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IMPACT OF GOODS AND SERVICES TAX (GST) ON INDIAN REAL ESTATE INDUSTRY: OPPORTUNITIES AND CHALLENGES

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ABSTRACT

India has now implemented new tax reform GST from 1st, July'17 called as one nation one market one tax. It has spotlight most of taxpayers and dealers due to its compliance requirements, but how it affects the taxes in real estate sector (RES). It ensures different views from industry experts. The RES is one of the very momentous sectors of the Indian economy. It is the largest employer in the economy after agriculture, devoting an average of 5-6 % to the GDP. The Govt. of India has been supportive to the RES. The Union Cabinet has approved 100 Smart City Projects in India Aug, 2015. The Govt. has also raised Foreign Direct Investment (FDI) limits for townships and settlements development projects to 100%. Hence this article study is most important topic shows real estate opportunity and challenges despite GST obstacles in present scenario.

***KEYWORDS**: Real Estate Sector (RES), GST, REITs, Foreign Direct Investment.*

Introduction

The real estate sector is the biggest employer in India after agriculture and currently employs over 40 million workforces over 250 sectors and ancillary industries. It plays an important role in employment generation in India. Investing in real estate is not only a best investment, but it also allows for transfer of the property from one generation to the next. The total market size of Indian real estate is predicted to have doubled since 2008 and come to INR 7 lakh crore. India has the largest housing market in the world, with over 75–80% share in the total real estate market size in India. The expectation for growth is significant as India would need to develop over 170 million houses until 2030 to meet the demand of the rapidly urbanizing population. The real estate market of India is expected to touch US$ 180 billion by 2020. Only housing sector is expected to contribute around 11% to India's GDP by 2020. Retail, hospitality and commercial real estate are also growing no doubtly. It provides the needful infrastructure for India's growing needs. New housing launches across top seven cities in India increased 27% per year in Jan-Mar, 2018. The Indian RES has witnessed high growth in recent times with the increase in demand for office as well as residential spaces. But the way, in which the real estate sector is developing, the study shows how the new indirect tax system of India affects the real estate sectors.

In the before tax regime, when property under construction was bought, the purchaser was subjected to the paid of VAT, service tax, stamp duty, and registration charges. Property bought after completion were exempt from VAT and service tax, but stamp duty and registration charges were payable. The new indirect tax system as GST will alone solve the challenges faced by the real estate sector and help the sector to come out of its long slumber. From GST comes transparency in the functioning of RES. Hereby the overall increase in price for new residential properties could be lower than that for new commercial properties. It will reduce the cost of purchasing houses for buyers as in the previous tax regime, which they had to pay as Service Tax and VAT on purchase of residential unit when booked prior to their completion and also developers had to pay as excise duty, custom duty, CST and Entry tax, which is non-creditable tax cost on their professional side, which is included in the price of

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units. With the uniform tax rate, now developers will have Input Tax Credits (ITC) on GST paid for services and goods purchased by them which will less the cost for them and the benefit that comes from this change can be passed on to the buyers. After the implementation of GST, the tax structure is under simplification process thus the government has not included the stamp duties under Value added Tax (VAT). All under-construction properties will invite a GST of 12% with full ITC. However, GST will not be applicable for ready- to- move-in properties. In this category, the actual GST rate is 18%. But one-third of this 18% is deemed as the value of land or undivided share of land supplied to the buyer of the property. Hence, GST rate lowers down to 12% on under-construction flats, properties or commercial properties with full ITC. The new GST regime has replaced multiplication of taxes and the builders now have to pay a higher amount in the 4-tier taxation but finally would get ITC. Now, the burden of the higher taxes will be passed over to the home buyers. Apart from those, such home buyer will stop paying 12% GST, who are linked under the Credit Linked Subsidy Scheme (CLSS). The provision that the home buyers of CLSS Scheme will be only paying 8% GST on the 1/3 part of the land has passed 25th GST council meeting. So, it will directly impact the overall cost of building construction.

Review of Literature

Nikhil Hawelia, MD of the Hawelia Group, says that the high rate of GST will destroy the base of uniform taxation and purpose of tax reforms. The real advantage of the GST will be from the lower tax rate which also simplifies multiple taxations.

Ramesh Nair, CEO and Country Head, JLL India said, The time for change is now, which is evident in the recent changes and developments of RES. GST as well as RERA have created a strong base for the sector to grow, which coupled with India's strong economic advancement have provided a perfect spring board.

