



# Pre-poll gambit

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## **Reduction in rates brings cheer to real estate sector, but unsettles the GST regime**

- The Goods and Services Tax Council recommended a dramatic reduction in the headline indirect tax rates payable on under-construction properties.
- The GST rate payable on affordable homes, with effect from April 2019, will come down from 8% to 1%, and all other residential properties outside the affordable segment will attract 5% GST instead of the 12% levied at present.
- The Council needs to meet again in March to clear the transition rules for the proposed rate cuts, and the conditions to be stipulated for housing projects to be eligible for the new rates.
- Days ahead of the expected announcement of the Lok Sabha poll dates by the Election Commission, the government is clearly keen on reaching out to different sections of voters.
- Properties that were already complete at the time of the GST's adoption were spared the tax.
- But the introduction of 12% and 8% GST for under-construction premier housing units and affordable homes, respectively, had come as a dampener for fresh bookings.
- Buyers may still prefer to opt for unsold completed properties that don't attract GST, instead of incomplete projects.
- Experts expect a 4-5% reduction in home prices, but the decision to deny input tax credits to builders could bring a twist in the tale.
- Developers may be forced to raise base prices as critical inputs, particularly cement (taxed at 28%), entail high levies that can no longer be offset.
- Compliance as well as material costs could go up too, as the Council is likely to mandate that around 80% of a project's inputs must come from formal sector vendors in the GST net.
- It is difficult to determine to what extent a proposed tax exemption on

development rights will offset these costs for developers.

- Whatever the outcome of this pre-election ploy, the frequent structural tinkering ahead of electoral battles has emerged as the biggest challenge to the stabilisation of India's fledgling GST regime.

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