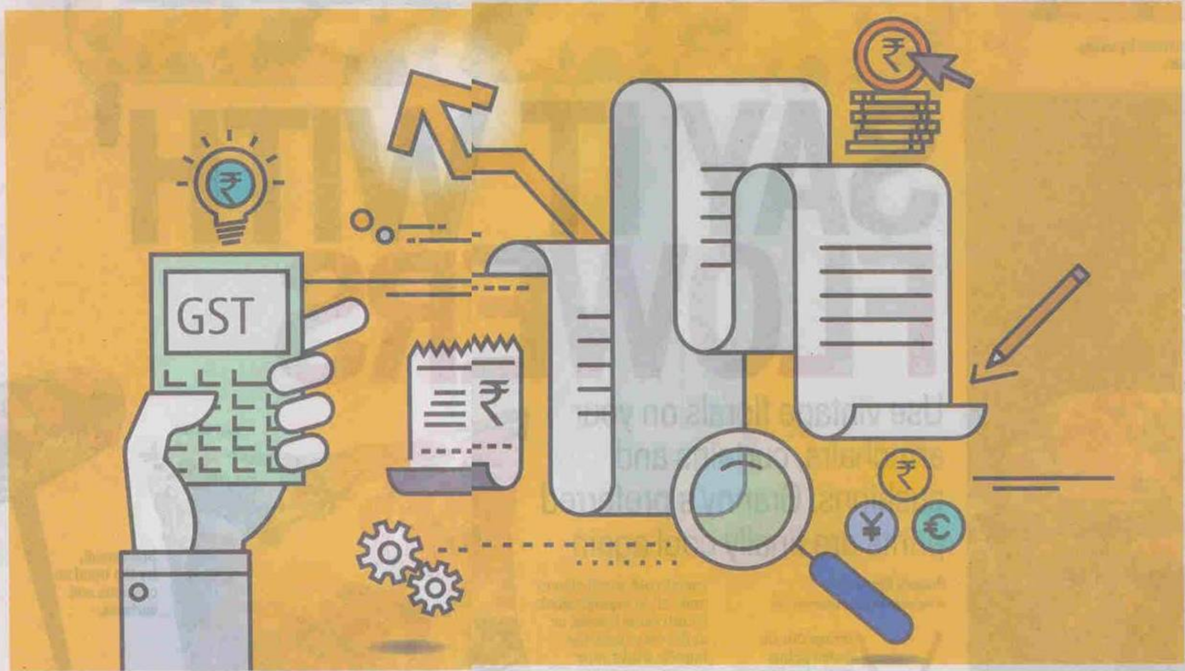
A GOOD DEAL?

By replacing multiple taxes with a single levy, the recently approved GST bill could lower construction costs. But stamp duty remains outside its purview, which could defeat the aim of greater transparency



ISTOCK

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Have you ever counted the additional payments on your house? From value added tax to service tax to stamp duty and registration, the bills just mount, and the process for filing each can be tedious too.

The taxes can make up anywhere between 22% and 25%, if you include the levies that the developer pays on materials and licences. To eliminate double taxation and implement a unified tax regime, Parliament approved the Goods and Services Tax (GST) bill on August 3. While GST will apply to everything from trade to eating out, one of the areas where it could have a significant impact is real-estate.

"Retail and residential property buyers stand to gain in particular," says Anuj Puri, chairman and country head of realty consultancy JLL India.

The most positive impact will be the degree of transparency it is expected to introduce, adds Dhaval Ajmera, director of construction company Ajmera Realty. "A unified tax regime will cut down on double taxation, eventually bringing more liquidity into the market, and could boost the sales in the sector," he adds.

THE BENEFITS

Currently, home buyers pay service tax and value-added tax (VAT) on under-construction residential units. The developer, on the other hand, pays excise duty, Customs duty, central sales tax and entry tax on purchase of raw material and other consumables. With GST, these multiple taxes will be replaced by a single tax. "This will help reduce cost of construction for developers, which will enable them to pass on the benefit or at least maintain prices at current levels," says Deep Kantawala, group CFO and head of realty consultancy ICS Real Estate Partners.

The relationship between real-estate and more than 250 other sectors such as cement, steel, information technology, insurance, and banking and financial services go hand in hand. The benefits or drawbacks of GST on each sector will also therefore have an indirect impact on real-estate and vice-versa.

"The direct impact of GST on real-estate, in terms of tax outflow for developers and consumers, will depend on whether the final GST rate is more or less than the taxes paid currently," says Puri.

> The most positive impact of the GST bill will be the degree of transparency it can bring. A unified tax regime will cut down on double taxation – bringing more liquidity into the market, and boosting sales in the sector.
>
> DHAVAL AJMERA, director, Ajmera Realty

"At this point in time, we may see very limited tangible benefits to the real-estate industry but some benefits cannot be ruled out."

First, it will have an overall impact on prices of raw material such as concrete, steel, bricks etc.

Adding to this, if GST can help increase GDP in the long run, this could drive demand for real-estate and help in the sector's revival, Puri says.

The implementation of GST will eliminate double taxation as central and state taxes are amalgamated into one levy. "This will ease the process of taxation considerably, making its enforcement and administration easier and simpler," says Anil Pharande, chairman of the Pharande Spaces construction group. "Existing tax inefficiencies could be drastically reduced."

POTENTIAL DRAWBACKS

It's not all good news, though. The GST doesn't include stamp duty and registration charges, which will continue to be levied as they are today. "Should states levy additional local taxes such as municipal and labour cesses, there will be an additional burden on home-buyers," says Shubhika Bilkha, business head at The Real Estate Management Institute.

Much hinges on the actual rate eventually fixed for the GST.

"If it is too high, and on top of that the buyer still has to pay stamp duty and registration, builders could be faced with a difficult situation," says Pharande. "They have to keep an eye on costing, as price competitiveness is very important, but they will also have to deal with the impact of a raised rate of taxation on their raw materials."

A lack of uniformity further complicates issues. The definition of real-estate developer varies from state to state in India. In some states they are known as real-estate contractors. Different norms apply to the respective terms and this causes VAT rates, for instance, to vary between 1% and 5%.

"We still don't know how GST will apply in the different situations, and there are potential implications in terms of outgo of taxes and the impact of that on the buyers, says Jain of Cushman and Wakefield.

IN A NUTSHELL

- Currently, home buyers pay service tax and value-added tax on the purchase of under-construction residential property.
- Additionally, developers pay excise duty, Customs duty, entry tax etc on purchase of raw material.
- In the GST regime, these multiple taxes will be replaced with a single tax. This could help reduce the cost of construction for developers, in turn enabling them to pass the benefit on to home buyers.
- However, the final benefit to homebuyers will depend on the GST rate fixed by the government.

Source: Deep Kantawala, Group chief finance officer and head at realty consultancy, ICS Real Estate Partners

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