Vikas Bhasin, CMD, Saya Homes said, GST has brought changes in the concept of tax as 'One Nation One Tax' and this uniform tax structure in the RES has enhanced the transparency. In the new tax regime of GST, benefits received from the ITC are helpful to the buyers which will create a fresh demand for real estate. Impact of GST in concur with RERA has transformed the Indian realty sector.

Vinay Sah, MD and CEO, LICHFL said, on the impact of the GST and the Real Estate Act on purchases, "Some awaited buyers preferred to wait and watch. There is some slowdown in demand. Buying for investments purposes are going down but demand for purchases for self occupation is going up."

Objectives

The following study represents the current scenario of real estate in India:

- To study the fundamental factors affecting the real estate value.
- To study the opportunities of real estate investment in India.
- To study the challenges in real estate sector.
- To study an impact of GST on real estate sector (RES).

Methodology

For this idea reviews and analysis of various studies and documents have made. This empirical study depends on secondary data and taken from journal, magazine, research articles, government reports and various online sites.

Opportunities

The real estate sector (RES) has witnessed a number of policy changes over the last some years. The Indian govt. has taken a lot of initiatives to boost the development in the sector with the governments of the respective states. The Government's focused towards development of urban through 'Housing for All by 2022' and it has been visible through its increased focus on luring additional capital, on increasing transparency and on encourage the RES across all its key stakeholders through its policy initiatives. Further the central govt. announced through the new scheme of public-private-partnership (PPP) policy to promote private investments in affordable housing. The Union Budget of India aims to provide thrust to increase govt. spending in rural areas, infrastructure, reduce poverty and manage fiscal prudence. Allocation to infrastructure sector is at a record high of INR 3.96 lakh crore for F.Y.2017–2018, an increase of over 38% over the previous fiscal year. Therefore a lot of opportunities have shows in RES and Govt. has announced following major policy:

- Infrastructure status has been presents to the affordable housing projects.

- The Project of smart city has plan to build hundred smart cities, is a main opportunity for the real estate companies.
- The Creation of National Urban Housing Fund (NUHF) has been approved with an expenditure of INR 60,000 crore (US$ 9.27 billion) in Feb, 2018.
- The Pradhan Mantri Awas Yojana (PMAY) Urban have been permitted 1,427,486 houses in 2017-18 and additional 3,21,567 affordable houses in Mar, 2018.
- The Govt. plan has been construction of additional 1,50,000 affordable houses under PMAY for urban locality in May,2018.
- The Govt. has sanctioned new Credit Linked Subsidy Scheme (CLSS) for the mid-income group with a provision of INR 1,000 crore in 2017-18 and term of loans under the CLSS of PMAY was increased from 15 to 20 years.
- The Govt. has also increased allocation to PMAY from INR 15,000 crore to INR 23,000 crore in the rural areas.
- Over one crore houses to be built for the homeless in rural areas by 2019.
- The Govt. has planned specific programme for the development of multi-modal logistics parks and together it has been would be drawn up and implemented.

Private equity investments in real estate are also estimated to grow to US$ 100 billion by 2026 and Private equity investments in Indian real estate increased 15% year-on-year in Jan-Mar, 2018 to Rs 16,530 crore (US$ 2.56 billion). The key beneficiaries of private equity investments in real estate are tier I and tier II cities. There are number of housing finance companies in India such as: HDFC, HUDCO, LICHFL, DHFL, CFHL etc. have also given more opportunities in RES by the help of needy person who cannot made a home for own. The major private equity investments in this sector are as follows:

- DLF bought 11.76 acres of land for INR 15 billion (US$ 231.7 million) for its expansion in Gurugram, Haryana in Feb, 2018.
- Japanese Conglomerate Sumitomo Corp. announced its US$ 2 billion partnership with Krishna Group, which is to develop a real estate projects in the country in Feb, 2018.
- The Blackstone Group has calculate Rs. 900 crore ($ 136.9 million) of acquiring of India bull part from the India bulls Real Estate (RES) in chennai, May, 2018.
- KKR India Asset Finance Pvt. Ltd has invested over US$ 500 million in residential real estate projects in India in 2017, in which total investments in real estate projects in India has reached US$ 1 billion.
- The construction industry has chanced opportunities and has hoped that in this sector, both the short-term and long term non-resident Indian (NRI) will invest. Hopefully Bengaluru is the most privileged property investment destination for the NRIs, then Ahmedabad, Pune, Chennai, Goa, Delhi and Dehradun.
- ArthVeda, the fund management arm of Deewan Housing Finance ltd. (DHFL), has launched its second realty fund - ArthVeda STAR. It’s targeting middle-income housing in Tier-II and Tier-III cities. ArthVeda will specifically invest only in Greenfield housing projects in the middle-income segment in Tier-II and Tier-III cities and in small projects.

