

BUYERS TO GAIN FROM GST RATE CUT

GST rate cut will be a huge boost for the real estate sector, especially the under-construction segment

Jadav.Kakoti@timesgroup.com

BIG BOOST
8% to 1%
 GST rate reduced for under-construction affordable-housing projects
12% to 5%
 for other under-construction housing projects
 New definition of affordable housing, a residen-

The recent rate cut in Goods and Services Tax (GST) for the under-construction housing projects has been looked upon as a move that will rekindle buyers' interest in these projects. A drastic reduction in GST levied on under-construction affordable-housing projects from 8 per cent to 1 per cent, and from 12 per cent to 5 per cent for other under-construction housing projects will go miles to bring the sector back on track that has been reeling under pressure for quite some time, argue experts.

The rate cut will amp up buyers' demand for the under-construction homes. Delayed delivery of projects in the past couple of years was a major reason that made these under-construction homes less attractive for buyers as compared to a ready-to-move-in home. While the preference for a ready-to-move-in home over an under-construction home will always be there for a buyer, now after the GST rate cut, at least in the short term, buyers' confidence towards such units will to some extent grow stronger.

Rahul Prithiani, director, CRISIL Research, says, "Over the past two years, preference for completed projects has been clearly visible because of the additional GST burden and execution risks associated with under-construction properties. With the RERA framework evolving and GST reduced, end-user confidence towards under-construction

properties will improve. This should also gradually improve volume growth and liquidity of cash-starved developers. Overall, the announcement would be neutral for developers."

The GST Council also adopted a new definition of affordable housing, which is now described as a residential house/flat with a carpet area of up to 90 square metres in non-metropolitan cities/towns, and 60 square metres in a metro, and having value up to ₹45 lakh. The new rates will be applicable from April 1, 2019. Also, doing away with the ITC (Input Tax Credit) will make GST compliance for easier and more cost-effective for developers. However, without ITC developers will now have to deal with increased cost of 18 per cent, the GST rate for most construction-related items and account for the same when planning cash flows and project costs.

Though the developers were demanding a rate cut along with ITC, the overall reaction from the developer community was positive. Thus, Jaxay Shah, president, CREDAI National, while describing the move to cut GST rate for under-construction residential units as "a revolutionary step for Indian real estate sector", says, "The move is a significant triumph for homebuyers and will play a huge hand in boosting their sentiments. The Indian real estate industry is now set to leap forward with the revised GST rate and the enhanced ease of doing business."

Earlier, many developers did pass on 3-5 per cent benefit to the buyers through price reductions. Since the tax rate of cement/ready concrete mix remains unchanged at 28 per cent, the developers might find it difficult to cut down on costs. The rationalisation of tax rate on cement would have benefited home buyers more. Ravinder Sudhalkar, ED & CEO of Reliance Home Finance, says, "The decision to reduce GST rates will directly benefit homebuyers, and is likely to reinvigorate demand. It also removes the uncertainty around input tax credit (ITC) as buyers would now get the direct benefit of lower taxes instead of being depended on builders to pass on the ITC benefits to them. As housing sales pick up, builders with large inventory build-up will also get some respite."

In fact, the rate cut will give a new direction to the realty segment especially the affordable segment. After accorded infrastructure status to this segment, the government has now slashed GST on this sector. The move is seen in sync with the Prime Minister's ambitious Housing for All by 2022 mission.

Gagan Randev, national director, Capital Markets & Investment Services, Colliers International India, rightly says, "The move to bring the GST rate on under construction properties will set at rest finally the direction the industry has to take going forward. The 1 per cent GST on affordable and the new definition thereof is a very big and positive move and will provide an even bigger fillip to the affordable sector." The move has been viewed as a real boost for the sector that is facing severe liquidity shortages. No new home buyers can go ahead with their plans much more easily.

