

GST : Home – buyers likely to pay higher tax of 20-22% on home purchases

According to back-of-the envelope calculations, home buyers will end up paying 20-22% in total tax compared to 14-16% if builder gets tax credit.

The Goods and Services Tax could bring transparency in the functioning of Real Estate Sector and even reduce the cost of ownership of homes for home buyers, especially if the GST rate is lower than all the current rates put together, said builders and tax consultants.

These consultants, however, said there's one problem in the Model GST Law for the sector that has been overlooked so far, and this issue could increase the total tax (including stamp duty) a home buyer pays when buying a home to almost 20-22% of the property value as opposed to around 14% at present.

The Model GST Law says that input tax credit will not be available in cases where the end product made using the goods and/or services is an immovable property, other than plant and machinery.



Input tax credit shall not be available in respect of goods and/or services acquired by the principal in the execution of works contract when such contract results in construction of immovable property, other than plant and machinery," said the model bill. In case of builders making homes, the end product is a building which is an immovable property.

This would mean multiple taxation on home buyers as the builder will pass on non-creditable tax to home buyers even as they pay GST on the consideration charged to them in the home and then stamp duty for registration." Said Abhishek Jain, tax partner at EY India.

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Under GST, credits will be denied to developers building commercial properties, but it should not impact residential property developers. Builders were unclear about this aspect of the model GST Law but said that it will be a negative if they were not allowed input tax credit

Getamber Anand, national president of industry body CREDAI, said GST could reduce harassment that is there today due to multiple taxes. " It will create a level playing field for sure." GST will replace the many different taxes that builders currently pay, many of them bordering on double taxation, with one single tax. If the credit on input tax is not allowed to builders, it will get added to the price of the property and impact home buyers.

JC Sharma, managing director of Bengaluru- based Sobha Ltd., said if GST reduces the compliance cost for builders and also reduces the overall cost of inputs, it will be a positive for the industry.

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