Furthermore, the following some opportunities shows for growth in the real estate sector in the coming years:

- **The Main Focus on Selling and Delivery:** RERA has provided opportunities to developers to be transparent and complete the project by the mentioned deadline. By this way Developers will majorly focus on selling and completing the current projects within the deadline. Therefore, the year 2018 will witness maximum sales and delivery in the residential market.
- **Various Tax Incentives:** Government is doing its best to increase the means of ’affordable housing’ through different tax incentives and other reforms. The govt. has decided to hike the carpet area of the unit like 120 square meter and 150 square meter for MIG-I (income category of 6-12 lakhs p.a) and MIG-II (income category of 12-18 lakhs p.a). It will also come with a 4% interest subsidy, besides promoting home sales.
- **Past Year Reforms to Shape the Future:** There are various reforms set by the govt., including RERA and GST which will also affect the industry in 2018. These reforms will change the face of

the industry for home buyers as well as real estate developers. And with complete transparency, home buyers and developers can easy to deal with.

- **Clean Capital:** It was difficult to get clean capital from financial institutes due to lack of transparency in the sector. After RERA and Demonetization, a home buying and sale process has changed. In addition, investors and financial institutions have opened the event for clean investment. This definitely shows positive image in 2018.
- **Pradhan Mantri Awas Yojana (PMAY) to shape up Housing for All:** The ambitious plan of Prime Minister's to build homes for all by 2022 will certainly bring a great change in economy with $1.3 trillion. It will generate 60 million new homes and 2 million jobs in the next 4-5 years. Affordable housing could emerge as the defining trend in 2018**.**

Challenges

There have been seen several ups and downs in the real estate sector (RES) in 71 years since independence. Despite its long journey, this industry still needs various reforms, while many challenges continue to hinder the development of the realty sector. The challenges in front of the Indian realty sector are:

- **Rate of GST:** The real estate has been facing huge roadblock due to high GST rate since the establishment of GST. Home buying is a form of huge investment in real estate. Therefore, the govt. should bring down the GST rate by 6 percent to encourage buyers to invest in new projects.
- **Rising Input Cost:** Real estate is a capital and labour intensive industry; hence a rise in the cost of labour creates issues in the development of the project. Along with, the certain part of distributors and cement industry using unfair practices through raising the price creates issues in the project completion.
- **Single Window Clearance:** Single Window Clearance is the huge challenge faced by the real estate developers. The major obstacle for a real estate developer is the property clearance and usually takes 18 to 36 months. A most of delay happens in getting approvals from authorities who take months to reply. So implementing this method will not only bring down the project delivery deadline delay but also the cost of the project implementation. Through online, it will boost the clarity and control the scope of undue satisfaction..
- **Facing the Regulatory Pressure of RERA:** Developers will face the impact of RERA in 2018 for restricting to new construction and focusing more on completing the projects. As the supply of ready-to-move-in properties will increase thus developers will face the challenge of completing the project on prescribed date. Because we saw some regulatory rules by the govt. which impacted the industry, positively and negatively in 2017.
- **Home Loan Interest:** The home loan interest tax is the prime issue faced by the home buyers. The Govt. needs to raise tax deduction limit for up to 5 lakh from the present 2 lakh per annum. So this will certainly give a satisfactory relax to home buyers in saving money on the home loan.
- **Industry Status:** Narendra Modi says Allotment of 'industry status' to the sector has been a long-pending demand of real estate players. Not having an 'industry status' makes it difficult for the real estate sector to avail legitimate finances from banks and other financial institutions. Hence, industry status is big challenge to the sector can help it in getting low-cost loans and in turn reducing project costs, which will finally benefit buyers.

Impact of GST on Real Estate Industry

After independence, the implementation of GST in India is a tremendous tax reform. It subsumes a variety of indirect central and state levies currently applicable on goods and services transacted. GST will bring a uniform tax structure into the system. Its primary objective is to simplify the complex tax structure on the supply of goods and services. While this reform may have certain short-term negative impacts on the economy, it will have long- term benefits for the country.

