

NOTE ON NEW GST RATE FOR REAL ESTATE

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GST Council in the 34th meeting held on 19th March, 2019 has approved a transition plan for 5% rate on under-construction flats and 1% on affordable housing and has also increased the carpet area of flats under the affordable housing. Definition of the affordable housing has also been expanded for the purpose of availing of GST benefits. Reduction in the GST rates is only for the residential projects and not for commercial projects. However, projects upto 15% commercial space will be treated as the residential property.

The new tax rates shall be available, subject to the condition that ITC shall not be available and 80 % of inputs and input services should be purchased from registered persons. Any shortfall in purchases from the registered persons shall lead the builder to pay the applicable higher GST on Reverse Charge Mechanism basis.

Details have also been summarized in the table below:

<i>Particulars</i>	<i>Affordable Housing Segment</i>	<i>Other than Affordable Housing Segment</i>	<i>Commercial Segment</i>
Existing GST Rates	8%	12%	12%
Revised Rates wef from 1-April-19	1%	5%	No change
ITC Available on New GST Rates	No	No	Yes

Developers of the ongoing residential projects have also been given an onetime option to choose between the old tax rates with ITC and the new rates without ITC for under-construction residential projects so as to resolve any issues related to the input tax credit.

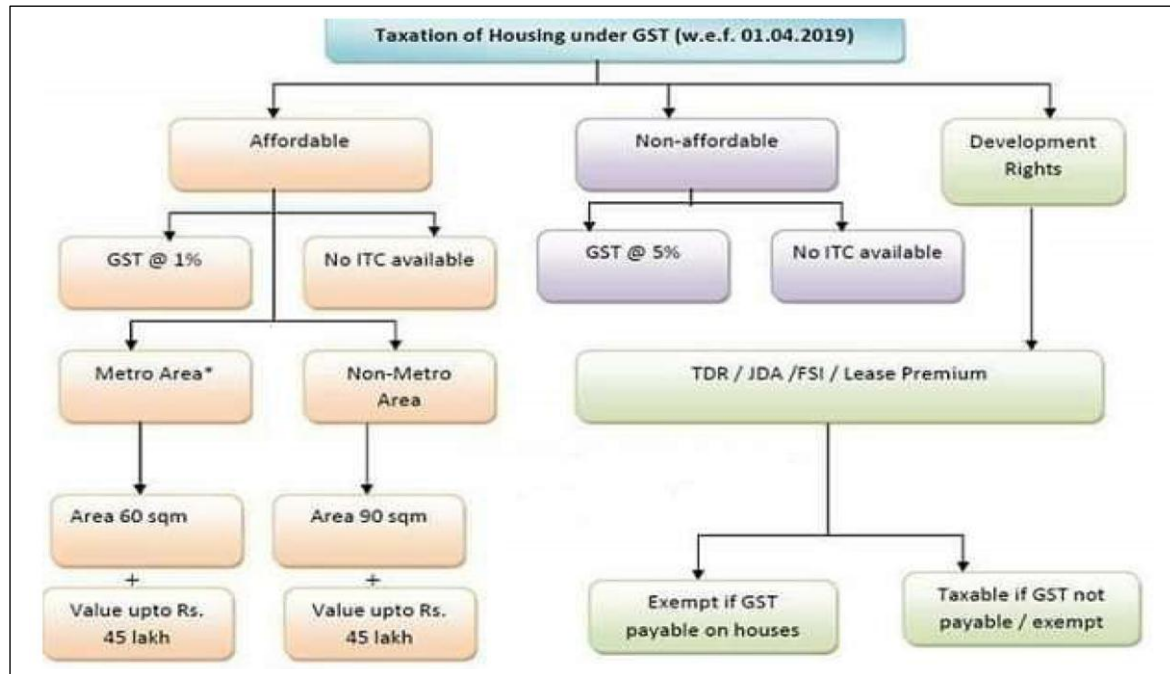
Comparing the prices of a residential house property before and after April 1, 2019.

