Real Estate Newscast

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GST on Affordable Housing reduced to 1%

The GST council in its 33rd meeting held on 24th February 2019, recommended to reduce the GST levied on under-construction residential property – including both properties outside the affordable housing segment and within the affordable housing segment. The GST on both types has been reduced by around 7%.

- GST on residential property outside the affordable housing segment was reduced to **5%,** from an effective rate of 12%.
- GST on affordable housing was reduced to **1%,** from an effective rate of 8%.
- The rates on both types of properties will be charged without an Input Tax Credit (ITC).
- Residential properties on which GST is payable are exempted of Intermediate Tax (TDR, JDA, lease (premium) FSI) on development rights.

The new rates shall come into effect from 1st April 2019 onwards.

Table 1: GST Rate Structure for Residential Property

	New Rates (w.e.f. 1st April 2019)	Previous Rates
Residential Properties*	5%	12%
Affordable Housing Properties	1%	8%

*Outside Affordable Housing Segment

Source: PIB

CARE Ratings Views

- The government aims to address the slowdown in the real estate sector due to subdued demand for residential real estate. The current reduction in GST is expected to benefit under-construction housing units and would have no impact on completed inventory.
- Reduction in GST will bring down the cost of houses for buyers by around 6-7% on the overall purchase price, depending on the category of house.
- The removal of input tax credit is unlikely to have a major impact on profitability of the developers. Given that the ready properties do not attract GST, the completed inventories are unlikely to benefit from the GST tax-cut.
- Further by exempting intermediate tax on developmental rights – which may also ease out the tax structure complications for the players, the Government aims to address the cash flow problems of developers.

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