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IMPACT OF GOODS AND SERVICES TAX (GST) ON INDIAN REAL ESTATE SECTOR

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ABSTRACT

Republic of India has here and now implemented the new GST of tax reform from 1st July 2017. Due to its compliance requirements, it has the light of most taxpayers and dealers. But how does this affect property taxes in the real estate sector (RES)? This ensures different views from industry experts. RES is one of the most important sectors of the Indian economy. It is the second largest employer in the economy after agriculture, accounting for an average of 5-6% of GDP. The Government of India has been a supporter of RES. In August 2015, the Union Cabinet approved 100 Smart City projects in India. The foreign direct investment (FDI) limit for government settlements and settlement development projects has also been raised to 100%. Residential property projects within the Special Economic Zone (SEZ) are also allowed 100% FDI. The government expects India's "Housing for All" plan to bring in 1.3 trillion in investment in the housing sector by 2025. Rs 31,500 crore (US 4. 4.87 billion) was allocated to the scheme's civic programs. In May 2018, approval was given to build another 150,000 affordable homes. The scheme is expected to promote affordable housing and construction in the country and give a boost to RES. The government has also issued guidelines for investing in non-residential property through real estate investment trusts (REITs).Therefore, this research paper highlights the improvement of Real Estate Sector after GST implementation which had needed for last 7 decades.

KEYWORDS: *Special Economic Zone (SEZ), Real Estate Sector (RES), Indian Economy, GST.*

Introduction

The real estate sector is the second largest employer in India after agriculture and currently employs over 40 million workers in 250 sectors and sub-industries. It plays an important role in job creation in India. Investing in real estate is not only a great investment, it also provides an opportunity to transfer property from one generation to another. It is predicted that the total size of the Indian real estate market has doubled since 2008 and will reach Rs 7 lakh crore. India is the largest residential market in the world, with over 75–80% shares in the total real estate market. The prospect of growth is important as India will need to build more than 170 million houses by 2030 to meet the growing demand of the urban population. India's real estate market is expected to touch USD 180billion by Dec, 2020. Only the housing sector will contribute to India's GDP near about 11% more. Retail, hospitality and real estate are also on the rise. It provides the necessary infrastructure for India's growing needs. In January-March 2018, the number of new residences in the top seven cities in India increased by 27% every year. The Indian RES has seen a high growth rate in recent days with an increase in demand for office students as well as residential space. But the way the real estate sector is growing, this study shows how India's new indirect tax system affects the real estate sector.

Before the tax regime, when property under construction was purchased, the buyer was paid VAT, service tax, stamp duty, and registration charges. Property purchased upon completion was exempt from VAT and service tax, but stamp duty and registration charges were payable. The new indirect tax system as GST alone will address the challenges facing the real estate sector and help the sector come out of its

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slumber. GST brings transparency in the work of RES. Thus, the overall increase in the price of new residential property may be less than that of new commercial property. This will reduce the cost of buying a home for buyers, as was the case with previous tax regimes, which had to pay service tax and VAT on the purchase of a residential unit when they booked before completion, and developers also had to pay excise duty. Had to be paid as customs duty. Following the implementation of GST, the tax structure is being simplified so the government has not included stamp duties under Value Added Tax (VAT). All properties under construction will invite 12% GST with full ITC. However, GST will not apply to applicable properties. In this category, the actual rate of GST is 18%. But one third of this 18% is considered the value of the land or the undivided portion of the land provided to the property buyer. Therefore, the GST rate on flats, properties or commercial properties under construction with full ITC is reduced to 12%. The new GST government has replaced tax multiplication and builders will now have to pay more in four tiers of tax but will eventually get ITC. Now, the burden of higher taxes will fall on domestic buyers. In addition, home buyers will stop paying 12% GST, which is linked to the Credit Linked Subsidy Scheme (CLSS). Home buyers of CLSS scheme will pay 8% GST on only 1/3 of the land. The 25th GST Council meeting has approved this provision. So, it will cost directly to construction the building.

Objectives of the Study

- To study the prospectiveof real estate investment in India
- To study the impact of GST in Real Estate industry and its importance
- To study the fundamental factors affecting the real estate value.

Research Methodology

Various studies and documents have been reviewed and analysed for this research paper. This exploratory study is based on secondary data and is taken from journals, magazines, research articles, government reports and various online sites which is provide related information of the study.

Prospective of Real Estate Sector after Implementation of GST

The real estate sector (RES) has seen a number of policy changes over the years. The Government of India has taken a number of steps in collaboration with the respective State Governments to promote development in this sector. The government's focus is on civic development through "Homes for 2022" and its growing focus on providing additional capital, increasing transparency and encouraging RES through its policy initiatives to all its key stakeholders. Shows through attention. Further, the central government announced a new Public Private Partnership (PPP) scheme to promote private investment in affordable housing. The purpose of India's central budget is to give impetus to the growth of the government. Spending in rural areas, infrastructure, poverty reduction and financial management. Allocation to the infrastructure sector is at the highest level of Rs 3.96 lakh crore for F.Y.2017-2018, an increase of more than 38% over the previous financial year. Therefore, many opportunities have been shown in RES and government. Steps Taken so Far for Housing Sector:

- **Affordable Housing:** Additional Deduction up to Rs.1.5lakhs for interest paid on loans borrowed to 31stMarch, 2020for purchase of house valued up to Rs.45 lakh.
- **Banks to Launch Repo. Rate/External Benchmark Linkedloan Products**
  - Reduced EMI. for housing loans by directly linking repo.rate to interest's rates.
- **Support to NBFCs / HFCs:**
  - More credit support for purchase of houses, vehicles consumer goods.
  - Additional liquidity support to HFCs Rs. 20000 cr. ByNHB thereby increasing it to Rs.30000 cr.
  - Partial Credit. Guarantee Scheme for purchase of pooled assets of NBFCs./ HFCs up to Rs..l Lakh Crore to be monitored at highest level in each bank.
  - Establish an organization to provide credit enhancement for infrastructure and housing projects.
  - Requirement for creation of a Debenture. Redemption Reserve (DRR..) of outstanding debentures in respect of listed companies, NBFCs and for HFCs removed.
- **Pradhan Mantri AwasYojna - Gramin (PMAY-G)** aims to achieve "Housing for All" by 2022 eligible beneficiaries to be provided 1.95 crores houses with amenities like toilets, Electricity and LPG. connections during its second. phase(2019-20. to 2021-22).

