

EY Tax Alert

GST Council recommends reduction in GST rates for residential property

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Executive summary

The Goods and Services Tax (GST) Council in its 33rd meeting held on 24 February 2019 recommended a reduction in GST rates for under-construction residential properties¹. The recommendations are as follows:

- ▶ Effective rate of GST on residential properties, other than affordable housing properties, reduced to 5% without benefit of Input tax credit (ITC)
- ▶ Effective rate of GST on affordable housing properties shall be 1% without benefit of ITC

Affordable housing has been defined to mean a residential house/flat of carpet area of up to 90 square meters (sqm) in non-metropolitan cities/towns and 60 sqm in metropolitan cities, having value up to INR 45 lacs.

- ▶ Supply of development rights such as transferable development rights, joint development arrangement, long term lease (premium) and floor space index to the developer shall be exempt in respect of residential property liable to GST.

The above recommendations will be effective from 1 April 2019. The guidelines mainly to address transition issues are expected to be released by 10 March 2019².

¹Source: Press Information Bureau

²As per Finance Minister's statement in press conference

Background

- ▶ The GST Council held its 33rd meeting on 24 February 2019 in New Delhi.
- ▶ With a view to address slowdown in the realty sector and low off-take of under-construction houses, the Council has recommended reduction in GST rates on under-construction residential properties.

Recommendations

The recommendations of the GST council are discussed below:

- ▶ Effective tax rate on residential properties, other than affordable housing properties, has been reduced to 5% without the benefit of ITC.

Currently, the tax rate on such properties is 18% (with benefit of ITC). However, considering 1/3rd deduction on account of value of land, the effective rate of tax is 12%.

- ▶ Effective tax rate on affordable residential properties shall be 1% without the benefit of ITC.

Affordable housing has been defined to mean a residential house or flat of the following carpet area and having value up to INR 45 lakh:

Type of cities	Cities covered	Carpet Area
Metropolitan cities	Bengaluru, Chennai, Delhi National Capital Region (limited to Delhi, Noida, Greater Noida, Ghaziabad, Gurgaon, Faridabad), Hyderabad, Kolkata and Mumbai	Up to 60 sqm
Non-Metropolitan cities	Other than above	Up to 90 sqm

Currently, the tax rate on certain residential projects for economically weaker section and other affordable housing projects is 12% with ITC benefit. However, considering 1/3rd deduction on account of value of land, the effective rate of tax is 8%.

- ▶ Supply of development rights, such as transferable development rights, joint development arrangement, long term lease (premium) and floor space index to the developer shall be exempt in respect of residential property on which GST is payable.
- ▶ The details of the scheme shall be worked out and placed before the GST council for approval.

Comments

Recommendations of the Council on tax rate reduction for residential property aims at multiple benefits including the simpler compliance process. However, analyzing the impact on the cost structure of each housing project will be critical from industry standpoint due to in-eligibility of the input tax credit. The burden may substantially reduce once the tax rate of key inputs like cement is rationalized.

While the concern of the flat buyer of having been deprived of the benefit of input tax credit not passed by the industry post introduction of GST, may get eliminated with the changes recommended, any move to increase the prices to mitigate additional cost on account of blocked ITC could trigger further litigation.

Since the changes in tax rates would be effective from 1 April 2019, appropriate guidelines to address the tax treatment with respect to transition of on-going projects would be important.

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