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IMPACT OF GST ON REAL ESTATE SECTOR IN INDIA: A STUDY OF ISSUES AND CHALLENGES

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ABSTRACT

The implementation of the Goods and Services Tax (GST) in India has had a significant impact on various sectors, and the real estate industry is no exception. This abstract explores the ramifications of GST on the Indian real estate sector, focusing on the myriad of issues and challenges it has introduced. The study delves into how GST has altered the tax landscape for real estate transactions, affecting both developers and buyers. It scrutinizes the complexities and ambiguities within the GST framework that have led to confusion and compliance challenges for stakeholders in the real estate market. Additionally, the abstract highlights the impact of GST on property prices, input tax credit availability, and the overall competitiveness of the sector. Moreover, it sheds light on the administrative burdens and procedural hurdles faced by real estate developers and the necessity for streamlining processes to ensure smoother compliance. By examining these issues and challenges, this study aims to provide insights into the evolving dynamics of the Indian real estate sector post-GST implementation, offering recommendations for policymakers and industry stakeholders to address the existing gaps and optimize the regulatory framework for sustainable growth.

Keywords: GST, Construction, real estate, Industry.

INTRODUCTION

The introduction of the Goods and Services Tax (GST) on July 1, 2017, has significantly transformed the Indian economy across all sectors. Since India's independence, this has drastically altered the country's tax structure and revamped the indirect tax system. The GST

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is primarily used to streamline the intricate tax system governing the provision of goods and services. The modifications initially caused some issues that affected some of the unfavourable short-term impacts. The challenges of the former indirect tax structure included tax fraud and duplication, in addition to other technical obstacles and perceptions of low-income activities due to rising debt, falling prices, global inflation, free movement of products, etc.[3]

Making the credits more evident under GST is a crucial component in removing the effect of tax cascading. Making ensuring firms run as tax-exempt is the goal. It also seeks to do away with the contentious tax structure that exists between the organisation and the federal government. The GST has increased the revenue base for indirect tax collection and streamlined the tax calculation procedure. Nearly every economic sector is impacted, either directly or indirectly, by the use of GST.[4]

Sales in India's real estate market have been sluggish, expenses have been rising, and prices have remained flat since the Great Recession of 2008–2009, when demonetization took place.

The industry is currently preparing for the new GST. Developers are making sure everything is ready and safe, while consumers are patiently waiting for the agreement to be signed at the correct moment. This article aims to provide some insight into the effects of indirect property taxes on the government before and after the implementation of the GST, even though two years have gone since the GST was established.

RESEARCH OBJECTIVES

- To study the various Indirect Taxes on Real estate in Pre and Post GST Regime.
- To study the present amendments in GST in with reference to Real Estate Sector.
- To study the impact of GST on various stakeholders of Real Estate Sector.

[3] Adhana, D. K. (2015) Goods and services tax (GST): A panacea for Indian economy. International Journal of Engineering & Management Research, 5 (4), 332 - 338.

[4] Agogo Mawulli (2014) "Goods and Service Tax - An appraisal Paper presented at the PNG Taxation Research and Review Symposium. Holiday innportmeores by, Pg No.29-30 , April 2014

PROBLEMS RELATED TO THE REAL ESTATE SECTOR

Real Estate faces the following problems.

Problems being faced by Customers

i. Delay in Projects: The biggest problem a consumer faces is delays in projects, which occurs due to various reasons such as court intervention inland-related problems, finance, approval etc. The Consumers suffers due to project delays.

ii. In addition, there is little or no provision of compensation required from the government.

iii. Deceptive advertisements for product marketing are very popular and very common in buildings. The main reason for the prosperity of counterfeit methods is the absence of any regulator and standard guidelines.

iv. Additional builders pay only 2 to 3 percent interest if it happens from their side but if customers fail (such as refusal to buy) they shouldpay about 16 to 18 percent, which is unfair.

Problems being faced by Real Estate Industry

The major challenges being faced by the Indian housing sector today are:

v. **Difficulty of approval and process**: Approximately 50 or more approvals are required to start a construction project and various government departments or authorities require further approval. This is one of the major causes of delays and high levels of corruption in the real estatesector. Asa result, corruption and delayscause concern for customers.

vi. **Lack of clear land titles:** Land titles are unclear due to improper record keeping and the subdivision of land into many parts until independence. The slow pace of renewal of world records exacerbates the problem.[5]

vii. **Speculation** in **Land and Real Estate Prices:**Indian Land & real estate prices have skyrocketed over the past decade and create exorbitant prices during the last decade. In recent times, real estatehas been a very good investment destination in India and much

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[5]Ahmad, Ehtisham, Satya Poddar A.M. Abdel-Rahman, Rick Matthews, and Christophe Waerzeggers (2008), Indirect Taxes for the Common Market; Report to the GCC Secretariat

better than equity or gold.

