Real Estate Newscast

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Contact:

Madan Sabnavis
Chief Economist
madan.sabnavis@careratings.com
91-22-68374433

Purnima M. Nair
Associate Economist
purnima.nair@careratings.com

Mradul Mishra (Media Contact)
mradul.mishra@careratings.com
91-22-67543515

CARE Ratings
Professional Risk Opinion

Under construction projects started prior to April, get a one-time choice to opt for old rates of 5% and 12%, with ITC

The 34th GST Council Meet on Tuesday discussed the details on operation and implementation of the lower tax rate recommendation given in the 33rd GST Council Meet, in both the affordable and other than affordable housing segment. Following are the recommendations made by the Council:

- Under construction projects with construction and actual booking started prior to 01.04.2019
  - Promoters will have a **one-time option of continuing** with the old effective rate of 8% on affordable housing and 12% on other than affordable housing projects, with Input Tax Credit (ITC). This option will however be available only for a prescribed period and new rates (of 1% and 5% for respective segments, without ITC) shall apply if the option is left unexercised by then.
  - The under construction affordable housing projects that choose to follow new rate, will have be liable to 1% without tax credit
  - The under construction other than affordable housing projects shall pay 5% without ITC, available on instalments payable on or after 01.04.2019
- New projects beginning on or after 01.04.2019
  - These projects will automatically fall in the new tax regime of 1% for affordable housing and 5% for other than affordable housing, without ITC.
- All projects under new tax rates (without ITC) are to comply to the following conditions:
  - 80% of inputs and input services (other than capital goods) shall be purchased from registered persons and a shortfall of purchases from 80%, tax shall be paid by the builder at 18% on Reverse Charge Mechanism (RCM) basis.
  - For purchase of cement from unregistered persons shall be paid at 28% and for capital goods at applicable rates, under RCM.
- Under construction projects opting for new tax rates shall have their ITC eligibility determined on the basis of the formula, which considers the percentage - of completion of construction, of booked flats and of invoicing, given by the Council.
- Supply of TDR, FSI, long term lease of land by a landowner to a developer is exempted form tax subject to the condition that the constructed flats are sold before issuance of completion certificate and tax is paid on them.

CARE Ratings View:

The option of continuing in the old tax regime gives the promoters some space to make a smooth transition to the new tax regime and make the system more compliant. By opting for the old rates the promoters of under-construction projects will be able to secure the benefits of the tax credit for the last quarter of FY19 and for the first few quarters of FY20, until the completion of the projects started before April. The new regime, without ITC would make GST on inputs an expense for the developer, which will either be passed on to the final buyer or will impinge the developer's margin. Thus the option of choosing the rate regime buys time for the housing market to adjust for prices in the absence of ITC. Further the exemption made on the lease of land addresses the concern of high land cost as against low input cost (thereby leading to low ITC) faced by projects in the urban and metro regions.

CORPORATE OFFICE:
CARE Ratings Ltd. (Formerly Credit Analysis & Research Ltd.)
Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022.
Tel: +91-22-6754 3456 I Fax: +91-22-6754 3457 I E-mail: care@careratings.com