Now it seems that the Government policies and the interference of the apex court and the promulgating of the RERA will create the confidence and interests of the homebuyers. Thus, it will boost real estate sector as a whole.

1. Relaxation of ECB guidelines for Affordable Housing	ECB guidelines will be facilitate financing of homebuyers who are eligible PMAY in consultation with RBI. This is in addition to the existing norms for ECB for affordable housing.
2. Housing Building Advance (HBA)	The interest rate on housing building advanced shall be lowered and linked with the 10 year Govt. Bond Yields. Governments' servants contribute to a major components of demand for the houses. This will encourage more govt. servants to buy new houses.

Impact of GST on Real Estate Setor in India

Since independence, the implementation of GST in India has been a major tax reform. It collects a number of indirect central and state revenues currently applicable to transaction goods and services. The GST system will bring a uniform tax structure. Its main purpose is to simplify the complex tax structure on the provision of goods and services. While this reform may have some short-term negative effects on the economy, it will bring long-term benefits to the country. Prior to the introduction of GST in India, various types of taxes were levied on real estate. VAT or value added tax and services tax were applied directly to the developers. VAT was levied on the sale of goods (i.e. construction materials) and a service tax was levied on the labour and services component. VAT and service tax vary from state to state and are usually 7-9%. Then the developers also had to bear the burden of higher input costs as all the raw materials like cement, steel, iron bars, bricks, sand, paint, wall fittings, plaster, tiles etc. were also taxed differently. Which range from 20-25% for most ingredients. But after the implementation of GST, other taxes like Central Excise, Service Tax, VAT and Local Taxes have been replaced by Flat Tax Structure which known as GST. The following aspects emerged from this study:

- Reduce costs for developers through input tax credit.
- Buyers will benefit from input tax credit by paying GST on a small amount.
- GST will simplify the first complex tax structure.
- Affordable housing will get a push and we can expect more projects to be launched under such schemes.

However, can see the effects of GST on the real estate sector:

- **Impact on Affordable Housing:** GST Before the 25th GST Council meeting, GST rates on semi-under construction or under-construction houses purchased under the Credit Linked Subsidy Scheme (CLSS) after deduction in land cost 12% was effective, in addition to the additional cost of registration and stamp duty. But, after the council, CLSS, EWS, LIG, MIG-I / MIG. The new rate of GST on houses purchased under II will be 8% after deduction in land price. Furthermore, the purchase of houses under GST will not apply to the Prime Minister's Housing Scheme for Housing for All. However, this discount will not be available on residential premises built by private developers. This privileged home can be used to buy a house or build a new one. In addition, low-cost housing projects have been given the status of infrastructure. But second-time home buyers and those who are not eligible under CLSS will continue to pay 12% effective GST on the purchase or construction of homes. The new GST government will make affordable housing cheaper.

- **Impact on Residential Property:** For residential RES, the implementation of GST will definitely promote positive sentiment among property buyers. GST may not be effective in reducing residential property prices in the short term. However, this will benefit all stakeholders of Residential RES, as a simple tax structure and accountability at every stage will improve the sector's image.
- **Impact of GST on Commercial Real Estate:** When it comes to the immovable market of commercial office property, the effects of GST can vary depending on the property and construction methods. The existing service tax on commercial leases will have a nominal effect of 18% GST, with 15%. But despite the high rates, the sector has benefited from the input tax credit available under the GST rules. Any real estate product has three components of price. With the implementation of GST, the calculation of tax will become much easier, as the buyer has to pay only one tax. GST may have a small effect on the sector, but it will significantly improve the sentiments and perceptions of buyers.
- **Impact on Rental Housing**: When a residential house is rented for residential purposes, it is exempt from GST. Renting immovable property for any other type of lease or business will attract GST up to 18%, as it will be treated as a service provider. After the implementation of GST, the applicable limit of GST has been increased from Rs. 10 lakhs to Rs. 20 lakhs from the previous GST period.

Conclusion

Under GST, the effects of the Goods and Services Tax (GST) on the real estate sector (RES) are expected to be neutral. Developers or contractors will benefit from a lot of taxes that will be collected through GST. GST is definitely reducing the construction costs of developers by ignoring double or triple tax at a more moderate level through input tax credit. Although there is no significant change in aggregate taxes, GST has definitely abolished the tax system. In addition, illegal transactions in the sector are being significantly reduced to bring transparency and accountability. According to the Financial Express, if the implementation of GST can increase the GDP by 2% in the future, the demand for real estate will definitely increase and more jobs will be created in the future as it is the second largest source of employment.

In conclusion, the biggest improvement is that GST is a general tax that applies to the full cost of purchase. Total property on all properties under construction. 12% of the value will be charged. It does not exclude stamp duty and registration charges. For completed properties, the earlier provisions will continue. This means that buyers will be charged only stamp duty and registration. Charges will be payable and there is no indirect tax on the sale of ready-to-move properties, but ongoing projects under the affordable housing scheme (including construction properties) are exempt from GST. On "Housing for All by 2022" to support the Prime Minister's initiative.

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