viii. **Sources of** Finance: Finance is the key to the development of any sector. Due to the very poor image of the Real Estate sector, banks are failing to provide loans and making it difficult for the law to avoid bad loans.

ix. **Higher Input cost**: Buildings and structures by large industry and workers; therefore an increase in labor costs and the construction of assets due to inflation poses many problems to the real estate industry. Many homeowners often raise the question of illegal activities in the cement industry in order to increase prices by more than 50 percent in a short period of time.[6]

Additional government interventions to build 20 percent of affordable housing place a greater burden on engineers and ultimately another 80 percent.

x. Real estate is the most popular among black people.

xi. Higher taxes such as stamp, VAT etc. and land acquisition are some of the major challenges facing the real estate sector.

Major Features of the Act

xii. The law regulates transactions between consumers and promoters of residential and commercial projects.

xiii. Real Estate Regulatory Authority (RERA): All countries and UTs must make RERA within one year of this action. Two or more provinces can go to one RERA and one state can have more than one RERA. RERA must ensure the registration of all real estate projects, buyer and b / w contractors' contracts and compliance with the underlying project or contracts.[7]

xiv. There will be at least one Real Estate Appellate Tribunal in each province to hear appeals against RERA decisions.

xv. The bill statesthatthe registration of the project forlessthan 1000 Sq meters is not necessary.

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[6] Alan Billingsley, Simon Durkin, Marc Feliciano,Todd Henderson, Paul Keogh, Alexander Makarovski, Gianluca Muzzi, Koichiro obu, Kurt. W.Roeloffs, Alexander Symes, Wengang ji, CFA and Yenkeng Tan, ―RREEF Global Real Estate Investment outlook and Market Perspective‖ 2011, pp. 6-48.

[7] Alex Lin, ―Real Estate Private Equity: Market Impacts on investment strategies and compositions of opportunity funds‖, Massuchusetts Institute of Technology, September 2008, pp. 8-18.

xvi. 70% of the proceeds from the purchase should be deposited in a separate account & this amount should be used for construction only.

xvii. For registration, a person must upload project details to the RERA website. This includes a site and planning plan, as well as a housing project completion plan. In the event that the buyer fails due to false advertising, and wishes to withdraw from the project, the promoter must refund the money collected with interest.

xviii. The Bill allows RERA to make recommendations to national governments on measures to improve.

Issues remained unsolved in the Act

i. The jurisdiction to make laws related to "land" is questionable because it is in the State List of the Constitution. However, it can be argued that the primaryobjective of thisBill was to regulatecontracts and transfer of property, both of which are in the Concurrent List.

ii. Some of the provinces have enacted laws to regulate real estate projects. Thus there may be differences between state and centralActs on several grounds.

Standing Committee Recommendations

iii. Registration of all real estate agents: All real estate agents should be required to register with a RERA and not just those facilitating the sale of a project covered by the Act.[8]

iv. Single window system for project approvals: At present the Act allows RERA to advise on approval procedure but instead of it a new provision should be incorporated to allowRERAs to particularly give directions on single window system to provide licenses andclearances for real estate projects. A time limit should be mentioned for all state and local authorities to issue completion certificates.

PROBLEMS RELATED TO THE CONSTRUCTION INDUSTRY

The GST issues with regard to capital cost, builder and housing property in the construction industry are as follows:

i. Higher Investment Sector;

[8] Amarjit Gill, NagumBiger, Neil Mathur and Rajendra Tibrewala (2010), ―Understanding and Mitigating Direct Investment Risk in the Real Estate Market‖, 2010:BEJ-2 and challenges‖, Abhinav, 2012, 2(2), pp. 18-28.

ii. The contractor relies on the workers;

iii. Service Fees;

iv. Resources working;

v. Property Cost;

vi. The Cost of Human Power;

vii. Interest Rate on Borrowing;

viii. Employee Contracts Change Dice and

ix. The transparency of tax reforms.

IMPACT OF GST ON BUYERS

Prior to the change in tax laws, purchasers of properties still in the building process were subject to value-added tax, service tax, registration fees and stamp duty. Prices of properties also differed from one state to another due to the fact that value-added tax, registration fees, and stamp duty were all levied at the state level. Furthermore, developers were not eligible for a tax credit when they paid a number of duties, such as sales tax (CST), custom duty, OCTROI, etc. Properties that are still in the building phase are subject to a flat rate of 12% under GST, however unlike under the old law, properties that are finished and ready to sell are exempt from GST. As a result, consumers will enjoy price reductions thanks to GST. [9]

[9]Bharat Mittal, ―An Empirical Study of the Trends in Real Estate Prices in Chandigarh (India)‖, A Dissertation presented in part consideration for the degree of" MA Management". 2007, 4, pp. 22-45.