Before the implementation of GST in India, Various kinds of taxes were applicable on Real Estate – VAT or Value Added Tax & Services tax was directly applicable to the developers. VAT was applicable on sale of goods (i.e. on construction material) and service tax was applicable on the labor & services component. VAT & Service tax varies from state to state and generally ranged from 7-9 percent 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 percent for most components. But after GST implementation, other taxes like central excise, service tax, VAT and local taxes have replaced by a flat tax structure (GST). The following aspects come out from this study:

- GST will simplify the earlier complicated tax structure.
- Reduce costs for developers by way of input tax credit.
- Buyers will benefit from the input tax credit, by way of paying GST on lesser amount.
- Affordable housing will get a push and we can expect more projects being launched under such schemes.
- Stamp Duty & Registration charges will be applicable for all types of properties and remain unchanged.

However, the impact of the GST on real estate sector you can see as follows:

- **Impact on Affordable Housing:** Before the 25th GST council meeting, GST rates for semi-constructed or under-constructed houses bought under Credit Linked Subsidy Scheme (CLSS) was effectively 12% after the cost of land was deducted plus the additional cost of registration and stamp duty. But, after the council the new rate of GST on homes purchased under CLSS, EWS, LIG, MIG-I / MIG-II effectively will be 8%, after deducting the cost of land. Further, purchasing homes under Pradhan Mantri Awas Yojana – Housing for All, GST will not be applied. However, this exemption will not be available to residential complexes built by private developers. This concessional rate can be used for buying a house or constructing a new house. Additionally, the low-cost housing projects have been to given infrastructure status. But second time home buyers and who does not qualify under CLSS, will continue to pay 12% effectively GST on purchase or construction of homes. By the new GST regime affordable housing will becomes cheaper.
- **Impact on Residential Real Estate:** For the residential RES, the implementation of GST will definitely be a positive sentiment booster among property buyers. GST may not be instrumental in bringing down the prices of residential real estate over the short term. However, it will benefit all the stakeholders of the residential RES, as the perception of the sector will improve on the back of a simplified tax structure and accountability being fixed at every stage.
- **Impact on Commercial Real Estate:** The impact of GST may vary, depending on the kinds of property and construction methods, when it comes to the commercial office real estate market. With the existing service tax for commercial leases at 15%, GST at 18% would be nominally impacting. But despite the higher rates, the sector has been gain from the input tax credit that is available under GST rules. Any real estate product has three cost components – land, material and labour or service cost. With the implementation of GST, the tax calculations would become very simpler, since the buyer has to pay only a single tax. GST may have a marginal impact on the sector, but it will bring significant improvement in buyer sentiment and perceptions.
- **Impact on Rental Housing:** When rent out a residential property for residential purpose, it is exempt from GST. Any other type of lease or renting out of immovable property for business would attract GST at 18%, as it would be treated as a supply of service. After GST was implemented, the limit for applicability of GST has been increased to Rs.20 lakh from Rs.10 lakh pre GST era.

Conclusion

The impact of Goods & Servives Tax (GST) on real estate sector (RES) is expected to be neutral under GST. Developers or Contractors would obtain the benefit of many taxes which will be subsumed by GST. GST is definitely reducing construction costs of developers, by negating double or triple taxation to a more moderate level, through input tax credit. While there are no significant variations in the overall taxes, GST has certainly eliminated the tax-on-tax system. Further, illegal transactions are being lessed considerably bringing in clarity, transparency and accountability into the sector. According to Financial Express Report, If by the implementation of GST can increase the GDP by 2% in future, then the demand of the real estate will definitely rise and will also generate more employment in the future as it is a second largest employable sector in the country. The enactment of this law will single-handedly solve many of the challenges faced by the RES and help in pulling the sector out of its long slumber,” said Parveen Jain, president of the National Real Estate Development Council, an autonomous industry body under the ministry of housing and urban poverty alleviation. Lastly, the biggest improvement is that GST is a simple tax that applies to the overall purchase price. All properties under construction will be charged at 12% of the total property value. This excludes stamp duty and registration charges. For completed properties, the earlier provisions will continue it means only stamp duty and registration charges will payable to buyers and no indirect tax on sale of ready-to-move-in properties. But the projects under affordable housing scheme (including under-construction properties) are exempted from GST. This exemption is mainly given to support Prime Minister's initiative of "Housing for all by 2022".

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