VAT impact on the real estate sector
Proposed VAT treatment

- Exempt – supply by way of lease or license of Residential Real Estate would be exempt from VAT.
- Standard Rated (5%) – All other supplies of real estate/land/property other than the above would be taxable.

VAT will affect property developers and other real estate companies in a variety of different ways. Changes would be required from an operational and systems point of view.

- The supply by way of lease or license of Residential Real Estate is exempt from VAT. Residential real estate means a permanent dwelling designed for human occupation for example apartments and villas. This will ensure that VAT would not constitute an irrecoverable cost to persons who buy their own properties.

Hotels, inns, guest houses, motels, serviced accommodation or any other building that is designed to offer temporary accommodation to visitors or travellers would not qualify as Residential Real Estate.

Issues of contention

- Only the lease or license of Real Estate would be exempt. What about the outright sales or purchases of such property. Is it fully taxable?
- As the lease and licensing of such property is exempt, suppliers of such property – landlords, property developers, etc., – would be classified as exempt or mixed suppliers. Input tax allocation and apportionment issues would naturally arise. Similarly the cost of business for such companies would also rise when some of their input Vats have been blocked from being reclaimed.
- The current apportionment method recommended by GAZT is the turnover method. Businesses should evaluate whether this method gives them a fair outcome. Should the outcome be less than desirable – what other methods can be used? Floor area? Headcount of staff?
- Long term contracts may create issues around when to account for VAT and whether VAT can be added to the price and collected from buyers. In the absence of suitable VAT clause stating otherwise the price mentioned on contract will be considered as inclusive of VAT which may become a cost to the business.
- Registration of subcontractors – many smaller subcontractors will either not be registered or not required to be registered for VAT as they fall below the registration threshold. Such businesses will be not be able to charge VAT on their invoices, and cause their business partners – i.e., Developers, Agents, Landlords – to be unable to recover VAT incurred on costs. Further, these unregistered contractors would seek to recover their VAT cost by increasing their prices – which would have a spiralling effect on the cost of new houses.
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VAT impact on the real estate sector
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