<i>Particulars</i>	<i>On or Before 31/03/2019</i>		<i>On or after 01/04/2019</i>	
	<i>Residential Buyers (Other than Affordable Housing Scheme)</i>	<i>Residential Buyers (Affordable Housing Scheme)</i>	<i>Residential Buyers (Other than Affordable Housing Scheme)</i>	<i>Residential Buyers (Affordable Housing Scheme)</i>
Effective rate of GST	12%	8%	5%	1%
Whether ITC is available?	Yes	Yes	No	No
Cost of Land (A)	25.00	25.00	25.00	25.00
Cost of Construction (B)	14.40	14.40	14.40	14.40
GST on Inputs (at the rate of 18%) (C)	2.60	2.60	2.60	2.60
ITC Available (D)	(2.60)	(2.60)	-	-
Total Cost to Builder (E = A+B+C-D)	39.40	39.40	42.00	42.00
Profit Margin (cost plus 2% mark-up) (F)	0.79	0.79	0.84	0.84
Sale Price of Flat	40.19	40.19	42.83	42.84

(G = E+F)				
GST on sale price of flat (H = G * Effective Rate)	4.82	3.22	2.14	0.43
Net cost to buyer (G+H)	45.01	43.41	44.97	43.27

Though the rate of GST has been reduced substantially, but the net benefit to the customer is insignificant.

The modality of new tax rate:



The modality for transition:

	<i>Ongoing Residential Projects</i>	<i>Affordable Housing</i>	<i>Other than Affordable Housing</i>
Transition option	Continue to pay tax at the old rates where the effective rate on affordable and other than affordable housing segment was 8% and 12%, respectively, and input tax credit was also available		
	<ul style="list-style-type: none"> • constructions have started before 1st April, 2019; and • actual bookings have started before 1st April, 2019; and 		

	<ul style="list-style-type: none"> the project has not been completed by 31st March, 2019 		
New rate applicable on	all the new projects along with the ongoing projects which have not exercised the above option	<p>New GST rate shall apply on following:</p> <p>New Projects - All houses which meet the definition of affordable houses having an area of not more than 60 sqm and 90 sqm in non-metros and metros, respectively, and the value of the house should also not be more than Rs. 45 lakhs.</p> <p>Ongoing Projects - Affordable houses being constructed under the existing Central and State housing schemes where the existing concessional rate of 8% GST is applicable.</p>	<p>New GST rate shall apply on following:</p> <p>New Projects - All houses other than the affordable houses in the new projects.</p> <p>Ongoing Projects - All houses other than the affordable houses in ongoing projects whether booked prior to or after 1st April, 2019. In case of the house is booked prior to 1st April, 2019, new rates shall be applicable only on instalments payable on or after 1st April, 2019. (Note-1 and 2)</p>
Input tax credit	If opting for new rate no credit available	Input tax credit shall not be available	Input tax credit shall not be available

Note-1: Ongoing projects where the construction and booking both have started before 1st April, 2019 and have opted for new tax rates shall transition the input tax credit (ITC) as per the prescribed method. ITC for the entire project shall be arrived at by extrapolating the ITC taken on basis of the percentage of completion as on 1st April, 2019. Eligibility of ITC shall be determined on basis of the percentage of booking of flats and invoicing done. Therefore, on *pro-rata* basis the ITC credit shall be allowed, *i.e.*, credit in proportion to booking of the flat and invoicing done for the booked flat.

Note-2: New rate of 5% shall also be applicable on commercial apartments such as shops, offices, etc, which are constructed in the resident real estate projects provided the carpet area of commercial apartments is not more than 15% of total carpet area of all the apartments.

Commercial Projects

On Commercial projects, whether ongoing or new, GST rates have not been changed.

Rate - GST rate shall remain at 12%

ITC - Input tax credit shall be available

Applicability - All new or ongoing projects which consist of 100% commercial apartments such as shops, offices, etc

Mixed Use Projects

Mixed use projects are those projects which consist of residential houses as well as commercial properties and the carpet area of the commercial projects is more than 15% of the total carpet area of all the apartments.

Rate - GST rate shall remain at 12% for the commercial apartments and for housing sector GST rates as defined in the relevant sections mentioned above.

ITC - Input tax credit shall be available only for commercial segment. For a mixed used project, Input Tax Credit shall be available on pro-rata basis in proportion to carpet area of the commercial portion in the ongoing projects to the total carpet area of the project. On the commercial portion in the ongoing projects tax shall be payable at 12% along with the benefit of ITC even after 1st April, 2019.

Condition for Applicability of New GST Rates

Builders need to purchase 80% of inputs and input services from the registered persons. Input and input services do not include purchase of capital goods, JDA (Joint Development Agreements)/TDR (Transferable Development Rights), FSI, long-term lease (premiums).

If there is a shortfall in meeting in the above condition of 80% purchase of input and input services from the registered persons than the builder shall be liable to pay tax at 18% on reverse charge mechanism (RCM) basis. However, builders need to pay tax on cement purchased from unregistered persons at 28% under RCM and on capital goods under RCM at applicable rates.