IMPACT OF GST ON DEVELOPERS / BUILDERS / CONTRACTORS

In the past, developers were responsible for paying a variety of taxes on inputs and raw materials, including excise, value-added, customs, entry, and service taxes on things like permission fees, architect professional fees, labour, legal expenses, and more. Duties such as CST, Customs tax, Entry Tax, etc., did not have an ITC option. Because of this, the onus was put on the buyer, and prices would rise. With GST, developers can save a tonne of money on construction costs because to the availability of input tax credit and the consolidation of various taxes. An additional perk is a decrease in logistics costs. Therefore, developers can witness an increase in profit margins. The problem is that developers need to perform a lot of maths to figure out how much ITC to pass on to consumers. This means that the ITC can usually only be passed on in the very end. Developers may feel the effects of customers taking a "wait and watch" stance and postponing purchases due to the opaqueness of ITC.

IMPACT OF GST ON OTHER STAKEHOLDERS

How much of an effect a change in tax rates has on related industries like labour, material suppliers, service providers, etc. The entire real estate market will feel the effects of this.

INDIRECT TAXES ON REAL ESTATE DURING THE PRE AND POST GST REGIME

The provision of goods and services is subject to the Goods and Services Tax (GST). Every value addition in India is subject to the Goods and Services Tax Law, which is an all-encompassing, multi-stage, destination-based tax. The Goods and Services Tax (GST) is a national indirect tax statute. You can get a refund for the taxes you paid on supplies when you file your Goods and Services Tax return. Ultimately, when an individual is eligible to receive the input tax credit, their tax burden is decreased, which in turn lowers the sale price and the buyer's cost price. The end user pays less in taxes as a result.[10]

AFFORDABLE HOUSING SCHEME:

The government requested that builders refrain from charging GST to homebuyers from February 7, 2018, on the grounds that the effective GST rate on nearly all affordable housing projects is 8% (after accounting for input credits). In order to encourage the construction of affordable housing, which was designated as an infrastructure project in the 2017–2018 budgets, the GST Council extended the 12% GST concessional rate for home development under the Credit-Linked Subsidy Scheme (CLSS) during its most recent meeting on January 18, 2018. But after subtracting one-third of the house/apartment price from the land cost, the effective GST rate falls to eight percent. The effective date of this provision is January 25, 2018.

LUXURY HOUSING SEGMENT

In the case of luxury properties, the cost of base construction may drop a bit, but since the input tax credit is limited to only 12%, it will not be able to reduce the tax liability on the part of the property lower because taxes are paid on other expenses as well. A different point of view is that the prices will increase by 5 to 7 percentages depending on the type of project. Indeed, while mass consumer goods would be taxed at the rate of 5%, many luxury items would be taxed at 28%. [11]

REVERSE CHARGE MECHANISM ON CONSTRUCTION COSTS

Under this segment, a registrant must pay GST on services and goods available to a person who is not a GST registrant. In addition, the tax payable under the reverse charge mechanism

[10]Bhavleen Arora, ―A study of Real Estate sector in the Indian Economy for investment opportunitie‖ 2007-2008, pp. 18-28.
[11]Chakraborty, P., & Rao, P. K. (2010, January 2). Goods and services tax in India: An assessment of the base. Economic and Political Weekly, 45 (1), 49 - 54.

cannot be adjusted against the input credit available from the GST paid on the inputs, but must be paid in cash / bank payment. This will increase the cost for developers (especially small developers) as they were purchasing goods and services from unregistered vendors earlier and for this they did not have the same tax liability as here. With the redefinition of affordable housing unit, properties were divided into three categories: [12]

1. Properties with the total carpet area not exceeding 60 sq m in metropolitan areas including Delhi NCR, Kolkata, Chennai, Hyderabad, Bangalore and Mumbai Metropolitan Region (MMR).

2. Properties with the total carpet area not exceeding 90 sq m in nonmetropolitan cities and towns.

3. Properties priced within Rs 45 lakh in either metropolitan or nonmetropolitan areas.

CONCLUSION

The Builder or Developer was obligated to deposit multiple indirect taxes earned from customers prior to the GST regime. The cascading effect, however, has been mitigated by GST. The installation of GST raised building costs for builders, which had a major effect on the real estate market. Following the demonetization and GST adoption, the real estate sector experienced a slump. Developers are facing new problems as a result of the RERA Act. The government is actively working to improve this industry. On or after April 1, 2019, the CBIC will begin to offer discounted rates of 1% to 5% on the sale of under-construction apartments. Here are the rules and procedures that builders must follow to take advantage of this offer. Affordable housing is receiving support from the government. Since the Goods and Services Tax (GST) is still in its early stages in India, its beneficial effects on the real estate sector would not be noticeable for some time.

[12]C.K.Ramnarian, ―Construction and Real Estate Market Research In India‖, 2012, pp. 8-15.

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