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## GST Council meet: No consensus on real estate issues

**Vandana Ramnani**

### Moneycontrol News

Due to lack of consensus on real estate issues, the GST Council on January 10 referred the matter pertaining to the real estate sector to the Group of Ministers, the composition of which is expected to be announced soon.

"There was divergence of opinion on real estate issues. The seven-member GOM has been constituted to find convergence on real estate issues. The recommendations of the seven-member Group of Ministers on real estate will be considered in the next GST Council meeting," said Finance Minister Arun Jaitley after GST Council's 32nd meeting.

It was being anticipated that the GST Council would take a decision on reducing the GST rate under construction properties to five percent at the meeting.

Currently, GST is levied at an effective rate of 12 percent (standard rate of 18 percent less a deduction of six percent as land value) on premium housing and effective rate of eight percent (concessional rate of 12 percent less a deduction of four percent as land value) on affordable housing on payments made for under-construction property or ready-to-move-in flats where completion certificate has not been issued at the time of sale. However, GST is not levied on buyers of real estate properties for which completion certificate has been issued at the time of sale.

The real estate sector is hoping for a quick and positive recommendation from the GOM committee. "As a result of GST council meeting, a seven-member ministerial panel has been tasked with considering what results would follow if GST on under construction real estate were to be reduced, with or without Input Tax Credit. A decision on this expected in the next GST Council Meeting. Real estate and its stakeholders will wait for the review panel to consider the issue. We hope it will be a positive recommendation on the topic and hope for quick implementation of the same," said Niranjan Hiranandani, president, NAREDCO.

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The sooner the GOM committee decides on the GST issue for real estate, the better it will be for the sector. While we understand that GST is a complex issue, sales of under-construction properties have not picked up and GST is definitely an issue. Confusion among home buyers on the issue needs to be dispelled and they should be confident in purchasing under construction housing units. The rationalisation of GST for the sector will prove to be a big booster dose for the residential market as a whole," said Samantak Das, chief economist and head of Research & REIS at JLL India.

Certainly, GST on under-construction properties was a severe hurdle in 2018, and the possibility of a possible GST rate cut in late December literally froze property buying decisions for many. It bears remembering that the modest growth numbers we witnessed last year were significantly led by sales of ready-to-move properties not only because they are exempt from GST, but because incessant project delays have taught buyers to be wary of under-construction projects, said Anuj Puri, chairman of ANAROCK Property Consultants.

High GST rates also continue to burden commercial real estate. "As of now, GST on commercial real estate continues to be levied at 18% on the overall rental value without the builder getting any input credit benefits. In the absence of input tax credit (ITC), developers invariably pass on the additional construction cost to their tenant businesses by way of increased rentals, over and above the charges that the latter pays as GST on the rental value. This spikes up the overall rental cost for corporates leasing spaces across the country. Given that Indian commercial real estate kept the sectors growth numbers ticking during the prolonged slump, it was largely anticipated that to boost its growth further, the Government would have given ITC benefits along with a possible rate cut," he added.

Tax experts have said that the reduction of the GST rate to 5 percent without input tax credit would impact affordable housing and increase sale prices.

If the government reduces the eight percent GST rate on affordable housing to five percent without extending the benefit of input tax credit, sale prices may increase and real estate developers may pass on the burden/increase in price of apartments for most low and middle income projects. This may impact the government's affordable housing scheme," said Harpreet Singh, Partner, KPMG.

[vandana.ramnani@nw18.com](mailto:vandana.ramnani@nw18.com)