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## GST to be applicable on land leasing and renting; property sale excluded

By Farozan Akhtar  
March 30, 2017 105

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*With the deadline for rolling out Goods and Services Tax (GST) just three months away, the central government is formulating the legislation. While real estate has not been included in its entirety under GST's purview, the government is expected to consider the same within a year.*

In preparation of the GST roll out, the government has passed four bills crucial for implementing GST - Integrated GST Bill (IGST Bill), Central GST Bill (CGST Bill), Union Territory GST Bill (UTGST Bill), and the GST (Compensation to the States) Bill. Further, 16 cesses and surcharges on central service tax and excise duty have also been recently abolished.

Appreciating the Centre's efforts for successful implementation of the new tax regime, industry experts affirm that these measures will bring about a transformative change in the Indian economy. However, real estate stakeholders have expressed concerns as the sector has not entirely been included in the purview of GST. While the government has recently clarified that leasing and renting of land will be included, it has also asserted that the sale of land and buildings will be kept out of GST. However, the unified tax rate will be applicable on the Equated Monthly Instalments (EMI) of home loans for the purchase of under-construction properties.

Commenting on this announcement, Amit Wadhvani, Director, Sai Estate Consultants, explains that the impact of GST on the sector will be defined by the final tax rate and the abatement for land value in the total agreement value of residential projects. Most experts presume the GST rate to be 18 percent and the value of land to be not more than 25 percent of the total value of residential units. "This could cause the consumer to end up with about 13.5 percent of tax, which is higher than the current service tax or Value Added Tax (VAT) rates across states", states Wadhvani.

However, industry experts maintain that even with the sale of properties excluded from GST, the historic reform still holds great appeal for the real estate sector. Pakshal Sanghvi, Director, Sanghvi Realty, points to one of the key provisions in the new tax system, the removal of restrictions in credit utilisation. Sanghvi explains that GST will allow developers to get input credits on the tax paid for goods and services. According to Wadhvani, the possibility of lower construction costs on account of input credit allowance could lower property prices if developers are willing to pass on the benefits to the end users. This could, in turn, mean a saving of up to 20 percent.



GST will streamline tax compliance and reduce the scope for double taxation. It is definitely a great reason for homebuyers to cheer, even if they have to pay slightly more in case the standard GST rate is high.

**Sahil Kapoor, Executive Director, RE/MAX India**



Warehousing and logistics sector stand to gain significantly with GST, since the location of possibly larger warehousing and logistics hubs will depend almost entirely on transportation and connectivity, as opposed to being influenced by incidence of inter-state taxation.

**Sachin Sandhir, Global Managing Director - Emerging Business, RICS**



The changes under GST will ease the process of taxation considerably, making it easier and simpler for real estate developers as well as home buyers.

**Arun Kumar, Managing Director, Casa Grande Pvt Ltd**



There can be a significant increase in prices (currently more than 15 percent tax is applied on material and services). However, we are hoping to get clarity soon and look forward to continuous support from the government.

**Aniel Kumar Saha, Chief Managing Director, SAHA Groupe**



It will help promote ease of doing business, encourage greater Foreign Direct Investment (FDI) and stimulate overall growth of the economy.

**Kumar Bharat, Director, BCC Infrastructures Pvt Ltd**

In addition, the government has also included an anti-profiteering clause in the GST rules which states that any reduction in the rate of tax on any supply of goods or services, or the benefit of input tax credit, should be passed on to consumers by way of a proportionate reduction in prices. The details of this provision are yet to be hammered out but hopes abound that, along with other inclusions of GST, this will have a positive impact on the real estate sector.

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