

## GST IMPACT ON REAL ESTATE SECTOR

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Anita Choudhary\*  
Dr. R.K. Dular\*\*

### ABSTRACT

*Real estate sector is one of the most pivotal sectors of the Indian economy. Real estate sector plays a vital role in employment generation in India. It ranks second just behind agriculture. The importance of Real estate sector can be understood with its average 5-6% GDP contribution and stimulating demand for more than 250 ancillary industries. GST would bring a lot of transparency in the real estate sector and minimize unscrupulous transactions. Under the current tax laws, VAT and Service tax charged by different Contractors and excise duty, entry tax, octroi is paid on the procurements. Supply chain mechanism in real estate sector to be revamped after implementation of GST.*

**KEYWORDS:** GST, Tax Reform, Construction, Property, Investment Transparency.

### Introduction

The goods and service tax weekend if after April 1st July 2017. This is supposed to be the greatest tax reform of Indian economy. This new tax will transfer India into "one market, one nation, and one tax". GST will replace most of indirect taxes with simpler tax on goods and services. There will be less taxes in the economy. Hence GST is working under "one tax" principal for whole economy so it will bring uniformity in Tax structure good and services will be availed at uniform price throughout the nation on the other hand it will decrease the price of goods and services by avoiding guess cascading effect GST will reduce tax burden on the consumers they will get fair prices. It will affect almost all the sectors of the economy from producers to consumers from big corporations to small vendors from rich to poor. In this context GST will affect industries also real estate is also an important factor of the economy which contribute about 5-6 percent in GDP of the nation it is a wide sector having linkage with other industries like cement, iron and steel, sanitary, mining etc. so direct impact of other industries can be seen. GST impact on related industries will also affect real estate sector services of the Indian economy.

### Research Problem

The concept of Goods and Service Tax (GST) is one of the biggest tax reform of Indian economy. This research intends to focus on GST impacts of goods and service tax on real estate sector of the national economy.

### Research Methodology

The study focuses on study of primary data of GST provisions made by government. It includes secondary data also collected from journals, books, government publications related to GST.

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\* Research Scholar, Department of Economic Administration and Financial Management (EAFM), Faculty of Commerce, Jaipur, Rajasthan, India.

\*\* Former Associate Professor, Department of Economic Administration and Financial Management (EAFM), Faculty of Commerce, R.L.S. Government College, Kaladera, Jaipur, Rajasthan, India.

### Review of Literature

**Poornima, 2017** in her study, she had cleared that GST would be a very important step in the field of indirect taxation. The cascading and double taxation effects can be reduced by combing central and state taxes. Consumer's tax burden will approximately reduce to 25% to 30% when GST is introduced. . This taxation system would instantly encourage economic growth.

**Anushuya and Narwal (2014)** studied, "Application of CGE Modals In GST" and concluded that both GST& CGE are very popular all over the world but GST is a powerful concept in the field of indirect taxes.

### Objectives of the Study

- To study the provisions of GST regarding Real estate.
- To study the difference between earlier tax structure and GST for real estate sector.
- To study the impact of GST on real estate sector.

### GST Provisions for Real Estate Sector

Currently, the sales of land and buildings have been kept out of the ambit of GST but it is expected to be taxed within a period of a year. Construction of land and building will benefit from the rates declared for cement, bricks, and iron under GST. Cement will be taxed at the rate of 28% under GST. It is higher the current average rate of tax around 23-24% but a lot of additional taxes charged over the average rate would be subsumed under GST. Iron rods and pillars used in the construction of buildings is charged at the rate of 18% which is similar to the current average rate of 19.5%.

Bricks used in the construction of buildings and houses are taxed under GST at the rate of 28% except for the rate of ceramic building bricks which is kept under 5%. Currently, all bricks except the ceramic bricks are charged an average tax rate of 25-26% inclusive of all state and central level taxes. Logistics cost of transportation of bricks, cement or iron is going to reduce through the subsuming and streamlining of taxes. Government has made certain provisions to charge GST on real estate. Government has fixed the tax rates for under construction properties. 9% SGST and 9% CGST will be charged for under construction properties thus total 18% GST will be levied on such properties but government has allowed deduction of land value equivalent to one third of total amount charged by a developer. So the effective GST rate will be 12%. Earlier the tax structure was complicated for real estate buyers. Buyers had to pay different types of taxes like VAT service tax, stamp duty and registration charges to buy under construction property. VAT, stamp duty and registration charges for state levies, which were applied differently in each state. Service tax was Central tax levied by Central Government on construction. So buyer had to pay VAT service tax stamp duty and registration charges at the time of purchasing an under construction property. On the other hand he had to pay stamp duty and registration charge for completed property thus tax calculation for buyer was complicated in earlier structure. GST has simplified tax that applies to the overall purchase price.

### Impact of GST

GST subsumes most of Indirect Taxes and implements simple tax on goods and services GST will impact everyone in the real estate sector whether he is a buyer seller, developer, intermediary, financiers or investors. GST is expected to be an economic booster and it will attract buyers and investors interests by providing transparency in taxation. According to edelweiss securities prices are likely to drop so the sector will be improved. Buyer may enjoy price drop and deduction in tax rate. In order to GST benefits a developer will also be benefited by GST. Earlier Central excise duty, VAT and entry taxes were collected from developer by the states on construction material cost. After that service charges like labour architect fee approval charges, legal charges etc. were to be paid at 15 %, which was transferred to the buyer financially. Now in new tax regime construction costs are changed which are not much.

Reduction in transportation costs will also reduce developers overall cost. The input tax credits will also increase profit margins of developers. Except this, there cannot be two different valuations for same piece of land that is one for payment of stamp duty to State Government and the other for payment of GST to the union government. GST will Boost investors interest also. it will attract Domestic as well as foreign investment for the economy it will fulfill the goal of. Ease of doing business and improve the rank of the economy among other economy of the world. As foreign investments are Directly related to the transparency and clarity of law, gst will definitely pull the foreign investment.

**Conclusion**

The impact of GST on real estate sector is expected to be neutral under GST. Developers/Contractors would reap the benefit of many taxes which will be subsumed by GST. Besides this GST will improve tax structure and increase tax collection in the economy. It will help in increasing economic as well as public welfare.

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